



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

**2020**

# Agenda

Wednesday 29 January 2020 at 10.15am

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

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

## Standing items

4. Chair's report – verbal update For information
  5. Accountable Officer's report – verbal update For information
  6. Accounts Commission Chair's report – verbal update For information
  7. Review of 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
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## Conclusion

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

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## Items to be taken in private

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

Wednesday 27 November 2019, 10.15am

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## **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"> <li>• Our audit work on this issue informs our own organisational preparations.</li> <li>• 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).</li> </ul>
Has the extended timescale for EU withdrawal generated any new risks for our organisation?	<ul style="list-style-type: none"> <li>• 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.</li> </ul>
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"> <li>• 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.</li> <li>• 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.</li> </ul>
Does our medium and long-term financial planning consider the potential impact of EU withdrawal?	<ul style="list-style-type: none"> <li>• 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.</li> </ul>
Are we continuing to provide effective support for colleagues from elsewhere in the EU?	<ul style="list-style-type: none"> <li>• 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.</li> </ul>
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"> <li>• No immediate additional pressures in terms of our own workforce.</li> <li>• The December 2019 briefing clearly highlights increasing pressures in the broader public sector.</li> </ul>
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"> <li>• 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.</li> </ul>

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"> <li>• We continue to monitor this closely, key areas include:               <ul style="list-style-type: none"> <li>– The EAFA audit and any successor audit arrangements</li> <li>– 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.</li> <li>– The impact of EU withdrawal on Scotland's public services arising from; disruption, diversion/ opportunity cost, relative economic performance and workforce pressures.</li> </ul> </li> </ul>

## **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 11<sup>th</sup> 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

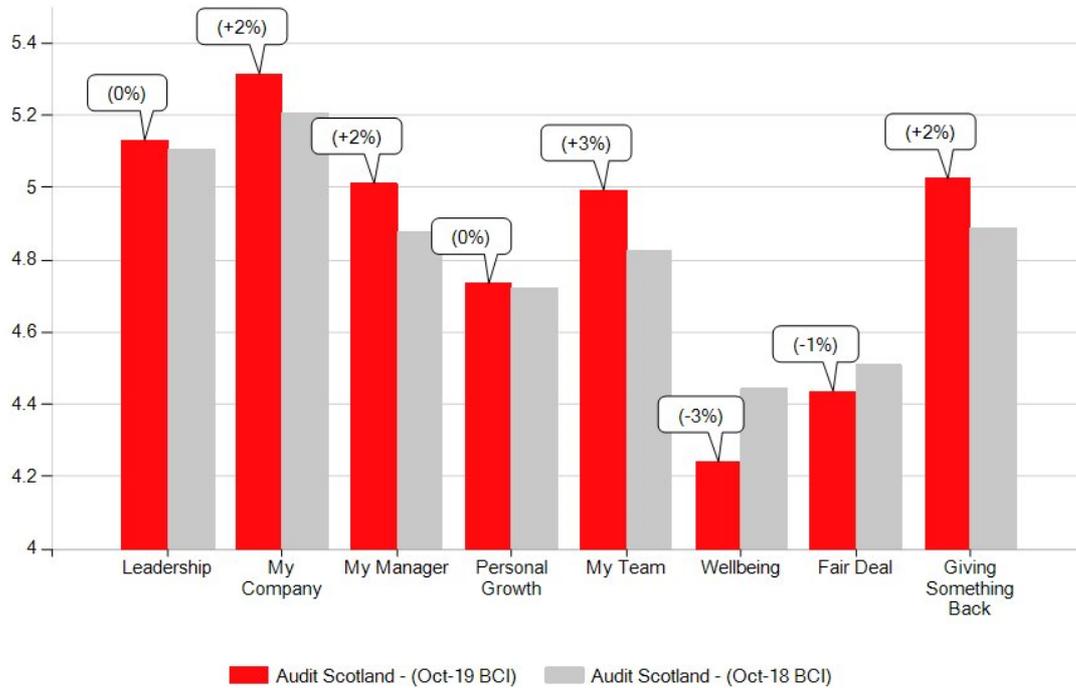
12. Leadership Group members are considering the data alongside other intelligence we already have about our people and the running of our business.
13. This year will see a deeper exploration of the data within individual teams. Team engagement is strongly linked to high performance and organisational 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

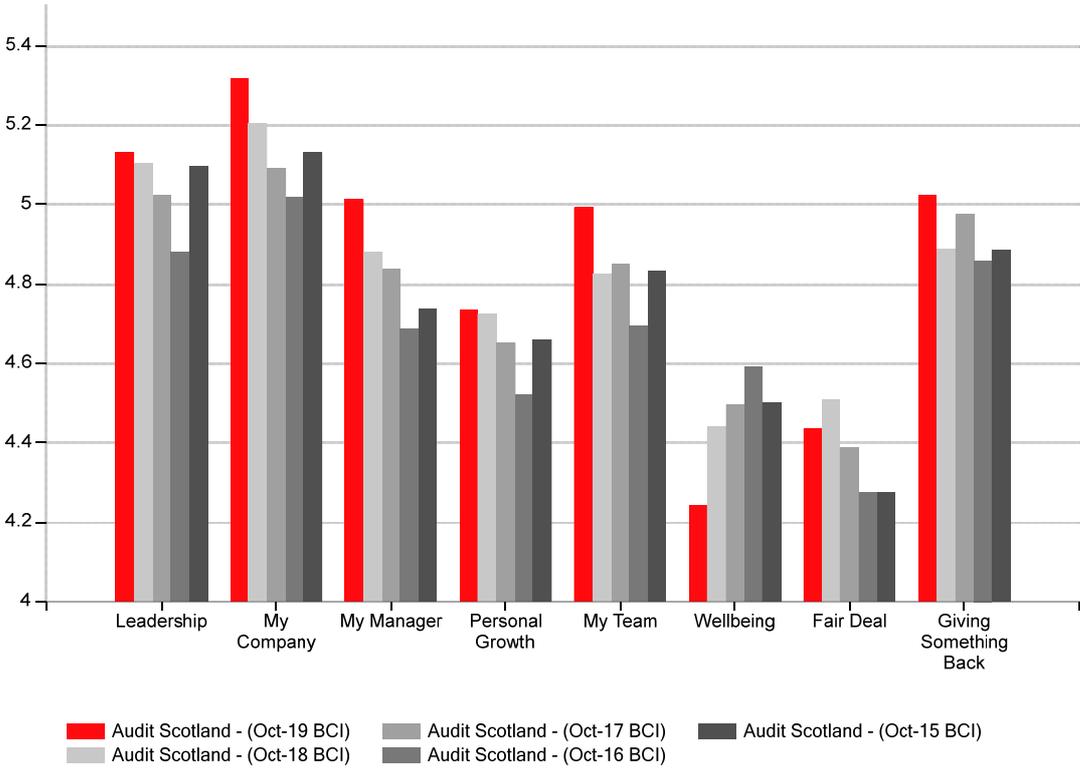
### October 2019 and 2018 - Comparison by factor



### 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.



David Beckett  
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Tel: 01633 456980  
Email: [David.Beckett@ons.gov.uk](mailto:David.Beckett@ons.gov.uk)  
Our Ref: Case 2017-93

Date: 31 October 2019

Mr Scott Mackay  
Deputy Director, Financial Management  
Scottish Government  
Victoria Quay  
Edinburgh  
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.

Tuesday 24 March 2020 at 10.15am

By teleconference

---

1. Welcome and apologies
  2. Declarations of interests
- 

## Decision items

- |                                  |              |
|----------------------------------|--------------|
| 3. Governance arrangements       | For approval |
| 4. COVID-19 verbal update        | For approval |
| 5. Audit Scotland budget 2020/21 | For approval |
| 6. Procurement strategy          | For approval |
| 7. Data protection policy        | For approval |
- 

## Standing items – for information

- |   |                 |
|---|-----------------|
| 8. Chair's report – verbal update                                       | For information |
| 9. Accountable Officer's report – verbal update                         | For information |
| 10. Accounts Commission Chair's report – verbal update                  | For information |
| 11. Review of draft minutes - Board meeting 29 January 2020 (to follow) | For approval    |
- 

## Business management – for information

- |   |                 |
|---|-----------------|
| 12. 2019/20 Q3 Performance report                     | For information |
| 13. 2019/20 Q3 Strategic improvement programme update | For information |
- 

## Conclusion

14. Any other business
15. Review of meeting
16. Date of next meeting: 13 May 2020

Board members should note that the following items of routine business will be sent in one despatch by correspondence for information. We will be happy to answer questions on them as required by correspondence

- Review of action tracker [For information](#)
- Financial devolution and constitutional change update [For information](#)
- Brydon review report [For information](#)
- Scottish Commission for Public Audit report on Audit Scotland's budget proposal for 2020/21 [For information](#)
- 2019/20 Annual report and accounts outline [For information](#)
- Medium term financial plan [For information](#)
- Corporate plan refresh [For information](#)
- New audit appointments update [For information](#)

## Purpose

1. This report proposes some temporary amendments to the Board's governance arrangements in light of the disruption arising from the Covid-19 pandemic.

## Background

2. Paragraph 40 of the [Standing Orders](#) make provision that 'These Standing Orders may be altered by the Board provided that the alteration is approved by a majority of the members of the Board'.
3. Paragraphs 14 to 20 cover the Board's meetings. The Standing Orders provide for meeting to take place via teleconference. I recommend that this is the way in which Board meetings take place for a temporary period and that is kept under review.
4. Paragraphs 17 to 18 covers the quorum arrangements; these provide for any absence of individual Board members.
5. The [Scheme of Delegation](#) (paragraph 5) states 'In exceptional circumstances where a decision of the Board is required and it is not possible to convene a meeting of the Board, a member of the Management Team in consultation with the Chair, or another Board member if the Chair is unavailable, may take the necessary decision and report the action taken to the next meeting of the Board.'
6. The [Financial Regulations](#) (paragraphs 81 and 82) provide for variations to be made. '81. These Regulations may be varied from time to time by the Board on receipt of a report and recommendations from the Accountable Officer. 82. The Chair of the Board may authorise, on a report from the Accountable Officer, exceptional treatment of a matter covered by these Regulations. Any such exceptions will be reported in writing to the next available meeting of the Board'.
7. Taken together the above provisions provide sufficient flexibility to maintain business continuity.

## Proposed alterations

8. I propose that the Standing Orders are altered as follows, to support business continuity while maintaining good governance.
9. Meeting in public (paragraph 10) – that public meetings are suspended until further notice and that this is kept under review. Decisions of the Board will be minuted as normal and published along with public Board papers as appropriate.
10. Agenda and papers (paragraphs 11 to 13).
  - Suspend publication of Board papers on the website in advance of public meetings (subject to agreement of paragraph 6 above).
  - Provide for the variation of the requirement for circulation of papers five working days in advance (paragraph 12) - to provide for more timely updates where required.

## Recommendations

11. The Board is invited to:
  - note the report
  - approve the proposed alterations to the Standing Orders set out above
  - agree that the variations are kept under review and considered at each Board meeting until further notice.

## Purpose

1. This report presents Audit Scotland's proposed operational budget for 2020/21.
2. No changes are proposed to the total budget resource approved by the Scottish Commission for Public Audit (SCPA) however a number of offsetting changes are proposed as follows:
  - Additional income of £310k
  - An increase in approved auditor fees of £86k
  - Increase in management contingency budget of £136k
  - Increase in Training and Recruitment budget of £45k
  - Increase Information Technology budget by £32k
  - Increase in Accommodation and other cost budgets by £11k
3. Appendix 1 provides an analysis of the proposed budget compared to the SCPA approved budget by subjective heading.

## Background

4. The proposed 2020/21 budget is based on the one approved by the SCPA and included in the 2020/21 Scottish Budget Bill.
5. The detail of the original budget was discussed and approved at the Audit Scotland Board meeting held on 27 November 2019 and was presented to the SCPA on 15 January 2020.
6. In total the funding provided by Scottish Parliament remains at £8.865m with £8.715m revenue and £0.150m capital funding.

## Budgetary Assumptions

7. The main budget assumptions used in preparing the 2020/21 SCPA approved budget have been reviewed with no changes proposed to the assumptions underpinning the operational budget at this stage.
8. The assumptions are subject to change following further discussion and agreement at Remuneration Committee of a proposed Audit Scotland pay award policy for 2020/21.

## Additional Income

9. The initial budget proposal was based on estimates of work for 2018/19 audits. Following completion of the 2018/19 audit work experience changes have been required to some audited bodies which has led to an increase in the base fee being applied to these bodies. Communication of expected fees has been issued to audited bodies for 2019/20 audits and the revised income budget is based on the recovery of this increased work.

## Approved Auditors

10. The increase in the baseline fee leads to the fee payment due to external audit firms increasing with the budget requiring an uplift of £86k to reflect this additional commitment.

## Training and Recruitment

11. The 2018/19 training budget was reduced by £45k to part fund the final pay award agreement. With the recruitment of additional staff resources to meet the auditing demands of further financial devolution training and recruitment budgets are experiencing increased pressures to meet demand. The 2020/21 operational budget proposes an increase in training and recruitment back to previous levels.

## Information Technology

12. The £32k increase to the approved budget has been identified as a requirement to meet Microsoft licence increases.

## Management Contingency

13. The balance of the increase in the income budget of £136k has been allocated to management contingency at this stage. Potential changes to the budget assumptions in respect of a pay award policy will have implications on the management contingency budget.

## Accommodation and Other

14. The service charge for West Port has increased above the original plan (£7k) and this is within the RPI cap level included within the lease contract.
15. In other costs Business Support require £4k to pay a corporate subscription to Quality Scotland for our ongoing Committed to Excellence assessment.

## Recommendation

16. The Board is invited to note the contents of this paper and approve Audit Scotland's revised budget for 2020/21 in the knowledge that this is subject to further change based on 2020/21 pay award policy decisions.

## Appendix 1

Item 5  
24 March 2020

### AUDIT SCOTLAND BUDGET: 2020/21

£(000)'s	SCPA Approved 2020-21	Proposed Budget 2020-21
Basic Salaries	13,279	13,279
Employer's On costs	4,162	4,162
Agency Staff	75	75
New work	160	160
Former AGS pension	26	26
Pension Adjustments	100	100
Accounts Commission Members	169	169
	17,971	17,971
Approved Auditors	4,350	4,436
Rent & Rates	535	535
Accommodation Costs	403	410
Travel & Subsistence	877	877
Legal & Professional Fees	834	834
Printing & Stationery	129	129
Training	470	500
Recruitment	130	145
Communications (telephone, postage)	65	65
Insurance	79	79
Information technology	462	494
Internal Audit	30	30
External Audit	30	30
Other	91	95
Depreciation	342	342
Management Team Contingency	300	436
	9,127	9,437
<b>GROSS ADMINISTRATIVE COSTS</b>	<b>27,098</b>	<b>27,408</b>
Corporation Tax	-	-
Bank Interest	-	-
Secondment Income	-	-
Other Income	-	-
<b>OTHER INCOME</b>	<b>-</b>	<b>-</b>
<b>NET EXPENDITURE</b>	<b>27,098</b>	<b>27,408</b>
<b>FEES &amp; CHARGES INCOME</b>	<b>(18,383)</b>	<b>(18,693)</b>
<b>NET OPERATING COST</b>	<b>8,715</b>	<b>8,715</b>
<b>Capital</b>	<b>150</b>	<b>150</b>
<b>TOTAL RESOURCE REQUIREMENT</b>	<b>8,865</b>	<b>8,865</b>

## Purpose

1. This report updates the Board on the annual review of our Data Protection policy and proposes amendments for which their approval is sought.

## Background

2. During April 2018, the Data Protection Policy was updated to reflect the introduction of the EU General Data Protection Regulations (GDPR). The Board agreed this would be reviewed on an annual basis.
3. Since the approval of the policy the Information Commissioner's Office (ICO) continues to issue regular guidance updates and clarifications in respect of the legislation. The Corporate Governance team closely monitors these with the aim of informing staff of any significant changes which would impact on operational practice.
4. In line with review timescales, the Data Protection Policy was reviewed during February 2020 and updated to reflect new ICO guidance. The refreshed draft policy is appended to this report and changes have been tracked. The Knowledge, Information and Technology Governance Group (KITGG) considered the revised policy and approved the changes on 4 March 2020, and the Audit Scotland Management Team approved these on 10 March 2020.
5. The review and approval process of the policy demonstrates our continued commitment to ensure our policies comply with standards. The policy will next be subject to review in March 2021 to ensure it remains fit for purpose, or sooner should negotiations with the EU result in substantial change to the UK Data Protection regime.

## Policy changes

6. The following changes have been applied to the policy:
  - an update on data protection following the United Kingdom's exit from the European Union on 31 January 2020.
  - emphasis placed on the mandatory nature of the training on data protection, information security and environmental information regulations.
  - minor wording change to reflect Audit Scotland's transition from iShare to SharePoint.

## Recommendations

7. Board is invited to approve the proposed amendments to the GDPR policy.

## Data Protection Policy

<b>Owned and maintained by:</b>	Corporate Governance Manager				
<b>Approved from:</b>	May 2020	<b>Next review:</b>	April 2021	<b>Version:</b>	16

## Introduction

1. The Data Protection Act (DPA) 2018 sets out the framework for data protection law in the UK. It updates and replaces the Data Protection Act 1998, and came into effect on 25 May 2018.
2. It sits alongside the European Union (EU) General Data Protection Regulations (GDPR), and tailors how the GDPR applies in the UK - for example by providing exemptions. It also sets out separate data protection rules for law enforcement authorities, extends data protection to some other areas such as national security and defence, and sets out the Information Commissioner's functions and powers.
3. The frameworks are comprehensive and apply tough punishments for non-compliance with rules around the storage and handling of personal data.
4. The United Kingdom (UK) officially exited the EU on 31 January 2020, and thereafter entered a 'transition period' which will apply until at least December 2020. During this time, Data Protection statutory obligations will remain the same. The Corporate Governance Team will continue to monitor and review any impending changes which will impact on the data protection regime within the UK. In the event of any changes to our statutory obligations these will be reflected as and when appropriate. This may mean that the Data Protection Policy, which is subject to annual review may be reviewed earlier than the next scheduled update of April 2021.
5. This Data Protection Policy applies to the Auditor General, the Accounts Commission and Audit Scotland. Throughout this policy the terms 'we' and 'us' are used to refer to the Auditor General, the Accounts Commission and Audit Scotland collectively.
6. As Data Controllers, we are committed to processing personal data (information) lawfully, fairly and in a transparent manner.
7. To discharge our statutory functions we collect, process, store and delete personal information covered by data protection legislation. Examples include information on current, past and prospective employees, Accounts Commission members' and previous Auditors General, clients, suppliers, correspondents, complainants, people covered by the audit process and others with whom we communicate.
8. We recognise the benefits of protecting an individual's fundamental rights and freedoms and in particular their right to the protection of their personal information. We also recognise the

seriousness of failing to comply with data protection legislation and the resulting risk to our reputation. Therefore, we are committed to:

- 8.1. ensuring that all personal information is processed lawfully and in compliance with current data protection legislation;
  - 8.2. ensuring that our digital systems are secure, and that personal information will be stored securely;
  - 8.3. implementing effective systems for ensuring the rights of individuals, such as systems for handling and responding to data subject access requests within one month or receipt (requests from individuals to access their personal information);
  - 8.4. designing systems, processes and methods of working that protect personal information entrusted to us (privacy by design and default);
  - 8.5. undertaking data protection impact assessments as necessary for major new projects or when considering new software;
  - 8.6. full awareness of and on-going training in data protection legislation, its implications for our work, our data protection arrangements and our data loss/incident process;
  - 8.7. implementing effective systems for handling security breaches and data losses;
  - 8.8. ensuring that when we use a data processor that a written contract is in place so that both parties understand their responsibilities and liabilities;
  - 8.9. ensuring that any data processor we use also implements appropriate technical and organisational measures;
  - 8.10. conducting regular testing and reviews of our measures to ensure they remain effective, and act on the results of those tests where they highlight areas for improvement;
  - 8.11. understanding that encryption can be an appropriate technical measure to ensure that we process personal data securely;
  - 8.12. ensuring that we keep our encryption solution(s) under review in the light of technological developments.
9. Data-matching exercises as part of the National Fraud Initiative are subject to a detailed Code of Data-Matching Practice which complies with this policy.

## Definition

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

11. It applies only to living individuals and covers their personal information held on physical or digital medium.

## Data protection principles

12. The EU 2016/679 General Data Protection Regulation (GDPR) contains seven principles for processing personal information. They specify the standards that must be met when obtaining, handling, processing, transporting and storing personal information. The seven data protection principles are listed below:
  - 12.1. Lawfulness, fairness and transparency;
  - 12.2. Purpose limitation;
  - 12.3. Data minimisation;
  - 12.4. Accuracy;
  - 12.5. Storage limitation;
  - 12.6. Integrity and confidentiality (security); and
  - 12.7. Accountability
13. In line with these principles, we will only process personal information where we have a lawful purpose for doing so and be cognisant of rules relating to exemptions that apply.
14. To comply with the seven data protection principles, we will:
  - 14.1. process personal information lawfully, fairly and in a transparent manner in relation to the data subject;
  - 14.2. only collect personal information for specified, explicit and legitimate purposes and not further process it in a manner that is incompatible with those purposes;
  - 14.3. ensure that the personal information we collect is adequate, relevant and limited to what is necessary in relation to the purposes for which they are processed;
  - 14.4. ensure the accuracy of personal information and, where necessary, keep the information up to date; personal information that is inaccurate will be erased or rectified without delay;
  - 14.5. only keep personal information in a form which permits identification of data subjects for no longer than is necessary for the purposes for which the personal data are processed; personal data may be stored for longer periods insofar as the personal data will be processed solely for archiving purposes in the public interest, scientific or historical research purposes;
  - 14.6. ensure personal information is only processed in a manner that ensures appropriate security of the personal information, including protection against unauthorised or

unlawful processing and against accidental loss, destruction or damage, using appropriate technical or organisational measures ('integrity and confidentiality'); and

- 14.7. ensure that we can demonstrate compliance with GDPR regulations by being able to evidence the steps we have taken to secure personal data including removal / redaction. We require to have a process in place to manage any requests, but also need to have a full audit trail to prove that we undertook the proper actions.

## Disclosure of personal information

15. We will only disclose personal information to:
  - 15.1. those who are entitled to the information;
  - 15.2. any authority we are required to do so by law e.g. HMRC; and
  - 15.3. anyone to whom we are required to disclose it, such as individuals seeking to access their own personal data.

## Rights of the individual

16. The GDPR provides the following rights for individuals which we as an organisation must be cognisant of:
  - 16.1. The right to be informed - this covers some of the key transparency requirements of the GDPR. It is about providing individuals with clear and concise information about what you do with their personal data. Articles 13 and 14 of the GDPR specify what individuals have the right to be informed about.
  - 16.2. The right of access - this is commonly referred to as subject access and gives individuals the right to obtain a copy of their personal data as well as other supplementary information. It helps individuals to understand how and why you are using their data, and check you are doing it lawfully.
  - 16.3. The right to rectification - Under Article 16 of the GDPR individuals have the right to have inaccurate personal data rectified. An individual may also be able to have incomplete personal data completed – although this will depend on the purposes for the processing. This may involve providing a supplementary statement to the incomplete data.
  - 16.4. The right to erasure - Under Article 17 of the GDPR individuals have the right to have personal data erased. This is also known as the 'right to be forgotten'. The right is not absolute and only applies in certain circumstances.
  - 16.5. The right to restrict processing - Article 18 of the GDPR gives individuals the right to restrict the processing of their personal data in certain circumstances. This means that an individual can limit the way that an organisation uses their data. This is an alternative to requesting the erasure of their data. Individuals have the right to restrict the processing of their personal data where they have a particular reason for wanting the

restriction. This may be because they have issues with the content of the information you hold or how you have processed their data. In most cases you will not be required to restrict an individual's personal data indefinitely but will need to have the restriction in place for a certain period of time.

- 16.6. The right to data portability - The right to data portability gives individuals the right to receive personal data they have provided to a controller in a structured, commonly used and machine-readable format. It also gives them the right to request that a controller transmits this data directly to another controller.
- 16.7. The right to object - Article 21 of the GDPR gives individuals the right to object to the processing of their personal data. This effectively allows individuals to ask you to stop processing their personal data. The right to object only applies in certain circumstances. Whether it applies depends on your purposes for processing and your lawful basis for processing.
- 16.8. Rights in relation to automated decision making and profiling - Under Article 4 (4) any form of automated processing of personal data consisting of the use of personal data to evaluate certain personal aspects relating to a natural person, in particular to analyse or predict aspects concerning that natural person's performance at work, economic situation, health, personal preferences, interests, reliability, behaviour, location or movements.

## Data protection officer

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

## Personal responsibility

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

## Training and awareness

- 19. We are committed to ensuring full staff awareness of our statutory obligations around Data Protection, Information Security and Environmental Information Regulations. All staff receive mandatory training on the pertinent legislation and its implications for our work. The training of staff is regularly tracked and monitored to maintain organisational compliance. We are committed to maintaining effective systems for handling personal data to meet our obligations under this legislation.
- 20. Guidance on the application of data protection is available on [SharePoint](#)

## Misuse of personal information

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

## Change log

Version	Date	Author	Description
13	12/04/2018	Corporate Governance Manager	Data protection policy changed to include GDPR requirements and the commencement of this change log.
14	26/03/2019	Corporate Governance Manager	Updated to reflect the further guidance updates on GDPR since April 2018
15	01/05/19	Corporate Governance Manager	Revised policy approved by Audit Scotland Board
16	24/03/20	Corporate Governance Manager	Revised policy for the approval of KITGG (4 March) and Board (25/03/2020)

Wednesday 29 January 2020, 10.15am

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

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## Present:

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

## Apologies:

None

## In attendance:

Diane McGiffen, Chief Operating Officer  
Gayle Fitzpatrick, Corporate Governance Manager  
Mark Roberts, Audit Director, Performance Audit and Best Value  
Simon Ebbett, Communications Manager  
David Blattman, HR & OD Manager  
Antony Clark, Audit Director, Performance Audit and Best Value  
Robert Leask, Project Manager, New Audit 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 27 January 2020.

The Chair welcomed Accounts Commission members Pauline Weetman and Geraldine Woolley as observers to the meeting as part of the Board's commitment to strengthening 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 17, 18 and 19 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, advised of engagement with Parliamentary officials on the recruitment campaign for two non-executive members of the Audit Scotland Board and informed members that the Spring Budget Revision and 2020/21 Budget Submission had been considered at the session with the Scottish Commission for Public Audit on Wednesday 15 January 2020.

The Board welcomed the update.

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

Caroline Gardner advised that, since the previous meeting of the Board, the post-election period had been busy with a number of reports being published, including Bord na Galigh, Disclosure Scotland and two joint reports with the Accounts Commission on City Deals and Revenue Funding of Assets. Caroline advised that there had been a good level of media interest in the reporting and the teams were now working to bring briefings to the Public Audit and Post Legislative Scrutiny Committee through to the end of April 2020.

Caroline invited members to note that the date for the Scottish Budget had been confirmed as 6 February 2020. She advised that the Scottish Commission for Public Audit have recommended Audit Scotland's Spring Budget Revision, which relates to non cash charges for pension provisions, to the Finance Committee and that we await information on Audit Scotland 2020/21 Budget submission.

Caroline highlighted the Brydon Review report which was published at the end of 2019 and advised members that a briefing to the Board would be scheduled in March or May 2020. She also highlighted the good results reported in the Best Companies survey results 2019 report at Item 10 of today's agenda as well as excellent results from the ICAS trainees.

Caroline advised members that her first meeting of the board of the International Federation of Accountants was scheduled at the end of February 2020.

The members welcomed the update, acknowledging the media coverage and the quality of the reports published and recorded their congratulations to the trainees for their ICAS examination passes.

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

Graham Sharp advised the Board that the Accounts Commission had met on 12 December 2019 and considered the approach to developing Best Value for joint boards through consultation. At the meeting of the Accounts Commission on 9 January 2020, members had a presentation from the Improvement Service.

Graham also advised of a busy reporting period, including the joint reports referenced by the Auditor General for Scotland, invited members to note his attendance at the Local Government and Communities Committee on 8 January 2020 and ongoing engagement with SOLACE and the Scottish Government.

Turning to the next meeting of the Accounts Commission, Graham advised members that they will be considering the Best Value report for Highland Council as well as the first Section 102 report for an integrated joint board.

Heather Logan asked whether the Commission anticipated more Section 102 reports for integrated joint boards and the impact this will have on resource demands. Graham advised that this report specifically relates to the financial sustainability and requirements would be kept under review by the Controller of Audit.

## **7. Review of minutes: Board meeting 27 November 2019**

The Board considered the minutes of the meeting of 27 November 2019, which had been previously circulated and agreed that these were an accurate record of the meeting, with the addition of the word 'performance' in the seventh paragraph at item 11, 2019/20 Q2 Corporate performance report.

The Chair agreed that further discussion on governance arrangements and New Audit Appointments would take place in the private session.

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

The Board noted the updates provided on the action tracker and agreed that Action ASB97 could now be closed.

## 9. EU Withdrawal update

*Mark Roberts, Audit Director, Performance Audit and Best Value and Simon Ebbett, Communications Manager, joined the meeting.*

Mark Roberts, Audit Director, Performance Audit and Best Value introduced the EU Withdrawal update report, a copy of which had been previously circulated.

Mark Roberts invited the Board to note the update provided ahead of UK leaving the EU on 31 January 2020 when it will enter into the transition period until 31 December 2020.

The Chair welcomed the report which focussed on both Audit Scotland's preparedness as well as audited bodies.

Heather Logan asked about the timing of performance audit work and issues for the EAFA audit support. Mark Roberts advised that timing of performance audit work would be considered as part of the refresh of the work programme. Mark Roberts advised that the current arrangements for EAFA will continue while Audit Scotland engages on the longer term needs.

Diane McGiffen advised the Board that Audit Scotland operates on behalf of the National Audit Office to provide assurance on EAFA and there was dialogue in several places about the future of the work. Diane McGiffen advised the Board that Audit Services colleagues were ensuring the skills and deployment of the permanent EAFA team were developed and enhanced during this period.

Alan Alexander welcomed the report, highlighting the importance in Audit Scotland capturing the big picture effects of withdrawal from the EU and agreed with the proposed to bring regular updates as we approach exit on 31 December 2020.

Simon Ebbett, Communications Manager, highlighted the usefulness of the checklist for EU exit planning and for other business continuity risks.

Following discussion, the Board welcomed the report.

*Mark Roberts, Audit Director, Performance Audit and Best Value and Simon Ebbett, Communications Manager, left the meeting.*

## 10. Best Companies survey results 2019

*David Blattman, HR & OD Manager, joined the meeting.*

Diane McGiffen introduced the Best Companies survey results 2019 report, a copy of which had been previously circulated.

Diane invited the Board to consider and comment on the strong results from the Best Companies survey, which reported the best ever scores in terms of engagement received in the past 10 years despite experiencing some resource and external pressures during the year.

Diane McGiffen invited the Board to note that Jonathan Austin of Best Companies had led a session with Audit Scotland's Leadership Group on 28 January 2020 to share further insights to the results. She highlighted the work at team level which David Blattman and his team were taking forward to explore the results further.

The Chair welcomed the excellent results.

Heather Logan asked how Audit Scotland compares with competitors. Diane McGiffen advised that some audit firms and regulators take part in the survey but this is not a direct comparison.

David Blattman, HR & OD Manager, highlighted the benefits of being able to demonstrate strong results to recruit and retain good people into the organisation and the focus on teams would ensure that everyone has a consistent experience. David advised that retention figures

are good. Heather Logan suggested it would be helpful to have a wider discussion and Diane McGiffen advised these results will inform the workforce planning report which comes to the Remuneration and Human Resources Committee meeting each year.

Graham Sharp and Alan Alexander welcomed the report, recognising the importance of staff wellbeing and the results over time. The Board noted Audit Scotland's response to ensuring a consistent experience for colleagues through the team focus.

Diane McGiffen advised that resourcing pressures had been one of the factors affecting wellbeing at certain times during the past year, and that regular engagement and communication with colleagues across teams have led to better resource planning for 2020. In addition, the teams will be looking at the quality and skills of temporary staff, and the volume and range of reporting for the Auditor General for Scotland and Accounts Commission.

Diane McGiffen invited members to note the organisation continues to offer a number of initiatives to support colleagues' wellbeing, through annual wellness checks, walking groups and mindfulness sessions and highlighted that the overall score for wellbeing amongst colleagues at Audit Scotland, although it has fallen, remains higher than for one star organisations.

The Board welcomed the report.

*David Blattman, HR & OD Manager, left the meeting.*

## 11. ONS reclassification of Audit Scotland

Gayle Fitzpatrick, Corporate Governance Manager, introduced the ONS reclassification of Audit Scotland report, which had been previously circulated.

Gayle Fitzpatrick invited the Board to note the reclassification of Audit Scotland as a central government body in the ONS public sector classification guide.

Diane McGiffen explained that the ONS review the classifications periodically and advised that Martin Walker had liaised with them regularly to seek assurance that there would be no adverse consequences for Audit Scotland. Diane advised that the other UK audit agencies were classified in the same way and there had been no impact of their ability to perform their duty.

The Board noted the ONS classification stemmed from Eurostat.

Graham Sharp also noted his discomfort as the Accounts Commission is also classified as a central government body.

The Chair noted that while Audit Scotland has no locus to change the outcome, the classification called into question Audit Scotland's independence and agreed to write to the ONS highlighting the Boards' concerns and to seek assurance.

Following discussion, the Board welcomed the report.

**Action ASB101: Diane McGiffen to draft a letter to ONS on behalf of the Chair of the Board. (February 2020)**

## 12. Audit Committee Terms of Reference

Gayle Fitzpatrick introduced the Audit Committee Terms of Reference report, a copy of which had been previously circulated.

Gayle Fitzpatrick invited the Board to consider and approve the updated Terms of Reference as recommended by the Audit Committee.

Following discussion, the Board approved the Audit Committee Terms of Reference.

**Action ASB102: Gayle Fitzpatrick to publish the approved Terms of Reference for the Audit Committee. (February 2020)**

### **13. Transition planning for Auditor General and Board appointments**

Diane McGiffen introduced the Transition planning for Auditor General and Board appointments report, a copy of which had been previously circulated.

Diane McGiffen invited the Board to consider the timetable for the recruitment and appointment of the next Auditor General for Scotland and the transition planning for this role together with the recent and future changes in membership to the Audit Scotland Board.

Diane invited members to note the link to the recent Best Companies report which reflected on the continued improvement of the leadership of Audit Scotland during Caroline Gardner's term of office and the importance of detailed planning to the end of June 2020 including the induction of a new Auditor General and new Chair and advised a further update would come to the Remuneration and Human Resources Committee meeting on 25 March 2020.

The Chair welcomed the preparedness ahead of his term coming to an end on 31 March, Heather Logan's term ending on 30 September 2020 and advised of engagement with Parliament on recruitment and induction and future planning of appointments.

The Board welcomed the report and the planning underway.

**Action ASB103: Diane McGiffen to bring an update to the Remuneration and Human Resources Committee. (March 2020)**

### **14. Any other business**

There was no further business.

### **15. Review of meeting**

The members welcomed the overall quality of the reports which had supported good discussion and the Chair thanked everyone for their contributions.

### **16. Date of next meeting: 25 March 2020**

The members noted the date of the next meeting of the Audit Scotland Board scheduled for 25 March 2020 in the offices of Audit Scotland, 102 West Port, Edinburgh.

## **Items taken in private**

### **17. Communications and engagement strategy 2020-23**

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

Simon Ebbett introduced the Communications and engagement strategy 2020-23, a copy of which had been previously circulated.

Simon invited the Board to consider and approve Audit Scotland's communication and engagement strategy 2020-23.

The Board considered the draft communications and engagement strategy to support the work of the Auditor General for Scotland and the Accounts Commission in an increasingly changing environment. The Board welcomed the use of plain language, early engagement of the Communications team in audit work given the public interest and the proposal to continue to share briefings which provide information on the issues and implications that decisions have on public services and which are related to Audit Scotland's work. The Board agreed they would

also like to see more commentary on the effectiveness and impact of communications in future years.

Simon Ebbett advised that with earlier engagement of the Communications team and the expectations and stretch envisaged, he is considering the skills across the team and processes in place in order to balance demands while ensuring consistency and impact of reporting.

Following discussion, the Board approved the Communications and engagement strategy 2020-23.

**Action ASB104: Simon Ebbett to publish the approved Communications and Engagement Strategy 2020-23. (February 2020)**

## 18. Stakeholder engagement and feedback

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

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

Simon Ebbett advised the Board that Robert Cumming had shared the presentation with Management Team on 17 December 2019 and highlighted that small differences were likely due to one person and an increase in neutrals responding.

The Board considered the information presented in the scatter diagram and took comfort from the position which has been maintained from last year.

Antony Clark, Audit Director, Performance Audit and Best Value, advised of the categories of respondents from MSPs, committee members and researchers and the timing of reporting which could have had an impact on responses.

Graham Sharp advised he would be interested to see feedback from those related to the Local Government and Communities Committee and Antony Clark advised this was positive.

Following discussion, the Board welcomed the report.

**Action ASB105: Antony Clark and Simon Ebbett to share the feedback from Local Government and Communities Committee, if any, respondents with the Chair of the Accounts Commission. (February 2020)**

*Simon Ebbett, Communications Manager and Antony Clark, Audit Director, Performance Audit and Best Value, left the meeting.*

## 19. New audit appointments update

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

There was discussion of the Board's practice of minuting private items and the subsequent publication of the minute. The Chair made it clear that the entire minute of any meeting would continue to be approved in public. Heather Logan commented that members all had the opportunity to comment on draft minutes before publication and to raise any concerns.

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

Alan Alexander invited members to note the possible risks to the project timetable and the areas for consideration following the market engagement exercise.

Robert Leask, Project Manager, New Audit Appointments, advised the Board of a number of risks identified following the market engagement exercise and the Board noted these and the commercial sensitivity of some of the risks.

The Board noted that the market had changed significantly since the previous procurement exercise. Robert Leask advised the Board that the procurement strategy team are considering options to mitigate the risks and these would be considered further by the Steering Group at its next meeting and by the Board on 25 March 2020.

The Chair welcomed the update and assurance that the project team were considering the mitigation of the risks identified.

Alan Alexander advised that the Code of Audit Practice would remain on track for consultation if the draft Code is approved by the Auditor General for Scotland, and by the Accounts Commission on 6 February 2020.

Diane McGiffen advised that the consultation draft of the Code of Audit Practice was being finalised. Caroline Gardner expressed her gratitude to the project team for their work given the receipt of a recent resignation from the team. Caroline advised that as Accountable Officer she took her duty of care for colleagues seriously and in light of a number of difficult interactions with the Commission would welcome the Chair and Deputy Chair presenting the final draft Code of Audit Practice at the meeting of the Commission on 6 February 2020.

Alan Alexander advised that the Chair and Deputy Chair of the Accounts Commission would commend the draft Code of Audit Practice to Commission members at its meeting on 6 February 2020. Alan invited to the Board to consider options if the Code was not approved. The Chair advised in the event of such an occurrence he would convene a special Board meeting to consider next steps.

Alan Alexander provided an update on issues raised in the minute of the Board meeting on 27 November 2019 on corporate governance. He advised that a draft of the Code had been amended from the version agreed at the Steering Group meeting and then presented to the Accounts Commission. The changes had not reflected the views of the Steering Group. He advised that although there had been discussions about whether there was a written agreement on changing reports that was not the primary issue as sound corporate governance required respect for the work of report authors.

The Chair reiterated his view that it was unacceptable and unprofessional for the draft Code to be changed without prior consultation with the authors. Further, the Chair asked directly who had made the changes and why.

Graham Sharp acknowledged responsibility for changing the draft Code to aid debate and discussion around the audit dimensions and BV with Members who had not been involved in the detailed discussions that had led to the current draft document. He acknowledged the document was amended without effective consultation with the authors. He accepted that this should not have happened and he would work with the Steering Group to ensure it would not happen again. Graham agreed to reflect with those involved on the circumstances and whether or not further apologies should be issued.

Caroline Gardner advised that the changes made to the document had not been highlighted or discussed with her as Auditor General for Scotland and that the Vice Chair of the project group had only learned of the changes on arrival to present the report to the meeting of the Accounts Commission.

Following discussion, the Board noted that the Chair of the Accounts Commission will present and commend the draft Code of Audit Practice report to the Commission at its meeting on 6 February 2020.

## Purpose

1. To invite the Board to review performance in quarter three 2019/20.

## Background

2. The quarter two 2019/2020 report was considered at meetings of the Management Team and the Board on 5 November and 27 November 2019 respectively. This quarter three report was considered by the Management Team at its meeting on 25 February 2020.
3. The performance information is reported under the two strategic objectives of 'delivering world class audit' and 'being a world class organisation' in line with the Corporate plan.
  - Appendix 1 provides a summary of performance for each strategic objective.
  - Appendix 2 provides the detailed performance information on the key performance objectives, key performance questions and the quantitative and qualitative performance data.

## Key performance messages

4. **Delivering world class audit** - We are delivering audits to time, within budget and to the required quality standards.
5. **Being a world class organisation** - We are operating within budget tolerance and our staffing KPIs remain good.
6. The Covid-19 virus has the potential to have a negative impact on performance. Staff absence due to illness may result in reduced capacity to carry out audit work. Disruption to public sector bodies, through, increased demand for care services, for example, and reduced capacity due to illness may mean that they are not in a position to be audited. This may result in audit work being reprioritised and rescheduled as circumstances require. Our response to Covid-19 is covered in more detail in a separate report on today's agenda.

## Recommendations

7. The Board is invited to:
  - review the quarter three performance report
  - consider whether any additional management action is required.

## 2019/20: Q3 performance summary

 Delivering world-class audit	Measure in Q3	Previous quarter	Same quarter last year
We conduct relevant and timely audits and report in public.			
Reports 2019/20 (YTD)	505 (71%)	399	502 
On time (YTD)	95%	95%	97% 
Audit Budget (YTD)	1.75%	-4%	-2.6% 
We get our messages out effectively			
Media mentions (Q3)	354	340	413 
Downloads (Q3)	367,005	232,975	214,509 
Social media engagements (Q3)	6,588	7,991	8,571 

## Key performance messages

- We delivered 505 audits/reports by the end of Q3. This is 36 more than planned, largely due to many Further Education accounts/ annual audit reports being completed earlier than scheduled.
- Quarter four will see a significant further increase with the publication of the annual audit plans.
- 95 per cent of reports have been delivered on schedule and audit expenditure is 1.75 per cent above budget. This is within the 5 per cent tolerance range.
- There was a communications moratorium during Q3 due to the General Election. Communications statistics for downloads are up by just over 152k. The media mentions and social media engagements have dipped compared to Q3 last year but the year on year trend is still increasing.
- The interim audit quality report was delivered in Q3 and provides positive assurance.

## Key actions

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

- The Code of Audit Practice and Audit Procurement project
- Developing the approach to Best Value Audit in councils and IJBs and the ASG audit methodology
- The development of digital auditing.

## Key:

**Red** = Not progressing/significant additional management action required.

**Amber** = Progressing and management action planned.

**Green** = On target/no need for additional management action

 Being a world-class organisation	Measure in Q3	Previous quarter	Same quarter last year
<b>We manage our resources effectively</b>			
Budget Variance (YTD)	-0.4%	+0.5%	-2.6% ↓
WTE establishment (YTD)	101.2%	96.7%	98.9% ↑
<b>We maximise our efficiency</b>			
Staff costs (YTD)	12,422k	8,230k	11,762k ↑
Agency/secondment costs (YTD)	412k	282k	126k ↑
Average cost per audit day (Q2)	440	432	432 ↑
Proportion of audit time (Q2)	61%	72.5%	62.5% ↓
<b>We empower and support our people to be engaged, highly skilled and perform well</b>			
Absence (YTD)	3.39 days	2.06 days	3.45 days ↓
Staff turnover (YTD)	4.99%	3.01%	7.67% ↓
Exams pass rate (YTD)	83%	75%	84% ↓
Training events (YTD)	79	39	79 →
Training attendees (YTD)	897	374	868 ↑
IT uptime	99.98%	99.43%	99.73% ↑

### Key performance messages:

- Our net operating cost was 23k (0.4%) per cent under budget. This is primarily due to the timing of other administrative expenditure compared to the budget phasing. Current projections indicate that the position at the end of Q4 will be on budget.
- Staff levels were 101.2 per cent of establishment and turnover and absence rates remain low.
- Positive results in the Best Companies survey 2019, where we:
  - are in the top 100 not for profit UK organisations
  - achieved our highest overall score to date and maintained 'ones to watch' status
  - achieved an increase in six of the eight factors with the largest increases being in the 'my company' grouping
- Successful implementation of a new HR system and major migration to SharePoint on-line.

### Key actions

- Though the peak period pressures have subsided we are continuing to take action to address resourcing pressures. These include; earlier appointments to the professional trainee scheme and changes to the exam timings, engagement with universities re full year placements, streamlining the audit process and the development of pool of experienced auditors to alleviate pressures in the peak periods. The Management Team will be holding resourcing stock take sessions in April and June 2020 to review the resourcing data and develop mitigating actions where required.

## Appendix 2 - Performance detail

24 March 2020

### 2019/20: Quarter 3

 <b>Delivering world-class audit</b>	<b>We conduct relevant and timely audits and report in public.</b>
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Key Performance Questions	2018-19				2019- 20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Are relevant audits being delivered?	G	G	G	G	G	G	G	
Are audits delivered on time?	G	G	G	G	G	G	G	
Are audits delivered on budget?	G	G	G	G	G	G	G	

#### Key messages

We have delivered:

- 71% of audit/reports scheduled for 2019/20
- 95% of audit/reports (YTD) delivered on time (target 95%)
- audit expenditure is 1.75 per cent above budget (within the 5% tolerance target)

In Q3 we published 106 audit/reports against a schedule of 160. This is due to reports being delivered earlier than scheduled in Q1 and Q2. By the end of Quarter 3 we had published 505 audit/reports against an expected total of 469.

In Q3 there was a publication Moratorium between 6 November and 12 December 2019, due to the General election. The priority, in Q3, was reporting in a timely manner to ensure issues of public concern were raised (ie [The 2018/19 audit of NHS Lothian: Delay to the opening of the Royal Hospital for Children and Young People](#) ) and that minimised the impact of the moratorium on the parliamentary timetable.

This did not significantly impact on the number of reports published and contingency planning ensured the impact of the moratorium was managed. This included early engagement with audited bodies and key stakeholders, clerks to parliamentary committees, the Auditor General and the Accounts Commission.

#### Actions

Some reports due to be delivered in Q3 were affected by the moratorium. The *Equal Pay in Scottish Councils* Impact Report will now be completed during Q4 or early Q1 2021/2022. This is to allow the audit team to consider additional information that will be reported in a forthcoming Controller of Audit s102 report which covers equal pay related matters to Glasgow City Council.

The *Highlands and Islands Enterprise: Cairngorm Funicular* s23 report was provisionally scheduled for a Q4 publication. The audit team has completed the scoping of the audit and has identified early May as the planned publication date for the report in agreement with the relevant Audit Director.

The annual refresh of the joint Auditor General and Accounts Commission rolling-work programme continued during Q3. Proposals will be considered by the AGS and Commission during February and March. The refreshed programme will be published alongside the Commission's annual Strategy at the end of March.

**Issues/ risks**

•

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

	Q1	Q2	Q3	Q4
Annual Audit Plans Audit Scotland (123)	FE 2 ✓			LG 66, NHS 10, CG 45
Annual Audit Plans Firms (99)	FE 18 ✓	FE 1 ✓		LG 39, NHS 13, CG 28
Accounts certified Audit Scotland (123)	NHS 10 ✓ CG 6 ✓	CG 35 ✓ LG 62 ✓	FE2 ✓ (Q4) CG 4 ✓ LG 4 ✓	
Accounts certified Firms (99)	NHS 13 ✓ CG 3 ✓ LG 1 ✓	CG 13 ✓ LG 38 ✓	FE 17 ✓ CG 12 ✓	
Annual Audit Reports Audit Scotland (123)	NHS 10 ✓ CG 6 ✓	CG 30 ✓ LG 58 ✓	FE2 ✓ (Q4) CG 6 ✓ LG 13 ✓	
Annual Audit Reports Firms (99)	NHS 13 ✓ CG 1 ✓ LG1 ✓	CG 14 ✓ LG 37 ✓	FE 12 ✓ CG 13 ✓ LG 9 ✓	
Performance Audit (7)	<ul style="list-style-type: none"> <li>•Social security ✓</li> <li>•Enabling digital government ✓</li> </ul>	<ul style="list-style-type: none"> <li>•Revenue financing of assets: The Non-profit distributing (NPD) and Hub models X (Q3)</li> <li>•NHS workforce planning 2: primary care clinical workforce ✓</li> <li>•Finances of Scottish universities ✓</li> </ul>	<ul style="list-style-type: none"> <li>•Scotland's City Region and Growth Deals X (Q4)</li> </ul>	<ul style="list-style-type: none"> <li>•Early learning and childcare: follow up</li> </ul>
Best Value Assurance Report (7)	<ul style="list-style-type: none"> <li>•Stirling Council ✓</li> <li>•North Lanarkshire ✓</li> <li>•Clackmannanshire Council: follow-up ✓</li> </ul>	<ul style="list-style-type: none"> <li>•Midlothian Council ✓</li> <li>•Perth and Kinross Council ✓</li> </ul>	<ul style="list-style-type: none"> <li>•Scottish Borders Council ✓</li> <li>•Highland Council X (Q4)</li> </ul>	
Overview Report (3)	<ul style="list-style-type: none"> <li>•Scotland's colleges 2019 ✓</li> </ul>		<ul style="list-style-type: none"> <li>•NHS in Scotland 2019 ✓</li> <li>•Local government in Scotland: Financial overview ✓</li> </ul>	

Statutory (12)	<ul style="list-style-type: none"> <li>•Scottish Public Pensions Agency ✓</li> </ul>	<ul style="list-style-type: none"> <li>•Highlands and Islands Enterprise ✓</li> <li>•Scottish Prison Service ✓</li> <li>•Scottish Government consolidated accounts ✓</li> <li>•Social Security Scotland ✓</li> </ul>	<ul style="list-style-type: none"> <li>•NHS Highland ✓</li> <li>•NHS Lothian ✓</li> <li>•NHS Tayside ✓</li> <li>•S22 Bord na Gaidhlig ✓</li> <li>•S22 Scottish Police Authority ✓</li> <li>•S22 Disclosure Scotland ✓</li> </ul>	<ul style="list-style-type: none"> <li>• S23: Highland and Islands Enterprise (Q1 2020)</li> <li>• 3x s102 Local government</li> </ul>
Other (24)	<ul style="list-style-type: none"> <li>•HCW- Safeguarding public money: are you getting it right ✓</li> <li>•West Dunbartonshire Council Tendering And contracting practices ✓</li> <li>•Drugs and alcohol services: an update ✓</li> <li>•Briefing - Enterprise and skills review ✓</li> <li>•Briefing - Public health reform ✓</li> <li>•Guide to the General Medical Services contract ✓</li> <li>•Briefing - Planning for outcomes ✓</li> <li>•HB Annual report ✓</li> <li>•Transparency Report 2018 ✓</li> </ul>	<ul style="list-style-type: none"> <li>•Impact - NHS workforce planning X</li> <li>•Impact - Transport Scotland's ferry services ✓</li> <li>•Impact - Self-directed support: 2017 progress report X</li> <li>•Impact - Equal pay in Scottish councils X</li> <li>•Briefing - Student Loans briefing X</li> <li>•Principles for community empowerment ✓</li> <li>•National Scrutiny plan for local government ✓</li> <li>•Fraud and irregularity update 2018/19 ✓</li> </ul>	<ul style="list-style-type: none"> <li>•Briefing - Operation of the fiscal framework ✓</li> <li>•Equal Pay Impact Report (Q4) X</li> <li>•Briefing - Cyber Security X</li> <li>•Impact - Self-directed support: 2017 progress report (Q2) ✓</li> <li>•Briefing - Student Loans briefing (Q2) X</li> <li>•Briefing – EU Withdrawal ✓ (was Q4)</li> </ul>	<ul style="list-style-type: none"> <li>•Eafa</li> <li>•FC NAO</li> <li>•FC WAO</li> <li>•Refreshed rolling 5-year work programme</li> <li>•EU withdrawal: briefing X (now Q3)</li> <li>•Student Loans briefing (was Q2 then Q3)</li> </ul>
Planned (719)	83	226	160	208
Published	100	299	106	

### On time

We have delivered 71 per cent of the scheduled audit/reports, 95 percent, of which, are on time.

The audits of Dundee IJB and Western Isles IJB were completed on time but the auditor did not receive the accounts in sufficient time to sign them within the deadline. The audits of Renfrewshire Council and Glasgow and Clyde Valley SDPA could not be completed on time because of difficulties with the accounts preparation that the bodies were unable to resolve in time. It is also worth noting that Renfrewshire Council had a modified audit opinion. The qualification related to the adequacy of accounting records because of difficulties experienced by the council in implementing a new ledger system.

Some of the reports were rescheduled within Q3 however the *Scotland's City Region and Growth Deals* performance audit, *Highland Council* BVAR and *Student Loans* briefing paper were rescheduled to January (Q4). For performance reporting purposes these reports will appear as 'late' however this is due to circumstances not known at the time the revised schedule was agreed.

## On Budget

Audits delivered year to date are within the tolerance range of 5 per cent at 1.75 per cent above budget. Two PABV audits completed during Quarter 3 the NHS in Scotland Overview (23%) and Financial Local Government Overview (18.7%) costs exceed the originally agreed audit budget.

*NHS Overview* – the audit team included several new and recently appointed team members. The resulting learning curve increased the time taken to undertake audit work. The audit post-project review concluded that a proportion of auditor time should reasonably have been coded to learning and development and not as direct audit costs. For the first time the NHS Overview team set up an advisory group as part of the audit approach – the costs (time) in setting this up and maintaining the group were higher than originally planned and will be built into future audit budgets. The audit team also included a Q-Step programme student placement during the busy Summer months – this added to audit team costs as time was required to support the student on top of core audit delivery.

*Financial Local Government Overview* – the 2019 audit was the first year where centralised local government accounts collation and analysis was undertaken solely by the audit team. This work was previously carried out by Professional Support. These costs were not included within the original audit budget. The audit team also spent more time than planned on the preparation and analysis of the audit minimum data set, and in the factual accuracy checking stage of the audit. This was due to the quantity and complexity of data received and analysed.

On time YTD	Number delivered on time	Number delivered Late	% of planned delivered to date	% on time	Comment
Annual Audit Plans – AS (123)	2	0	2%	100%	Both annual audit plans were published on time. All other annual audit plans are due to be published in Q4.
Annual Audit Plans – Firms (99)	18	1	19%	99%	One annual audit plan delivered late due to an Audit Committee taking place after the due date. All other Annual audit plans are due to be published in Q4.
Accounts certified – Audit Scotland (123)	119	4	100%	97%	This was due to factors outwith the auditor's control, such as, not receiving the audited accounts or further evidence in sufficient time to meet the deadline.
Accounts certified – Firms (99)	96	3	100%	97%	
Annual Audit Reports – Audit Scotland (123)	112	11	98%	91%	
Annual Audit Reports – Firms (99)	95	4	99%	96%	
Performance Audit (7)	4	2	86%	50%	
Best Value Assurance Report (7)	6	1	100%	83%	
Overview Report (3)	3	0	100%	100%	
Statutory (12)	10	0	83%	100%	
Other (24)	16	7	92%	71%	
<b>Total</b>	<b>475</b>	<b>39</b>	<b>71%</b>	<b>95%</b>	

**On budget:** In Q3 the expenditure on audit is 1.75per cent over budget and within our 5 percent budget tolerance.

	Budget	Actual	£ Variance	% Variance
ASG	10,413,448.47	10,543,285.88	129,817.41	1.25
PABV	1,386,470	1,463,470	77,033	5.56%
Total	11,799,918	12,006,756	206,838	1.75

Key Performance Questions	2018-19				2019-20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Are we assured about the quality of our work?	G	G	G	G	G	G	G	
Are we improving the quality of our work?	G	G	G	G	G	G	G	

**Key messages**

- Positive assurances on audit quality in the interim quality report

**Quality assurance and improvement during Q3 included:**

The Audit Quality interim report provided assurance to the Auditor General for Scotland and Accounts Commission that auditors are delivering outputs within the expected deadlines and are preparing high quality audit plans. The arrangements for reviewing and reporting on audit quality under the Audit Quality Framework are driving improvement in audit quality with clear evidence that previous recommendations are being implemented.

The new Professional Support SharePoint site went live including updated audit guidance and technical support material (for example the Audit Management Framework).

The 2018/19 quality reviews have commenced with many near completion. The findings will be reported in Q4 and used to inform training requirements.

Internal quality reviews – 7 reviews commenced in Q3, 2 were completed in Q3 with the remainder due for completion in Q4. Findings from the reviews will be reported to the Audit Quality Committee in Q4.

For the first time the NHS Overview team set up an audit advisory group to provide additional support and assurance to the team throughout the audit. The post-project review has concluded that this will become a standard feature of future NHS Overviews.

Professional support is closely monitoring and reporting on the findings of the various reviews on the audit profession to identify the implications and any actions required.

**Technical guidance/ notes published in Q3 included:**

- The Audit Guide for the 2019/20 audits
- Technical bulletin and guidance notes on:
  - developments and emerging risks of misstatement that are pervasive to the local government financial statements in 2019/201.
  - 16 briefing notes to provide auditors with a synopsis of new technical documents.
  - planning the 2019/20 audit.
  - three reports were prepared for ASGMT – a productivity deep dive, one on new KPIs and one on non-audit time. These should help to improve productivity and performance management going forward.

**Technical guidance events in Q3 included:**

- Planning conference in October attended by Audit Scotland and partners from the firms
- a round table discussion for auditors (in house and partners in the firms) on going concern and materiality

- Technical training workshops on audit assertions (7 sessions with 112 attendees), professional scepticism (one session), capital accounting (2 sessions) and an introduction to performance audit and best value auditing (one session-5 attendees). The audit assertion training was mandatory for all financial auditors to attend.
- Knowledge sharing session with PABV Audit Manager's was held following the launch of the new AMF.

Professional Support replied to 114 technical enquiries from auditors this quarter. This was less than the 306 in Q2 as auditors move into the planning stage of the audit. 98% were within target response times.

**Forward look:**

- ASG cold quality reviews- quality review work commenced in Q3 and is due to be completed in Q4. Findings from the reviews will be reported to the Audit Quality Committee in Q4.
- A report summarising the key issues emerging from the quality reviews will be completed in Q4
- The Post-Publication/impact section of the Audit Management Framework has been revised this quarter for use on all future PABV audits
- ICAS and PS training event from the quality review findings to be held in Glasgow on 30<sup>th</sup> April 2019

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

**Key messages**

- The top three reports in Q3 were [Overview - Financial overview of local government](#); [Overview - NHS in Scotland 2019](#) and the [S22: NHS Lothian: Royal hospital for children and young people](#)
- Communication figures across all three categories are up on same quarter last year (Q2 18/19 -Media 268, Downloads 191,886 and engagements 6,420)
- Regular ongoing engagement with Parliament and the Accounts Commission in Q3
- We have responded to four consultations and received 31 new correspondence concerns

**Engagement**

In Q3 we:

- attended 30 Parliamentary Committees with 86 attendees.
- participated in a cross-party parliamentary reception on Health Inequalities. Colleagues promoted the recent NHS in Scotland overview report and our audit work on health and social care integration.
- engaged with Police Scotland regarding the risks around procurement fraud in the public sector. A joint workshop with Police Scotland was held for auditors on procurement fraud and a 'Procurement fraud Red Flag guide' has been published to assist auditors and public sector organisations prevent and detect procurement fraud. This guide has received positive feedback from external organisations.
- attended Eight external working group meetings - to ensure Audit Scotland is engaging with relevant standard setters as they prepare and review relevant codes, manuals, standards and guidance.
- attended the Public Audit Forum Conference in Cardiff - engaging with other public sector auditors across the UK.
- delivered a presentation on technical matters to the CIPFA Technical Update Accounting Conference
- were represented at the EURORAI conference where a colleague delivered a presentation on our University finances performance audit report. Two colleagues also attended the fourth Young EUOSAI conference hosted in 2019 by the National Audit Office in London.
- joined exhibitors at the ICAS recruitment fair in Edinburgh University to showcase our graduate recruitment scheme.

In Q3 we hosted:

- visitors from the Anti-Corruption and Civil Rights Commission from Korea to discuss and share learning in respect of counter-fraud and whistleblowing activity.
- the other UK audit bodies to discuss progress in data analytics and opportunities to work more closely together in this area.
- delegations from the Audit Office of Henan in China, and the Anti-corruption and Civil Rights Commission in Korea.
- an open evening on 14 November at West Port for potential applicants to the Trainee scheme. Between 30 and 40 people attended this event

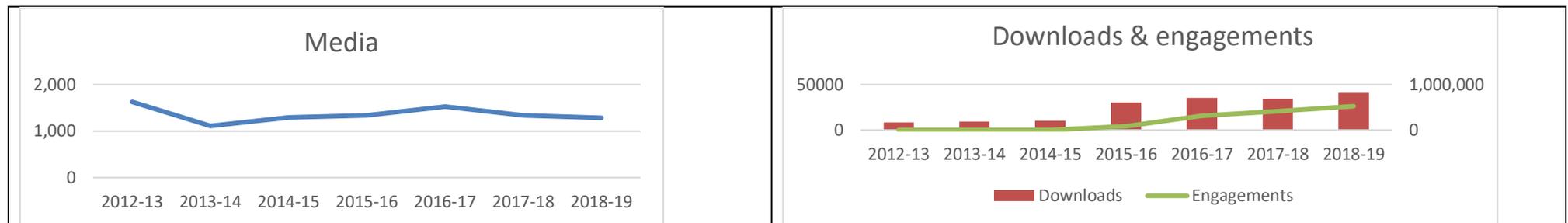
In Q3 we responded to four consultations:

- Scottish Elections (Reform) Bill - call for views
- 2019/20 local authority accounting code exposure draft
- NAO Code of audit practice consultation
- Brydon review

## Communications

Media and engagements figures are lower than the same quarter last year (Q3 18/19 -Media 413 and engagements 8,571). Downloads are up (Q3 18/19 214,509). The media download and engagement trend data show the fluctuation over time but remains consistent over all. Downloads and engagements continue to rise. The General Election of December 2019 meant that five of the quarter's nine reports were published in the last working week before Christmas.

	Q1	Q2	Q3	Q4	YTD	18/19
Media	304	340	354		998	1,283
Downloads	123,448	232,975	367,005		723,428	817,436
Social Media	5,881	7,991	6,588		20,460	26,118
Parliamentary engagements	-	-	291			



### Media

The three reports with the most media coverage were: Overview - Financial overview of local government; Overview - NHS in Scotland 2019 and the S22: NHS Lothian: Royal hospital for children and young people

- High levels of national, online and broadcast coverage in December, with the reports on Edinburgh's Royal Hospital for Sick Children and the Financial Overview of Local Government particularly prominent.
- Earlier in the quarter, the annual NHS Overview was again covered extensively in the media. This year coverage included an extended Auditor General interview for Good Morning Scotland's weekend edition.
- The s22 report into the Scottish Prison Service, published in September (Q2), continued to be cited in quarter 3, particularly after the appearance of SPS executives and members of the Scottish Government at the Public Audit and Post-legislative Scrutiny Committee. Other familiar themes for the time of year – the state of Scotland's roads – saw Audit Scotland historical work referred to by politicians and media platforms.
- Local coverage of our work was significantly influenced by Press Association copy – the same NHS Overview story, for example, appearing in 11 different titles.

### Downloads

The most popular downloads in Q3 were:

- The 2018 Children and Young People's Mental Health report (around 5,000 downloads) – reflecting increasingly more open societal discussion about mental health
- The 2019 NHS Overview (around 4,000).
- The NFI privacy notice 2018 remains the most popular download from the website, with some 18,000 downloads over the quarter.

### Social media activity

- In a departure from usual practice, a video of the Auditor General explaining the challenges facing the NHS was posted on social media. Video is consistently our most popular content and, by using it to announce the publication of the report, the NHS OV video was viewed over 2,500 times (a separate stat from our other social media measures) across our main platforms and had a high number of shares compared to more static content.
- A blog reflecting the challenges facing Scotland's public sector leaders, particularly those in the health sector, received over 1,000 views on WordPress.
- Fraud content tied to the audit team's Red Flags document produced in tandem with Police Scotland proved very popular in October, reaching a wide audience because of the #fraud hashtag, practical advice of the content and the added reach of the @policescotland twitter handle.
- Our audience, meanwhile, continues to grow on LinkedIn and Twitter.

### Parliamentary engagement

In Q3 there were 291 engagements with parliament including; 21 Parliamentary questions mentioning Audit Scotland, 228 appearances at committees, 16 mentions at FMQs and 26 mentions across committees.

### Correspondence

Audit Scotland handles a wide range of correspondence from members of the public, elected representatives and organisations. Figures for new and reopened cases are:

New correspondence cases	Q1	Q2	Q3	Q4	YTD	18/19
Number of cases	36	44	31		111	143
Acknowledgement within five working days	100%	95%	100%		98%	99
Final response within 30 working days	94%	100%	94%		96%	98

- Figures above are for new and reopened cases.
- Two response deadlines were missed.
- In addition, we had 22 audit enquiries about figures within our reports, guidance and access to materials/reports. This compares to 28, Q3 18/19.

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

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

**Key messages / Things to note:**

During Q3 the Impact report for the 2017 performance audit of [Self-Directed Support](#) was published. The report highlighted good progress against several the audit recommendations but that authorities have yet to make the transformation required to fully implement the Self-Directed Support Strategy.

Six statutory reports were produced and published during Q3. These reports highlight issues of auditor concern relating to the audit of public bodies and are reported publicly through the Parliament's Public Audit and Post-legislative Scrutiny Committee.

With the move to SharePoint the ASG impact log has been moved to an easily accessible place to continue to capture examples of impact both across financial audit and wider dimension work. We have added a test to the A06 MKI programme (a planning file, open throughout the whole audit) to require audit teams to record impact in the log. By including this as a test this should help remind ASG colleagues of the impact log and its importance, the test also requires to be completed and signed off by a senior audit manager before the files are closed.

Colleagues showcased our recent and planned work on education and children's services at the 2019 Children in Scotland Conference in Edinburgh.

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

- Following a recommendation to improve the annual report the body has introduced a revised format which more clearly articulates major achievements against each of the nine objectives from the body's corporate plan. This represents a substantial improvement on earlier years' annual reports.
- Agreed with the audited body that all its Board minutes and its annual plan will be made available for public review via the website promptly following approval.

*Local Government:*

- Based on our recommendation on options appraisal re a consortium a council held a members' briefing and workshop on the Challenges and Performance 2019 LG Overview and LG Financial Overview 2017/18. It invited Audit Scotland to present the national messages, with officers presenting the council's position and actions in key areas. This was followed by a self-assessment workshop using the key scrutiny questions from the supplements to the reports.
- A senior Audit Manager was invited to attend an Audit Committee development session on the effectiveness of the Audit Committee, contributing to an in-depth and open discussion. Self-assessments were submitted to inform future training and development activity.

**Insight and foresight**

- A council has acted on our recommendation to move to accrued accounts for its two s106 charities, which has removed the need for accounting adjustments between the ledger and receipts and payments accounts. After this first year, the accounts preparation process should be smoother/quicker. The finance officer also actioned audit adjustments to his accounts template to comply with the Charities SORP.
- Following recommendation in our previous year's annual audit report the council's members approved a long-term financial strategy. The next step will be to link this into the council's transformation programme.

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

**Key messages:**

- The refresh of the Audit Services Group audit approach to financial audit has commenced with a paper going to Audit Services Group Management Team for approval in Q3. The project board overseeing the project has been established and will first meet in Q4 to agree terms of reference, timetable and resourcing.
- Audit Scotland's new HR system went live during Q3.
- A video of the Auditor General explaining the challenges facing the NHS was posted on social media. Video is consistently our most popular content and, by using it to announce the publication of the report, the NHS Overview video was viewed over 2,500 times (a separate stat from our other social media measures) across our main platforms and had a high number of shares compared to more static content.
- The annual refresh of the joint Auditor General Scotland (AGS) and Accounts Commission rolling-work programme continued during Q3. Proposals will be considered by the AGS and Commission during February and March. The refreshed programme will be published alongside the Commission's annual Strategy at the end of March.

**Actions:**

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

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

We continue to develop processes, products and services to ensure we are delivering the appropriate work at the right time.

Professional Support held various training sessions on Audit Assertions during October- December 2019 which 113 people attended. This was mandatory for all ASG staff with a wash up session, in January 2020, to catch those that had not attended.

The annual refresh of the joint Auditor General and Accounts Commission rolling-work programme continued during Q3. Proposals will be considered by the AGS and Commission during February and March. The refreshed programme will be published alongside the Commission's annual Strategy at the end of March.

**Forward look:**

- A new digital case management approach to managing public correspondence is being developed by the Correspondence Team and Digital Services. The intention is for this to go live early in 2020/2021.
- AQA is investigating using electronic signatures in annual accounts. Parliament clerks have confirmed that accounts with electronic signatures would be acceptable for laying in Parliament.

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

**Key messages**

- The financial position as at the end of Q3 is a minor underspend to budget of £23k (0.4%). This is primarily due to the timing of other administrative expenditure compared to the budget phasing. Current projections indicate that the position at the end of Q4 will be on budget.
- In the nine months running up to 31 December 2019 we were operating at above establishment and are currently under budget, and across a range of budget headings.
- A [risk interrogation on value for money](#) was considered by the Audit Committee at its meeting in November, this provided positive assurance on efficiency and value for money.
- A PABV sub-group has been established to look at options to improve resourcing. This work links in to the corporate Improving Resourcing work being overseen jointly by Audit Services and PABV Audit Directors.
- The November an all Audit Scotland Audit Directors meeting focussed on resource management and cross-organisational working and resource deployment. Several actions have been agreed to address recent resource pressures in financial audit (particularly during final accounts) and performance audit work. These actions will be implemented throughout the course of 2020.

**Resource management**

In the nine months to 31 December 2019, Audit Scotland's Net Operating Expenditure was £5,185k which was £23k more than budget

	Q1	Q2	Q3	Q4	18/19
Actual	(1,233)	(2,760)	(5,185)		(9,827)
Budget	(1,422)	(2,747)	(5,208)		(9,891)
Variance K	(13.3%)	(0.5%)	0.4		0.6%

**Staff** - The average number of staff in the quarter was 101.2% of the establishment.

	Q1	Q2	Q3	Q4	18/19
2019/20 establishment w.t.e	286.4	286.4	286.4		279.5
Average number of staff employed in 2018/19 w.t.e:	280.2	281.6	284.7		278.6
No. of staff at end of quarter w.t.e:	284.7	276.9	289.9		283.6

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

	Annual Budget £000	Actual YTD	Budget YTD	Variance	Actual Average WTE	Budget WTE
Total Staff costs 2019-20	16,751	12,422	12,484	62	299.8	297.1
Total agency & secondments 2019-20	75	412	75	(337)		
Q2 Staff costs 2018-19	15837	7,764	7,797	33	288.0	285.5
Q2 agency & secondments 2018-19	70	111	59	-52		

**Legal, professional and consultancy** spend is higher than Q3 last year and above budget for 2019/20. The increase in budget was due to the planned increase in consultancy for the next round of audit procurement. The demand for professional legal advice has led to an overspend of £24k in the year to date. This area of spend has been a particular area of pressure this financial year with expert guidance required on corporate matters and on some elements of our audit report work. This is an area of spend that is closely monitored and demand dictates when we need to procure the appropriate professional expertise in order to minimise risk. The balance of the overspend is mainly due to expenditure of £11k in respect of ISO certification. This cost will be met from the delivery of savings within other budget headings.

	Q1	Q2	Q3	Q4
Actual	87	221	382	
Budget	83	230	341	
Prior year spend	54	150	258	

**Estate** - Estate costs in the nine months to December 2019 are the same as budget and slightly above last year's expenditure.

	Q1	Q2	Q3	Q4
Actual	202	403	620	
Budget	206	413	620	
Prior year spend	209	392	618	

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

	Q1	Q2	Q3	Q4
Actual	207	433	627	
Budget	217	433	650	
Prior year spend	227	455	626	

**Capital Expenditure and Funding** – Capital investment in the nine months to 31 December 2019 is £43k, compared to the budget of 150k, and includes HR software, Firewall software and furniture. Expenditure year to date is detailed below:

- £26k on Cascade HR system software
- £7k on firewall software
- £5k on IT hardware
- £5k on furniture.

**IT network up time**

IT Network	Q1	Q2	Q3	Q4	18/19
IT uptime (%)	99.36	99.43	99.98		99.6
Working hours lost	1517	1439	40.7		3758
Average time lost per person	5.2hrs	4.55hrs	0.13		660

The main source of outage last quarter was the Glasgow line quality deteriorating, this has now been addressed by Vodafone.

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

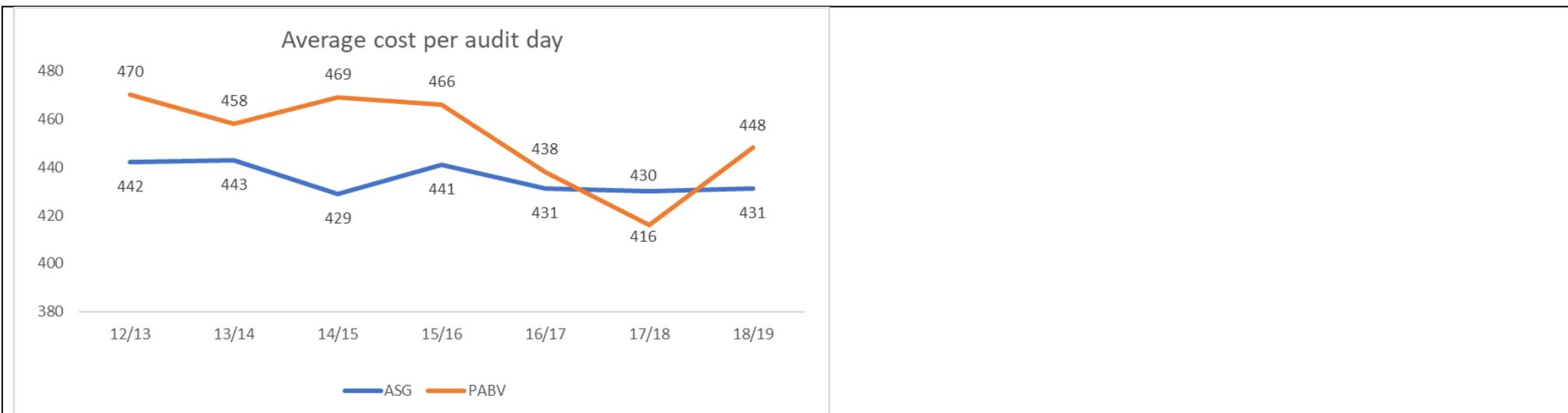
- 98.55% (689/679) of incidents were accepted within the response time SLA.
- 95.21% (689 /656) of requests were closed within the fix time SLA.
- An average of 2.3 incidents were logged per user.

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

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

ASG AVg cost per audit Day Q3: £431

PABV AVg cost per audit Day Q3: £448



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

#### Forward look

- Management Team will be holding resourcing stock take sessions in April and June 2020 to review the resourcing data and develop mitigating actions where required.

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

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

**Key messages:**

- The migration of all internal data and information to the new cloud-based SharePoint online platform was completed successfully on 12 December 2019 as planned
- The annual Audit Planning conference attended by ASG, PABV, Professional Support, Audit Quality & Appointments, and the audit firms took place during Q3.
- Interim management information reports for the new time recording system were trialled during Q3 and will be rolled out during Q4. This is part of the broader Performance Management Framework project.

**Key projects update:**

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

- HR system upgrade & migration – October 2019 complete
- Time Recording & expenses - go live November (CentralTime users) complete, go live for MKI TR users rescheduled to April 2020
- Office 365 (SharePoint Online) - complete
- Performance Management Framework (PMF database, dashboards and performance reports) – work progressing - go live April 2020 – progressing
- Major Citrix upgrade, security enhancements and replacement lap top roll out

**Issues/ risks/ actions:**

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

**Forward look:**

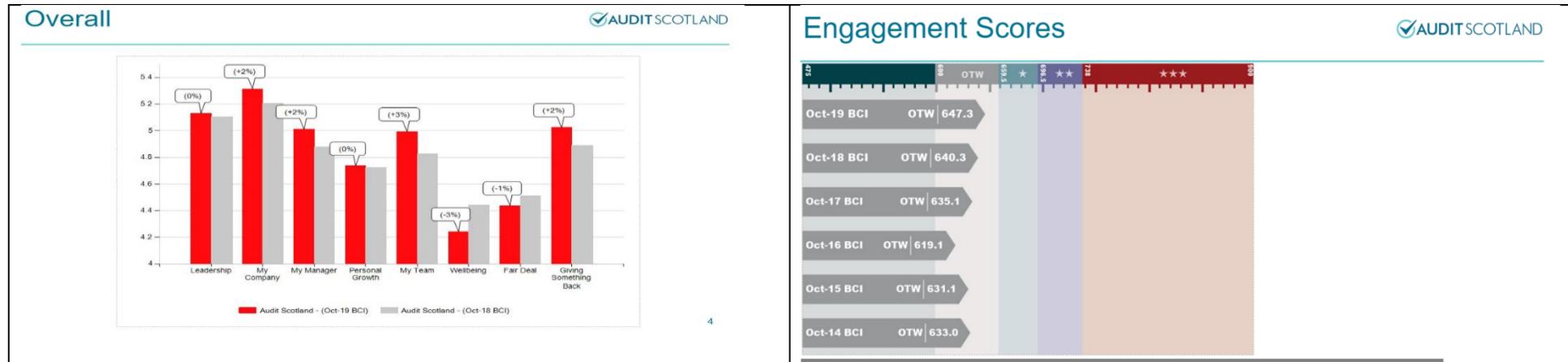
- PMF implementation with effect from April 2020

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

**Key messages**

The Best Companies survey ran during Q3 with an 83 percent response rate. The headline factor scores were shared with colleagues before Christmas and the full results were shared at the beginning of Q4 through a special edition abacus. Key messages from the survey are:

- we are in the top 100 not for profit UK organisations (rated 96)
- we achieved our highest overall score to date and maintained ‘ones to watch’ status
- there an increase in six of the eight factors with the largest increases being in the ‘my company’ grouping
- there were decreases in the ‘wellbeing’ and ‘Fair deal’ factors



As part of our wellbeing agenda we welcomed a speaker from SAMH's to lead a session on mental health and wellbeing. This session was well received by colleagues with similar sessions being considered in future.

Audit Scotland's Disability Confident Working Group and the HR&OD team worked together to highlight the experience many colleagues have of 'invisible conditions'. This included new guidance for staff that was published to coincide with World Menopause Day on 18 October.

We continue to host drop-in sessions and offer support for colleagues on the UK's withdrawal from the EU.

### Empowered and engaged:

#### Highly Skilled

- 3D and CDG: We ran two 3D coaching sessions and two CDG coaching sessions (Nov)
- Management Development: delivered two Feedback coaching clinics (Oct and Nov), one 'Developing Self as Manager' (Nov) and one Coaching Skills for Managers (Dec)
- Technical training included Capital Accounting (Oct and Nov), Professional Scepticism (Nov) and a series of new Audit Assertions training sessions (Oct – Dec)

#### Wellbeing

- Mental Health awareness session - 20/11/19
- Resilience for Trainees - 04/10/19
- Two Healthy eating & nutrition workshops (Oct and Nov)

#### Career Paths

- In Q3 we promoted seven colleagues and welcomed four new colleagues including two graduate trainees
- 2 colleagues went through a Career Development Gateway - one from ASG and one from PABV.

**Absence levels** remain low and are projected to be similar to last year.

	Q1 days	Q2 days	Q3 days	Q4 days	ytd days
<b>Audit Scotland – 19/20</b>	1.6	0.46	1.33		3.39
Audit Scotland - 18/19	1.28	0.76	1.41	1.4	4.85
Audit Scotland - 17/18	0.69	1.16	1.07	1.12	4.40
Audit Scotland - 16/17	1.03	1.37	1.27	1.28	5.32

**Staff turnover** -. All leavers (1.98%) is higher than the last quarter (1.33%) however the total amount of resignations is low as most leavers are due to retirements and end of training contracts. The whole year turnover is currently projected to be similar to last year and is expected to be below the CIPD benchmark.

	Q1	Q2	Q3	Q4	YTD	18/19	CIPD benchmark
Resignations %	1.34	1.0	0.33		2.67	6.72	
All Leavers %	1.68	1.33	1.98		4.99	11.26	

**Career paths**

Vacancies filled	19/20 YTD	18/19
Internal	11	15
External	28	15
Total	39	30

**Exam results:** There were 79 exams taken and 69 passes. The percentage pass rate 87.3 per cent is slightly below last year's but the small numbers involved means the percentage rate can vary sharply. All test of competence exams were passed first time this year throughout the entire cohort. The year to date pass rate is below last years Q3 year to date rate.

	Q1	Q2	Q3	Q4	YTD	18/19
Exams taken	8	27	79		114	112
Exams passed	6	20	69		95	96
% pass rate	75	74	87		83	86

**Highly skilled** - Over the last three years we have run 80-100 events a year with 1300-1400 attendances. Q3 in common with previous years has been our busiest quarter for formal learning and development. We are forecasting a similar outturn in terms of volume/attendance for 2019-20 as we saw in 2018/19.

	Q1		Q2		Q3		Q4		YTD		18/19	
	Events	Attendees										
Health & Safety	2	28	0	0	5	85			7	113	1	25
Knowledge Cafes	2	10	0	0	6	102			8	112	12	266
Learning & Development	2	17	3	35	6	106			11	158	8	64
Management Development	5	19	3	7	4	20			12	46	8	54
Organisational Development	8	38	4	30	6	25			18	93	26	496
Technical Training	7	151	3	39	13	185			23	375	31	469
Total	26	263	13	111	40	523			79	897	86	1,374

**Forward look:**

- Best Companies results will be disseminated to business groups over Q4. In addition, the HR&OD and Management Team will be working with Audit Director's and Corporate Services Group (CSG) managers to explore individual and team development requirements for 2020.
- Further exams results will be sat in Q4. The results will be included in the Q4 report.

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

## Purpose

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

## Background

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

## Strategic improvement programme – Q3 headlines

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

 <b>Delivering world-class audit</b>	 <b>Being a world-class organisation</b>
<ul style="list-style-type: none"> <li>• Draft Code of audit practice out for consultation</li> <li>• Audit approach – progress on wide range of areas including; audit planning and risk assessment; controls auditing; and audit sampling</li> <li>• BV audit of local government and IJBs – ongoing engagement with Accounts Commission’s BV working group on development priorities</li> <li>• New communications and engagement strategy approved.</li> </ul>	<ul style="list-style-type: none"> <li>• Resourcing – several short- and long-term actions focussed on addressing capacity pressures (demand side and supply side) progressing</li> <li>• Digitally enabled projects; SharePoint on-line migration completed, new Time Recording System live and systems/ laptop upgrades progressing</li> <li>• Wellbeing – annual programme of health checks under way</li> <li>• Learning &amp; development - L&amp;D portal migrated, team level Best Companies data informing group discussions and actions, L&amp;D programme ongoing.</li> </ul>

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

## Recommendations

7. The Board is invited to note the Q3 update, next steps and milestones.



Project/ initiative/ workstream	Status update	Next steps
<p>Audit Quality Framework</p>	<p>The Audit Committee considered the 2019/20 interim Audit Quality report at its meeting on 13 November.</p> <p>The updated <a href="#">Audit Quality Framework</a> was published in November 2019.</p> <p>There are ongoing refinements to parts of the AQF including; KPIs, stakeholder surveys and the revised audit quality complaints procedure.</p>	<ul style="list-style-type: none"> <li>The Audit Scotland Transparency report 2019 and the 2019/20 Quality of Public Audit in Scotland reports will be considered by the Audit Committee on 5 May 2020.</li> </ul>
<p>New Code of Audit Practice and procurement strategy for the next round of audit appointments</p>	<p>The Steering group in place, nine meetings to date.</p> <p>The teams are on track to deliver the three projects within the agreed timescales:</p> <ul style="list-style-type: none"> <li>Code of Audit Practice - the draft Code has been agreed and the consultation is now under way</li> <li>Procurement strategy – the strategy has been drafted</li> <li>Tendering and appointments.</li> </ul> <p>Key progress to date includes:</p> <ul style="list-style-type: none"> <li>Completion of market engagement exercise</li> <li>Code consultation is under way</li> <li>Draft procurement strategy developed</li> <li>Tender project under way</li> </ul>	<p>The key project milestones are:</p> <ul style="list-style-type: none"> <li>2020 consultation closes April 2020 and the code is scheduled to be agreed 11/06/20.</li> <li>Procurement strategy to be approved by Board 25/03/20.</li> <li>Tender and appointments exercise – the tender will be issued 11/08 with responses due in October and contract recommendations by December 2020.</li> <li>The new appointments will take effect on 01/04/21.</li> </ul>
<p>ASG Audit approach</p>	<p>Refresh of ASG financial audit approach based on audit quality findings and developments in the auditing profession, including:</p> <ul style="list-style-type: none"> <li>Audit planning and risk assessment – our audit risk assessment process and related audit planning</li> </ul>	<ul style="list-style-type: none"> <li>Monthly progress updates to ASGMT</li> <li>Project Board assessment and ASGMT approval for changes to the ASG audit approach by June 2020.</li> <li>Application of refreshed approach for 2020/21 audits i.e. from Oct 2020, supported by training around that time. (Timetable for</li> </ul>

Project/ initiative/ workstream	Status update	Next steps
	<ul style="list-style-type: none"> <li>• Controls auditing – how we assess the control environment and test key financial controls</li> <li>• Audit sampling – our approach to sample selection and error evaluation Audit guide update – updating the Audit Services Group audit guide to reflect audit changes to our audit approach.</li> </ul> <p>The Audit Quality Committee considered the improvement plan update report on 18/12/19.</p> <p>Progress includes</p> <ul style="list-style-type: none"> <li>• Scope and oversight arrangements approved by ASGMT (Nov 2019)</li> <li>• Project Board (Audit Director and Senior Audit Managers) in place (meetings in Jan and Feb 20)</li> <li>• Proposals for audit planning and controls approach at advanced stage.</li> <li>• Options for audit sampling in development.</li> </ul>	<p>changes to the sampling approach will depend on the options appraisal and decisions by ASGMT).</p>
Auditing Best Value	<p>The Accounts Commission’s BV Working Group is leading the development of BV in relation to councils and IJBs.</p> <p>BV in councils</p> <ul style="list-style-type: none"> <li>• Principles for the approach agreed (integration with annual audit process, reporting arrangements &amp; thematic coverage)</li> <li>• New CoAP reflecting BV audit work out for consultation</li> </ul> <p>BV in IJBs</p> <ul style="list-style-type: none"> <li>• The Accounts Commission considered proposals/ options at its meeting in November</li> </ul> <p>Management Team considered update reports on the resourcing requirements for the new approaches to BV at its meeting on 3 March 2020.</p>	<p>BV in councils</p> <ul style="list-style-type: none"> <li>• Further consultation with councils and IJBs on the BV approaches - after CoAP consultation,</li> <li>• Commission themes to be selected for 2021/22 and 2022/23 - prior to September 202</li> <li>• Annual planning guidance - September 2021</li> </ul> <p>BV in IJBs</p> <ul style="list-style-type: none"> <li>• Further proposal on the approach to BV in IJBs (including methodology, resources and fees models) to Management Team - March 2020</li> <li>• Piloting of approach and stakeholder engagement – Summer 2020</li> <li>• BV in IJBs live – w.e.f. new audit appointments – April 2020</li> </ul>

Project/ initiative/ workstream	Status update	Next steps
Digital auditing	<ul style="list-style-type: none"> <li>GovTech – bid assessment &amp; shortlisting complete. Project currently on hold pending Cabinet Office review.</li> <li>Appointments of Doctorate placement (to develop scope and options on data analytics) and Senior Data Analyst to expand digital audit capacity</li> <li>Ongoing engagement, including invitations to present to the European Court of Auditors and EUROAI</li> <li>Management agreed the proposed approach for the refreshed Digital Audit Strategy in February</li> </ul>	<ul style="list-style-type: none"> <li>Revised Digital audit strategy to be considered by the Board September 2020</li> </ul>
Electronic working papers (EWP)	<ul style="list-style-type: none"> <li>Project team and project management resources identified</li> <li>Engagement with Supreme Audit Agencies and potential supplier re their plans around EWP systems.</li> </ul>	<ul style="list-style-type: none"> <li>Update report to Management Team April 2020</li> <li>Project phases include: Specification, Market and product analysis, Procurement strategy, Procurement, Implementation, Testing and training.</li> </ul>
Communications and engagement	<ul style="list-style-type: none"> <li>The Board agreed the new <a href="#">Communications and Engagement Strategy</a> at its meeting in January 2020.</li> </ul>	<ul style="list-style-type: none"> <li>Implementation of the strategy activation plan (six strands of implementation: planning and scoping; engagement; outputs and products; dissemination; measuring effectiveness; and learning and development)</li> </ul>
Diversity and equality	<ul style="list-style-type: none"> <li><a href="#">Mainstreaming equality and equality outcomes progress report</a> published May 2019</li> <li><a href="#">Annual diversity report</a> published June 2019.</li> </ul>	<ul style="list-style-type: none"> <li>Implementation of actions in report including developments to audit approach, organisational arrangements and approach to human rights and socio-economic equality.</li> </ul>

Project/ initiative/ workflow	Status update	Next steps
Resourcing	<p>Management Team considered a review report on resourcing at its meeting on 19 November 2019. This was followed with all staff communications.</p> <p>In February the SCPA recommended the 2021/22 budget proposal to Parliament</p> <p><i>'Supply side' actions have included:</i></p> <ul style="list-style-type: none"> <li>• Changes to professional trainee scheme (including earlier recruitment and timing of exams)</li> <li>• Engagement with universities re full year placements</li> <li>• Increased flexibility of colleagues being deployed between business groups</li> <li>• Development of 'peak period' auditor pool</li> <li>• Planned integration of ASG/PABV resources planning process and options appraisal of resource planning software</li> </ul> <p><i>'Demand side' actions include:</i></p> <ul style="list-style-type: none"> <li>• Prioritisation/ rescheduling of work as required</li> <li>• Earlier risk assessments, focus on key risks and associated deployment of resources</li> <li>• Refinements to audit processes, audit guidance and templates</li> </ul>	<p>Key actions/ milestones are:</p> <ul style="list-style-type: none"> <li>• Development of a detailed action plan– March 2020</li> <li>• Resourcing/ capacity stock take sessions by Management Team (April &amp; June 2020)</li> <li>• Review of impact on secondments arising from FRC review (May 2020)</li> </ul>
Wellbeing	<ul style="list-style-type: none"> <li>• Annual health check programme under way</li> <li>• Managers Guide to Wellbeing, Carer Positive awareness sessions and SAMH Mental Health awareness sessions delivered</li> <li>• HWL Silver award and Carer Positive awards progressing.</li> </ul>	<ul style="list-style-type: none"> <li>• Wellness strategy, which will be embedded within the Integrated People Strategy - May 2020</li> </ul>

Project/ initiative/ workstream	Status update	Next steps
Learning and development	<ul style="list-style-type: none"> <li>• <a href="#">Learning and development portal</a> migrated to SharePoint on-line</li> <li>• Team level Best Companies data analysis developed</li> <li>• Promotion of L&amp;D opportunities through 2 monthly newsletters</li> <li>• Latest senior manager development group cohort under way</li> </ul>	<ul style="list-style-type: none"> <li>• Audit skills mapping and recording on Cascade – March 2020</li> <li>• Revised L&amp;D strategy – June 2020</li> </ul>
Harnessing digital technology - Digitally enabled projects	<ul style="list-style-type: none"> <li>• New HR system – system went live – Oct 2019</li> <li>• SharePoint on-line – major migration completed successfully – Dec 2019</li> <li>• New Time Recording System – system went live – Nov 2019, parallel running completed Feb 2020</li> <li>• PMF project – database and dashboard build under-way</li> <li>• Major Citrix upgrade, security enhancements and replacement lap top roll out</li> </ul>	<ul style="list-style-type: none"> <li>• New TR system - ASG users rescheduled to go live October 2020</li> <li>• PMF - new PMF in place – w.e.f April 2020.</li> </ul>
Sustainability	<ul style="list-style-type: none"> <li>• <a href="#">Environmental, Sustainability and Biodiversity annual report published</a> November 2019</li> </ul>	<ul style="list-style-type: none"> <li>• 5-year climate change plan to be published April 2020.</li> </ul>

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 Decmeber 2019.
ASB101	Board	11	ONS reclassification of Audit Scotland	Diane McGiffen to draft a letter to ONS on behalf of the Chair of the Board.	29/01/2020	Feb-20	Diane McGiffen	Diane McGiffen	Ongoing	No	A draft response will be shared with the Chair for comment.
ASB102	Board	12	Audit Committee Terms of Reference	Gayle Fitzpatrick to publish the approved Terms of Reference for the Audit Committee.	29/01/2020	Feb-20	Gayle Fitzpatrick	Gayle Fitzpatrick	Closed	No	The updated Terms of Reference for the Audit Committee have been published.
ASB103	Board	13	Transition planning for Auditor General and Board appointments	Diane McGiffen to bring an update to the Remuneration and Human Resources Committee.	29/01/2020	Mar-20	Diane McGiffen	Diane McGiffen	Ongoing	No	A draft report has been prepared for Remco.
ASB104	Board	17	Communications and engagement strategy 2020-23	Simon Ebbett to publish the approved Communications and Engagement Strategy 2020-23.	29/01/2020	Feb-20	Simon Ebbett	Simon Ebbett	Closed	No	The Communications and Engagement strategy has been published on Audit Scotland's website.
ASB105	Board	18	Stakeholder engement and feedback	Antony Clark and Simon Ebbett to share the feedback from Local Government and Communities Committee, if any, respondents with the Chair of the Accounts Commission. (February 2020)	29/01/2020	Feb-20	Antony Clark/Simon Ebbett	Antony Clark/Simon Ebbett	Ongoing	No	This is in progress and an update will be provided in April 2020.

## Purpose

1. This paper provides an update on key developments surrounding financial devolution and constitutional change, including Audit Scotland's response and organisational arrangements.

## Background

2. We provided an update to the Board in September 2019 on financial devolution and European Union (EU) withdrawal. Significant developments since then include:
  - The Scottish Government published its budget on 6 February 2020 and the budget bill was approved by the Scottish Parliament on 5 March, in advance of the UK Government publishing its budget on 11 March. Given that the level of UK Government funding to Scotland was uncertain at the time of publishing the Scottish budget, more in-year cash management and budget revisions may be required during 2020/21 than in previous years.
  - Social Security Scotland now administers seven separate benefits, with DWP continuing to administer Carers Allowance on behalf of the Scottish Ministers. Social Security Scotland will continue to take on responsibility for remaining devolved benefits, as well as new Scottish benefits. We published the first annual audit report for Social Security Scotland on 26 September 2019 and the Public Audit and Post-Legislative Scrutiny Committee (PAPLSC) considered a section 22 report on this on 10 October 2019.
  - The UK left the EU on 31 January 2020 and is currently in a period of transition until the end of December 2020. We published a second key issues paper on 16 December 2019, which highlighted the impact that preparing for withdrawal from the EU has had on public bodies.
  - We continue to engage with colleagues in the National Audit Office (NAO) to develop and agree audit arrangements in key cross-border areas. We have established arrangements with the NAO for the financial and performance audits of devolved social security powers, to allow us to obtain evidence over areas administered by the Department of Work and Pensions (DWP).

## Managing the public finances

3. The Scottish budget was expected to be published in December 2019 but was delayed following the cancellation of the UK Government's budget (due to be published on 6 November) because of the UK general election. This led to an unusual budget process for 2020/21, as the Scottish Government published its budget on 6 February 2020, in advance of the UK Government's budget on 11 March.
4. Given the delays to both the Scottish and UK budgets, a bespoke timetable was developed for the Scottish budget's passage through Parliament this year. The revised timetable meant that there was less time for scrutiny between the stages of the budget bill compared to a standard year. The budget bill was approved by the Scottish Parliament on 5 March.
5. Overall spending set out in the Scottish budget for 2020/21 is £49.3 billion. The combined resource and capital budget (representing the Scottish Government's real spending power) is £33.9 billion. This has increased by 17.5 per cent in cash terms and 15.4 per cent in real terms between 2019/20 and 2020/21. This includes many social security payments for the first time and newly devolved farm payments that previously came through the EU. If these are removed, the like-for-like real terms increase in resource and capital funding is 3.7 per cent. The tax policies proposed in the Scottish budget for 2020/21 are very similar to those set in 2019/20 and support a small net increase to Scottish revenues.
6. The 2020/21 budget is subject to much greater uncertainty and volatility than previous years. The Scottish Government will use its revenue borrowing powers for the first time in 2020/21 to borrow £207 million to cover tax reconciliations from previous years. This is nearly 70 per cent of the £300 million annual limit for resource borrowing for this purpose. It will also continue to draw on the Scotland

Reserve, planning to reduce this from over £600 million at the end of 2018/19 down to just over £100 million by the end of 2020/21. Over time the potential extent of budget volatility is likely to grow, and the Scottish Government will need to manage this using the tools available to it.

7. The level of UK Government funding to Scotland (which is the basis of the Scottish Government's funding and spending decisions) was uncertain at the time of publishing the Scottish budget. This means that significant adjustments to the budget may be required during the financial year (2020/21). Without a UK fiscal event, there have been no Office of Budget Responsibility (OBR) forecasts since March 2019. This affects the estimates of Scottish block grant adjustments, which are a valuable source of data for the Scottish Fiscal Commission (SFC) in preparing their forecasts. The Scottish Government could choose to have an additional budget revision prior to the standard autumn budget revision. Fiscal policy decisions, such as changing tax rates and bands, cannot be reopened once the tax year has begun.

## Social security powers

8. The Scottish Government is now responsible for three of the 11 benefits being devolved under the Scotland Act 2016. Social Security Scotland administers replacement benefits in two of these areas (Best Start Grant – Pregnancy and Baby Payment, Funeral Support Payment) and a top-up benefit in one area (Carers Allowance Supplement). In addition, it now administers three new benefits introduced by the Scottish Government (Best Start Grant – Early Learning Payment, Best Start Grant – School Age Payment and Young Carer Grant) and Best Start Foods payments (replacing Healthy Start Foods) on behalf of the NHS in Scotland. Carers Allowance continues to be administered by DWP on behalf of the Scottish Ministers. The Scottish Fiscal Commission has forecast that spending in these areas will total £343 million in 2019/20.
9. Social Security Scotland is now well established as an operational body. From April 2020, it will become accountable for around £3.5 billion of annual social security spending as executive competency for all remaining devolved benefits (except Severe Disablement Allowance) transfers to Scotland. The agency will progressively take on administration of these benefits from DWP and expects the transfer of existing claims to be completed in 2025. The DWP will continue to deliver benefits to some existing claimants, under agency agreements, on behalf of the Scottish Government. Such benefit expenditure will be recharged to the Scottish Government and appear in Social Security Scotland's accounts.
10. The Scottish Government is also creating further new benefits using its new powers. The introduction of the Scottish Child Payment has been brought forward (from early 2021) to June 2020 for children under six and is planned to be fully rolled out to eligible children under 16 by the end of 2022. It is estimated to cost £180 million per year from 2023/24 and is anticipated to lift 30,000 children out of poverty, reducing the relative child poverty rate by an estimated three percentage points. The Scottish Government will need to manage this expenditure within its overall budget. Regulations for the introduction of the Scottish Child Payment are due to be laid in the Scottish Parliament in Spring 2020.
11. In February, the Scottish Government published a revised social security Programme Business Case. This responds directly to one of our recommendations in last year's performance audit. The business case provides an overarching framework for decision making across the Social Security Programme. It also sets out estimates of benefit, operating and implementation costs over the period to 2024/25. Total implementation costs are anticipated to be £651 million, reflecting the current programme scope. The Scottish Government initially estimated implementation costs would total £308 million in the Financial Memorandum to the Social Security Scotland Bill. It also stated these 'will change materially as further decisions are taken and the programme of work to specify and procure the infrastructure required for Scotland's new social security system evolves'. The current performance audit, due to publish in May, will report on the revised costs set out in the Programme Business Case.
12. We have built additional capacity within our cross-organisation social security team to support ongoing work. Further increases in the resources required for our audits of social security were provided for in our 2020/21 budget proposal approved by the SCPA. We will continue to review our resource needs and reporting plans as more benefits are devolved.

## EU withdrawal

13. The UK left the EU on 31 January 2020. It is now in a transition period until the end of 2020. The main changes are that UK citizenship no longer means EU citizenship; the UK will not be represented by MEPs in the European Parliament; the UK will not be represented at European Council meetings; and the UK Government's Department for Exiting the European Union has ceased to exist. EU rules still

apply in the UK during the transition period. The European Court of Justice will still be able to fine the UK if it breaches those rules and the UK will still be contributing to the EU budget. People and goods will continue to move freely between the UK and the EU during the transition period.

14. During the transition period, the UK and EU will be engaged in negotiations over their future relationship. The withdrawal agreement that the UK and the EU signed sets out that the first two sectors to be addressed by the negotiations will be financial services and fishing. While financial services are much more economically significant at a UK level, fishing is very important in some parts of the country. Both sets of negotiations have to be completed by the end of June 2020. The negotiators will then start to consider data protection and regulation and the implementation of the Northern Ireland Protocol. Once completed, negotiations over a possible free trade agreement between the UK and the EU can begin.
15. We are continuing to monitor issues as they develop and identify potential risks to the bodies we audit and implications for our work. Any relevant issues are reflected in the public sector audit risk register and our work programme. Auditors will continue to assess how public bodies are responding to any emerging risks presented by EU withdrawal through the annual audit process. We are also reporting on this in our performance audits, where relevant, and considering the implications of EU withdrawal as part of our work programme refresh.
16. We are also monitoring the implications of the UK leaving the EU for Audit Scotland and managing any organisational risks. The Board considered a paper on how we are planning for the potential risks presented by EU withdrawal at its meeting on 18 September 2019. The preparatory work undertaken during 2019 in advance of a possible 'no-deal' exit from the EU has informed a review of our business continuity arrangements. We are also keeping the implications for our audit of European Agricultural Fund Accounts under close review.

## Audit arrangements

17. In March 2019, the Scottish and UK Governments published a framework for audit and accountability arrangements for devolved services provided by UK public bodies (such as HMRC and DWP).<sup>1</sup> The framework sets out the arrangements for ensuring that public services in Scotland can be properly audited to help the UK and Scottish Parliaments hold public bodies to account.
18. Since the publication of the audit and accountability framework, we have engaged with colleagues in the NAO to develop and agree audit arrangements in key areas. This includes identifying areas where cross-border auditing may be necessary and considering how such work may be pursued. Our initial priorities include:
  - developing our approach to performance audit work on devolved social security
  - further discussing how we could work together to provide assurance to the Scottish Parliament on VAT assignment
  - continue discussions on our work on Scottish income tax and codify our approach in a revised MOU
  - for Audit Scotland to consider how to continue to keep the Scottish Parliament informed.
19. We have established initial arrangements with the NAO for the financial and performance audits of devolved social security powers, to allow us to obtain evidence about areas administered by DWP on behalf of the Scottish Ministers. This is working well, and we continue to work constructively with them to develop arrangements further as more social security powers are devolved.
20. We already work with the NAO to provide assurance to the Scottish Parliament on HMRC's administration of Scottish income tax (see paragraph 28). We recently reviewed our Memorandum of Understanding for this work to ensure it reflects the established approach and current legislation.

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<sup>1</sup> <https://www.gov.scot/publications/scottish-devolution-framework-audit-accountability/>

21. Assigning a share of VAT revenues to the Scottish budget has been postponed until the 2021/22 budget. We are discussing how assurance over application of the agreed methodology could be provided with NAO colleagues.

## Audit reporting

22. We published the first annual audit report for Social Security Scotland on 26 September 2019, alongside a section 22 report on the 2018/19 audit.<sup>2</sup> The audit considered the agency's first annual report and accounts, including the two benefit payments that were devolved in 2018/19 (Carers Allowance Supplement and Best Start Grant: pregnancy and baby). The key messages from the section 22 report were as follows:
- The independent auditor qualified his regularity opinion on the accounts of Social Security Scotland with respect to expenditure on Carer's Allowance. The available estimates of error and fraud levels did not provide enough evidence to determine whether this spending was in line with the relevant legislation. This was a result of the Scottish Government's arrangements for delivering Carer's Allowance, which place reliance on the DWP.
  - The agency's approach and processes for managing error and fraud were at an early stage of development. It had established core processes and policies but there was much more to be done. Having clear and effective arrangements will become increasingly important as the scale and complexity of benefits the agency is responsible for grows.
23. The section 22 report was considered by PAPLSC on 10 October 2019. The Committee wrote to Social Security Scotland, seeking its response to issues raised in the report.<sup>3</sup> The next annual audit of Social Security Scotland will cover further devolved benefits and will be completed by the end of September 2020. We will also report on how the Scottish Government is continuing to manage the implementation of the devolved social security powers in May 2020, through our performance audit programme.
24. The AGS published a section 22 report on the 2018/19 audit of the Scottish Government consolidated accounts on 26 September 2020.<sup>4</sup> The report noted that "The Scottish Government needs to improve the quality of financial reporting to better support Parliament. In May 2019, the Scottish Government published its second medium-term financial strategy, but it does not reflect all the basic components of a medium-term financial plan. It does not include indicative spending plans or priorities, or links to outcomes. There is no detail on how the Scottish Government would address a possible £1 billion shortfall due to forecast errors. In addition, the government has still not fulfilled its commitment to publish a consolidated account covering the whole devolved public sector in Scotland. This would fill an important gap and improve strategic public financial management, support Parliamentary scrutiny and enable better decision-making."
25. The report was considered by PAPLSC on 10 October 2019 and the Committee wrote to the Permanent Secretary asking her to respond to each of the recommendations and provide an update on progress in developing consolidated accounts for the devolved public sector.<sup>5</sup>
26. We published a briefing paper on the operation of the fiscal framework in October 2019.<sup>6</sup> This reflects on how the budget operated during 2018/19, describes the range of risks that are now affecting the Scottish budget and outlines how the Scottish Government is managing these.
27. We published a key issues paper on 16 December 2019, which highlighted the impact that preparing for withdrawal from the EU has had on public bodies and included questions for public bodies to ask

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<sup>2</sup> [https://www.audit-scotland.gov.uk/uploads/docs/report/2019/s22\\_190926\\_social\\_security.pdf](https://www.audit-scotland.gov.uk/uploads/docs/report/2019/s22_190926_social_security.pdf)

<sup>3</sup>

[https://www.parliament.scot/S5\\_Public\\_Audit/General%20Documents/Social\\_Security\\_Scotland\\_to\\_Convener\\_14\\_Nov\\_2019.pdf](https://www.parliament.scot/S5_Public_Audit/General%20Documents/Social_Security_Scotland_to_Convener_14_Nov_2019.pdf)

<sup>4</sup> [https://www.audit-scotland.gov.uk/uploads/docs/report/2019/s22\\_190926\\_scottish\\_gov.pdf](https://www.audit-scotland.gov.uk/uploads/docs/report/2019/s22_190926_scottish_gov.pdf)

<sup>5</sup> [https://www.parliament.scot/S5\\_Public\\_Audit/General%20Documents/Permanent\\_Secretary\\_13\\_November\\_2019.pdf](https://www.parliament.scot/S5_Public_Audit/General%20Documents/Permanent_Secretary_13_November_2019.pdf)

<sup>6</sup> [https://www.audit-scotland.gov.uk/uploads/docs/report/2019/briefing\\_191017\\_financial\\_powers.pdf](https://www.audit-scotland.gov.uk/uploads/docs/report/2019/briefing_191017_financial_powers.pdf)

themselves about their ongoing preparations. The paper draws on our audit work, our knowledge of the Scottish public sector, published material and engagement with key stakeholders over the last 18 months. It builds on the paper that we published in October 2018. On the same day we launched an e-hub on our external website, which includes all the papers we have produced to date on EU withdrawal and links to useful resources.<sup>7</sup>

28. The Comptroller and Auditor General (C&AG) reports annually on the audit of HMRC's implementation of Scottish income tax, which the NAO undertakes on a statutory basis. The AGS publishes a report alongside this, providing additional assurance to the Scottish Parliament. The C&AG and AGS reports on the 2018/19 audit were published on 8 January 2020 and considered by PAPLSC on 19 March 2020.
29. As the 2012 and 2016 Scotland Acts' financial powers continue to play through, our work will increasingly consider how the Scottish Government is using them and the impact on Scottish public services and people. We will continue to assess implementation and transition, as new arrangements are introduced in areas including social security, overall budget management, the national performance framework and the Scottish National Investment Bank. We will also consider the impact of financial devolution in our wider work programme, for example in areas such as economic growth, strategic capital investment and child poverty. As existence outside of the EU becomes part of public bodies' normal operating environment, we will seek to integrate it into all our audit work where relevant and appropriate.

## Organisational arrangements

30. In February 2020, the SCPA approved proposals for growth in Audit Scotland's budget for 2020/21 of £425,000 (6.6 WTE) to accommodate additional work in response to financial devolution and constitutional change. This will allow us to continue to build capacity in our two audit business groups for this work, with a particular focus on auditing social security; supporting Parliamentary scrutiny of the public finances and Scottish budget; and assessing how public bodies are responding to the UK leaving the EU. We will continue to operate on a cross-organisational / multi-disciplinary basis to support an integrated approach across our financial and performance auditing in these areas.
31. The focus of our programme of work relating to the new financial powers and constitutional change (NFPCC) is moving from the implementation to the operation of the powers. During 2019 we integrated many elements of this work into Audit Scotland's day-to-day business, with more expected to become mainstreamed during 2020. Much of our activity to respond to financial devolution and constitutional change is being taken forward by colleagues across the organisation. For example, we have dedicated teams leading on our audits of social security and management of the public finances; our Internal Parliamentary Engagement Group is leading work to help improve our engagement with parliamentary committees on their budget scrutiny; and we have established a cross-organisation working group to lead on contingency planning for EU withdrawal.
32. The NFPCC Strategic Group, which includes senior representatives from across the organisation, continues to maintain oversight of our work in this area. We will keep its focus and membership under review as financial and social security powers play through and new responsibilities come on stream. The Strategic Group will also provide oversight as we work to build capacity within the three clusters to take on responsibility for monitoring and responding to NFPCC issues.
33. We will continue to provide six-monthly updates to the Board on significant developments in this area, including Audit Scotland's response and organisational arrangements.

## Conclusion

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

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<sup>7</sup> <https://www.audit-scotland.gov.uk/reports/e-hubs/withdrawal-from-the-european-union>

## Purpose

1. This report provides a summary of the findings arising in: 'Assess, Assure and Inform: Improving audit quality and effectiveness' ([the Brydon Report](#)). This is the report arising from the independent review into the quality and effectiveness of audit, which was commissioned by the UK government and conducted by Sir Donald Brydon. This report also captures our first thinking, in Audit Scotland, in relation to the recommendations.

## Background

2. An independent review was commissioned to consider how the audit process and product could be developed to better serve the needs of users and the wider public interest. The review is the third of three reviews commissioned by the UK government with a focus on audit: Sir John Kingman's independent review of the Financial Reporting Council, the Competition and Market Authority's study of the statutory audit market; and the Brydon Report. Whilst the recommendations are aimed primarily at the audit of Public Interest Entities (listed companies, and credit and insurance firms), in accord with the review's terms of reference, the changes proposed for the auditing profession may well ripple more widely, including impacting upon those that work in the public sector.
3. A fourth independent review has been commissioned by the UK government and is being undertaken by Sir Tony Redmond with the over-riding objective to see whether the requirements of the Local Audit & Accountability Act of 2014 are being fulfilled (the Redmond Review). The review will examine the existing purpose, scope and quality of statutory audits of local authorities in England and the supporting regulatory framework in order to determine:
  - whether the audit and related regulatory framework for local authorities in England is operating in line with the policy intent set out in the Act and the related impact assessment
  - whether the reforms have improved the effectiveness of the control and governance framework along with the transparency of financial information presented by councils
  - whether the current statutory framework for local authority financial reporting supports the transparent disclosure of financial performance and enables users of the accounts to hold local authorities to account; and
  - to make recommendations on how far the process, products and framework may need to improve and evolve to meet the needs of local residents and local taxpayers, and the wider public interest.
4. Whilst the Redmond Review relates to England, as the public sector audit agency for Scotland, Audit Scotland, and the Accounts Commission for Scotland, will have a particular interest in the recommendations made to the Secretary of State in due course. The call for views concluded in December 2019 and latest indications are that the report will be published in June 2020.

## Considerations

5. The final Brydon Report was published in December 2019 and makes 64 recommendations, including the establishment of a new corporate auditing profession with a unifying purpose and set of principles. It also makes recommendations in relation to:
  - the prevention and detection of material fraud
  - communication and transparency of the audit process and audit report
  - the role of shareholders and other stakeholders
  - reporting by companies on their approach to assurance and resilience

- the effectiveness of companies' internal controls over financial reporting.
6. As part of the review a call for views was launched to which [Audit Scotland responded](#). We note that none of the other UK audit agencies did so, nor did CIPFA. Submissions received have been published.

## Initial roundtable discussion

7. On 3 February 2020 Leadership Group met for a roundtable discussion to consider the recommendations in the Brydon Report. Recommendations tend to fall into three categories: those we already comply with, those we might explore further with Public Audit Forum colleagues and those of more relevance to the private sector. There were, however, challenges in discerning the key messages, and to determine what certain recommendations meant in practice.
8. The big step change proposed is the move to establishing a new profession of corporate auditing, where audit might cover: cyber arrangements, culture, controls, mineral reserves, 'economic, social and governance' matters (ESG), KPIs/Alternative Performance Measures as well as the statutory audit of the financial statements. In certain regards Audit Scotland could be seen to be operating in this sphere: it is an established audit provider that goes well beyond the statutory financial audit, with a team of experienced performance and best value auditors that represent a wide range of specialist fields (eg statistics, economics, human rights law, etc), and operates the 'integrated audit' model ([draft code of audit practice invitation to comment](#)).
9. The positives that colleagues took from the report included: the emphasis on enhancing the role of the auditor; the importance of training and the need for a properly resourced and experienced audit team; the recognition that high quality audit results in 'deserved confidence of companies'; extending the scope of stakeholders (and not just focussing on shareholders); and the emphasis on a public interest statement and how that might equate to the Annual Governance Statement with which we are familiar in the public sector.
10. Areas that merited further consideration included: if we were to extend our work on fraud, what might this mean for costs and fees; do we want to embrace training in forensic accounting; how might we feel disclosing the numbers of hours spent per grade (and might that limit the ability to secure reserves for training and development); and revising the Independent Auditor's Report from a 'true and fair view' to a 'presents fairly in all material respects' view.
11. Many areas were, however, unclear in the report, for instance: how the training arrangements would shift from current CCAB and equivalent bodies to a new professional body, with the yet to be established ARGAs as the 'midwife' in the meantime; how shareholders and employees could inform the scope of the audit within reasonable cost; how the scope of an audit could be extended in scope and yet contained within current levels of cost; and how the Audit Users Review Board would operate (and be funded),
12. Colleagues from AQA had helpfully prepared a first review of the recommendations, concluding that: 27 were not applicable; 8 would require action by government through legislation/regulation, 16 would be worthy of consideration and 13 we already do. Further elaboration is contained in Appendix 1.

## Presentation by Sir Donald Brydon

13. On 14 February 2020 two members of Leadership Group watched an event hosted at ICAEW in London where Sir Donald presented his report and responded to questions. This provided more clarity in certain areas.
14. He was swift to set the context that no single profession should bear the burden of responsibility for corporate failure and stated that 'good audit cannot substitute for failing boards'. However, he said that whilst 'audit is not broken, it has lost its way' and the audit profession must seize the opportunity to respond to criticism; incremental change would be insufficient to enhance the confidence of stakeholders. He encourages:
- greater transparency in audit reporting
  - for a principled approach to be adopted (and not one limited to a focus on compliance); with estimation and judgement ever increasing the auditor needs to step back and evaluate overall credibility
  - recognition that the overarching purpose of audit is to help determine whether confidence is deserved. This purpose needs to be enshrined in the Companies Act

- the integrity of company reporting to be promoted, including transparency about risks faced, eg in cyber arrangements, climate change, etc
  - ARGA to oversee the establishment of a new professional body for corporate auditors. A financial auditor, for example, would gain an accountancy qualification first, eg through existing bodies and that training could be auditing in nature, and that the corporate audit qualification would be achieved subsequently. He said that existing professional bodies could be the supplier of education to the new body. Other corporate auditors might come from a different subject/professional background, eg psychology, or from academia
  - the extension of annual reports and accounts to be more useful to decision makers. There needs to be greater transparency about the valuation of goodwill and future revenue streams. The auditor must audit these rigorously and explain if they arrive at a different view to that of officers
  - the binary opinion, that is the unmodified or modified opinion placed on the financial statements, to be retained in the independent auditor's report, but the report extended to be more useful
  - greater continuity in audit reports, providing more information on what has changed from one period to another and saying how the company has responded to external factors and fraud
  - a review of the audit process because it has been producer led for too long and users/consumers must become more engaged. Risks must be articulated more clearly for the user
  - an effective audit committee chair to oversee a three year rolling audit and assurance policy, eg including environmental audits, etc. Shareholders will determine the scope and therefore the cost of the audit (beyond the statutory audit of the financial statements)
  - auditors to endeavour to find fraud 'within reasonable cost'. Ultimately the new independent oversight board will conclude whether an auditor's efforts were reasonable or not, and
  - two new reports to be included in the annual report and accounts: a public interest statement and a public resilience statement, both to be subject to audit.
- 15.** He concluded that, in view of where the profession is, it was not serving the interests of all stakeholders nor an attractive profession for the brightest and best.
- 16.** Sir Donald reported that he has had a very positive response to his report and recommendations. He stated that some recommendations can be attended to swiftly, whilst regulation and legislation would be required for others. He hopes that his report has a 'galvanising effect' and believes that through adoption of these measures the risk of unnecessary corporate failure will reduce.

## Realisation of the proposals

- 17.** Michael Izza, Chief Executive of ICAEW, has stressed that it's important for the profession to embrace the reform programme. He has distilled the numerous (157) recommendations from the three reports into five goals:
- The establishment of ARGA - a fresh organisational start is a pre-requisite for serious reform.
  - An inclusive audit profession - the profession needs to have status to attract and keep the best talent. As well as core skills in finance and business analysis, auditors should possess specialist technical, forensic and cultural expertise.
  - A more reliable core audit - auditors need a renewed focus on internal controls, going concern and viability, and fraudulent financial reporting.
  - On-demand audit extras - 21st century business is seeking assurance in other areas of corporate activity; other mission critical aspects of corporate performance are not visible through traditional financial reporting.
  - Pre-tested requirements – however a number of recommendations are untested and the government is encouraged to consider the impact of those new measures, on financial reporting, and on the wider attractiveness of the UK as a place to do business.

## Conclusion

18. There is much to digest from the Brydon Report and its recommendations. There is no doubt that despite the scope being limited to public interest entities, a change in the audit process and audit profession for public interest entities will have implications for the audit process and audit profession in all sectors.
19. There are a number of recommendations with which we already comply and a number of recommendations where we can see merit in taking the initiative to consider how the public sector audit function will respond. We plan to do so with Public Audit Forum colleagues; the next meeting of the Auditors General is in May 2020.
20. As we await the response of the UK government to the recommendations it will be important to continue to monitor the interpretations that are emerging from professional bodies.

## Recommendations

21. The Board is invited to note the emerging messages from the Brydon Report and our proposal to consider recommendations that are pertinent to the public sector in partnership with members of the Public Audit Forum.

## Appendix 1

Item 11  
24 March 2020

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Colleagues from AQA had helpfully prepared a first review of the 64 recommendations, concluding that: 27 were not applicable; 8 would require action by government through legislation/regulation, 16 would be worthy of consideration and 13 we already do.

### Examples of recommendations we already do include:

- identifying risks beyond financial statements = wider dimension risks
- mandating an internal controls statement = annual governance statement
- informing audit committees of differing views between officers and auditors = the annual audit report reports on significant findings arising from the audit and how they were resolved
- auditor to highlight how a company has responded to previous deficiencies = public sector auditors report on progress against prior year recommendations
- auditors to report their concerns about the resilience of a business = public sector auditors report on financial sustainability, and
- directors to report, and auditors to audit, payment policy and performance = already included in Scottish Public Finance Manual.

### Examples of recommendations worthy of further consideration are in the following areas:

- for auditors to include original information in their reporting which they deem useful to users
- to work with ARGA as it defines 'corporate auditing', creates a new profession of corporate auditing and establishes the necessary new professional body
- to work with ARGA as it sets the Principles of Corporate Auditing to ensure that it adequately covers public sector audit
- for forensic accounting and fraud awareness to be part of the formal qualification, and an open access case study register of frauds accessible to auditors, and
- for the audit report to explain the sampling techniques adopted and report the hours and grade of auditors involved.



**OFFICIAL REPORT**  
AITHISG OIFIGEIL

# Scottish Commission for Public Audit

**Wednesday 15 January 2020**

**Session 5**

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**Wednesday 15 January 2020**

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**SCOTTISH COMMISSION FOR PUBLIC AUDIT**

**1<sup>st</sup> Meeting 2020, Session 5**

**COMMISSION MEMBERS**

- \*Colin Beattie (Midlothian North and Musselburgh) (SNP) (Chair)
- \*Bill Bowman (North East Scotland) (Con) (Deputy Chair)
- \*Alison Johnstone (Lothian) (Green)
- \*Rona Mackay (Strathkelvin and Bearsden) (SNP)
- \*Jenny Marra (North East Scotland) (Lab)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

- Stuart Dennis (Audit Scotland)
- Caroline Gardner (Auditor General for Scotland)
- Ian Leitch (Audit Scotland)
- Diane McGiffen (Audit Scotland)

**LOCATION**

The Adam Smith Room (CR5)



# Scottish Commission for Public Audit

## Meeting of the Commission

*Wednesday 15 January 2020*

*[The Chair opened the meeting at 11:45]*

### Decision on Taking Business in Private

**The Chair (Colin Beattie):** Good morning, everybody, and welcome to the first meeting in 2020 of the Scottish Commission for Public Audit. As always, I ask members and witnesses to keep questions and answers concise and to the point; I also remind people to put electronic devices on silent mode.

Under agenda item 1, I seek members' agreement to take items 4 and 5 in private. Is that agreed?

**Members** *indicated agreement.*

## Spring Budget Revision 2019-20

**The Chair:** Item 2 is consideration of Audit Scotland's spring budget revision for 2019-20, a copy of which members have in their meeting papers. I welcome to the meeting Ian Leitch, chair of the board of Audit Scotland, who is, of course, accompanied by Caroline Gardner, the Auditor General for Scotland. They are joined by, from Audit Scotland, Diane McGiffen, chief operating officer, and Stuart Dennis, corporate finance manager.

Today is a very significant day, because this is Ian Leitch's last appearance in front of the commission before he demits office. I put on record the commission's thanks to Ian for his hard work and the great efforts that he has put in as chair of the board over the past period, which are really appreciated.

I invite Ian Leitch and Caroline Gardner to make some short introductory remarks.

**Ian Leitch (Audit Scotland):** Thank you for those nice comments, chair. My introductory remarks will be very brief, given that this is my last appearance before the commission, barring some unforeseen circumstance, and I have been cautioned not to get demob happy as a consequence. I would be happy to talk through the proposals and answer any questions that members have on our budget.

As you are well aware, we live in unique if not thoroughly interesting times. We have been going through a period of significant change, and there are more changes on the horizon. Although the full implications of the United Kingdom's withdrawal from the European Union are still very unclear, it will have a profound impact on Scotland's public sector, which includes Audit Scotland. In the short term, beyond the current and the coming financial year, it could have a profound impact on our budgets if, for example, there is no replacement for the European agricultural fund account audit fee. That would account for approximately £1 million of our income. Obviously, we need to take great care and look at our responsibilities in that regard.

Like others, we are having to steer our organisation through the current situation and manage the increases in our responsibilities, and the wider risks and uncertainties, in that environment. In doing so, we are balancing our recognition of the limitations on public resources and the need to provide a cost-effective audit service with the need to continue to improve the quality of audit and cater for Scotland's growing powers and public spending. Our budget reflects those factors throughout and aims to ensure that

Audit Scotland is as well placed as it can be for what comes next.

With your permission, chair, I will hand over to Caroline Gardner in her capacity as accountable officer.

**Caroline Gardner (Auditor General for Scotland):** Thank you, Ian.

I will step back from Ian Leitch's general introduction to focus on the spring budget revision initially, after which we will pause.

As members know, each year we bring a proposal to the commission for the annually managed expenditure funding to cover the non-cash pension charges that we need to meet in respect of the local government superannuation scheme. The overall AME cover for Scotland is redetermined once a year through the spring budget revision, and we have a routine process for coming to the commission at this point in the year.

Unlike in previous years, this year there are two elements to our proposal, the first of which is due to a reduction in the discount rate since our budget proposal for 2019-20 was submitted to the commission in December 2018. Based on the actuary's report that we received in April 2019, we estimate that the pension service cost for this year will be £4.1 million higher than the available budget.

The second results from the impact of the McCloud case on pension liabilities. In June last year, the United Kingdom Government was refused leave to appeal the decision in that case, and the affected employees will need to be compensated. The costs of that are unclear, although the UK Government estimates that they might be around £4 billion UK-wide. Initial estimates by the local government pension scheme actuary indicate that the potential past service cost for Audit Scotland might be in the region of £2 million, but the figure could be significantly higher or lower depending on the agreement that is finally reached. It is also expected that the in-year pension benefit cost will increase from the original forecast.

As we are unable to carry forward reserves, any significant shortfall would leave us with a final outturn deficit at the end of the financial year. Therefore, the Scottish Government finance directorate has advised us to request sufficient AME budget cover to meet potential movements in the non-cash pension charge.

In our proposal, we have, therefore, requested the £4.1 million that was forecast by the actuary in April, plus a further £5.9 million to cover any liabilities that are linked to the McCloud case. Obviously, any budget cover that is unused cannot be used for any other purpose and will be returned

to the Scottish Government for recycling in the usual way.

We will pause there, chair, and Stuart Dennis and I will do our best to answer the commission's questions, recognising that this is a particularly complicated aspect of our accounting.

**The Chair:** Over as many years as I can remember, with one year's exception, it seems that there have been adjustments for pension deficits; they seem to accumulate every year. I realise that there is an actuarial calculation behind that and that changes to long-term interest rates impact on that calculation. However, when will we come to an end to providing for pensions?

**Caroline Gardner:** I completely recognise your concern. If we look back at the 20-year history of Audit Scotland since it was established back in 2000, we see that, for the first 10 years or so, the picture was the other way round, and we returned funding to the consolidated fund, because it was not required. However, since about 2012, the movements have been in an adverse direction and they are getting bigger, as you can see from our proposal.

It is almost all down to movements in the discount rate. Stuart Dennis can keep me straight on this. A very small movement in the discount rate leads to quite a large change in the liabilities. Since last year, we have seen a reduction from 0.3 per cent to minus 0.1 per cent in the discount rate that is used to value future pension liabilities, which has a significant impact on the non-cash accounting charge that we need to make through our income and expenditure account. That will reverse at some point in the future, but none of us knows when that will be.

**The Chair:** The frustrating thing is that all that money going into the pension fund does not increase the pension that staff will receive.

**Caroline Gardner:** It is important for us to be clear that the accounting charge that we are talking about does not go into the pension fund. What goes into the pension fund is employer—and employee—contributions, which we budget for and routinely meet year in, year out. That is what will meet the pension liability in the future.

Under international accounting standards, we are required to put through our income and expenditure account an accounting charge that reflects the change in the liabilities for the future, as best as they can be estimated, which depend on things such as life expectancy. They also depend, very heavily, on the discount rate. When the discount rate changes, the value of the liabilities changes, without having any impact on the pension that our employees will receive, as you said. Those are purely accounting

adjustments that are related to the relevant account standard.

**The Chair:** With regard to the Lothian Pension Fund, which is where liability falls, one of the most important assurances that we need is about the discussions that you have had with the Scottish Government to confirm that the previously agreed arrangements with Her Majesty's Treasury remain in place to meet the pension adjustment.

**Caroline Gardner:** Two separate sets of discussions go on every year. There are the discussions that our corporate finance manager, Stuart Dennis, has with the Lothian Pension Fund and the actuary who values the liabilities. That leads to the agreement on the future rates of contributions that we and our staff make and on the accounting adjustments that we are talking about. Each year, the board looks at those closely to ensure that we are confident that the level of contributions and any top-up payments that we make are managing the liabilities.

Alongside that, Stuart engages with the Scottish Government on the amount of AME cover that we should be adjusting to cover the accounting charge—not a cash charge—to ensure that our accounts do not have a deficit at the end of the year. The Scottish Government is comfortable with the proposal that we are making this year, which reflects the level of uncertainty that is involved. The board is comfortable that the contributions that we are making to the Lothian Pension Fund are, over the long term, adequate to meet the liabilities that are being incurred as staff deliver their pensionable service. Stuart Dennis may wish to add something to that.

**Stuart Dennis (Audit Scotland):** That is correct. There is a triennial valuation and the next one will be due from the start of April this year. That valuation is used to work out what contribution rates there will be from the employer. That is a cash adjustment. As the Auditor General says, this is purely an accounting adjustment to recognise the future liability. We then have a separate valuation to work out the employer's contributions.

**Bill Bowman (North East Scotland) (Con):** On the £5.9 million figure, I think that the Auditor General said in her introduction that the Scottish Government wants Audit Scotland to make an adjustment sufficient to meet the non-cash shortfall. The actuary suggested a figure of £2 million, but I think that the Auditor General said that it could be significantly less or significantly more. How exactly did the £5.9 million figure come about?

**Caroline Gardner:** The initial estimate from the actuary of the potential past service cost that may be affected by the McCloud judgment is £2 million.

That is an initial assessment before any negotiations have been entered into around what the agreement might be for compensating the pension scheme members who were affected. The actuary has indicated that there is a lot of uncertainty around the estimate in both directions.

On top of that, though, we expect that the in-year pension benefit will also increase as a result of the McCloud judgment, so we have the £2 million figure plus an unknown number and then quite a large band of uncertainty either side of that aggregate number.

As the commission knows, Audit Scotland is not able to hold reserves so any increase in our liability that has to go through the accounts would lead to an unbudgeted deficit unless we have AME cover. That would clearly not be a good position to be in for us or for the commission as the body that oversees our finances. We have the £2 million plus an unknown number for past pension cost and then the uncertain range either side of it.

**Bill Bowman:** But you have quantified the number. Is there a piece of paper that shows all the figures that add up to £5.9 million?

**Caroline Gardner:** To be frank, Mr Bowman, it is £2 million plus an unknown number. The only other parameters that we have are a significant degree of uncertainty from the actuary. You can see that we have taken £4.1 million plus £5.9 million to come up with a round number of £10 million. It is the best estimate that we can make at this stage and the Government has indicated that it thinks that that is an appropriate course of action for us to take.

**Bill Bowman:** Thank you for your frankness on that. Has the Government given you instructions or written acknowledgment that it is happy for you to have that number in the budget?

**Caroline Gardner:** The Government has not given us an indication of the number that we should include. It knows that we are proposing a figure of £10 million to cover both the £4.1 million past service cost and the McCloud figure. It also knows that any budget cover that is not required will simply be recycled into the system in the usual way.

**Bill Bowman:** Excuse me for pursuing the issue, but I have been in the position where an organisation has told me that the funding body is very aware of everything and is quite in agreement but then it turns out that it is not. Do you have some form of formal arrangement with the Government that it will accept the £3.9 million figure?

**Caroline Gardner:** Stuart Dennis can talk through the discussions that he has had with the Scottish Government.

**Stuart Dennis:** Initially, I had discussions about the uncertainty of this arrangement. On top of that, every year, we submit details to the Scottish Government of our AME cover requirement. It then uses that as a tool to negotiate with HM Treasury. The Scottish Government is aware that this is what we are looking for and there has been no feedback to say that this is out of the ordinary, so that is what we expect—

**Bill Bowman:** Would you not be more comfortable if you wrote to the Scottish Government or had a formal exchange with it to say, “This is what we are putting in and we trust that you are comfortable with it,” for example?

**Stuart Dennis:** I have an email audit trail to the Scottish Government submitting our requirement and an explanation of the reasoning behind that. The Scottish Government has accepted that as part of the whole of the Scottish negotiations for AME cover in the spring budget revision.

**Bill Bowman:** If you did not make this adjustment, and what you had was wrong, would it not just be part of another budget adjustment?

12:00

**Caroline Gardner:** No, because the proposal that we are making now relates to 2019-20. When we complete our final accounts for the current financial year between April and May, anything for which we do not have budget cover would lead to an unbudgeted overspend, which is clearly not the position that I want to be in as the Auditor General and the accountable officer.

**Bill Bowman:** I have one final question for you with your Auditor General hat on. Will you be seeing other organisations doing this?

**Caroline Gardner:** Very few organisations are in the same position as us. Audit Scotland is unusual because almost all our staff are members of the local government pension scheme, which is a funded defined benefit scheme and so needs to be accounted for under international accounting standard—IAS—19. At the same time, we have to prepare our accounts under the Scottish financial reporting manual, and we cannot carry reserves. Those three things mean that we are one of the few organisations that needs to make AME provision in quite this way. Most local authorities can carry reserves that they can use to cover the accounting adjustment, and most central Government bodies are members of the principal civil service pension scheme, which is unfunded and whose liabilities and assets are not broken down by body. As Stuart Dennis says, the AME process is common to us and the other people who require it, but our particular circumstances are quite unusual.

**Bill Bowman:** On one final final point, have you spoken to your auditors about accepting this level of unquantifiable unknown in your accounts?

**Caroline Gardner:** I will ask Stuart Dennis to come in in a moment, but the commission will be aware that, in our annual report and accounts of last year, we had a contingent liability for the McCloud judgment. That is now starting to crystallise and we are now into a slightly more certain picture. We hope that that will develop in the future. Stuart Dennis has been talking to our auditors since this first became an issue.

**Stuart Dennis:** Yes, I have been in negotiation and discussions with our auditors about this issue.

**Bill Bowman:** Is that it?

**Caroline Gardner:** As I understand the accounting requirements and why they apply to us in this particular way, our auditors will be concerned that we have AME budget cover for the figure, and that we are going through an appropriate process to estimate how large the figure will be. They recognise the degree of uncertainty that is involved.

**Jenny Marra (North East Scotland) (Lab):** On the same topic, has Audit Scotland received any information about when the full implications of the McCloud judgment will be known, including the likelihood of increased employer contributions for staff pensions?

**Caroline Gardner:** Diane McGiffen is in a position to answer that.

**Diane McGiffen (Audit Scotland):** As you can imagine, from an auditing perspective, we have auditors engaged in this core work. The latest information that we have relating to the Chartered Institute of Public Finance and Accountancy’s consideration of the issue is that clarity is not expected until later in 2021, and it will possibly go into 2021-22. That is what is being said at the moment, and it might change, but we have to operate with the best information that we have in great uncertainty. CIPFA is having a meeting about this on Monday, and there might be further papers or briefings after that.

**The Chair:** As there are no further questions from members, I thank the witnesses for their contributions and move on.

## Budget Proposal 2020-21

12:03

**The Chair:** We have the same witnesses for item 3, which is Audit Scotland's budget proposal for 2020-21. Members have a copy of the proposal in their papers. I invite the chair of the board, Ian Leitch, to make short introductory remarks, if he wishes, followed by the Auditor General.

**Ian Leitch:** I have nothing to add to what I have said. As accountable officer, the Auditor General will lead on this item.

**Caroline Gardner:** Thank you. As members know, we have been planning for some time for our new responsibilities, following the Scotland acts and devolution of significant new financial powers to the Scottish Parliament.

Today's budget proposal for 2020-21 reflects the third year of our four-year plan. We have now taken on some of our biggest new responsibilities, including the audit of Social Security Scotland and Scotland's new tax-raising powers. Our total proposed budget for 2020-21 would be an increase by 4.7 per cent in real terms to £27.1 million, which equates to 0.06 per cent of Scotland's public sector budget.

Our resource requirement for 2020/21 is £8.865 million, which would be an increase of £1.273 million, or 14.9 per cent in real terms. Several factors contribute to that increase: for example, we are unable to charge fees for most of the new bodies that we audit, which include some of the biggest and most complex public bodies in Scotland, and restructuring means that some of the bodies for which we previously charged fees now come under the Scottish consolidated fund and are therefore no longer chargeable.

We continue to focus on delivering value for money as we build the skills and capacity that we need to support Parliament and fulfil our statutory responsibilities, building on the efficiencies that we have achieved in previous years.

Like all public services, we continue to operate in an environment of significant uncertainty, as the Ian Leitch has said. We will continue to monitor events closely and keep in touch with the commission as appropriate. We will do our best to answer the commission's questions.

**Jenny Marra:** I think that you are acutely aware that you are requesting quite a big increase in Audit Scotland's budget at a time when—thinking back to our work on the Public Audit and Post-legislative Scrutiny Committee—several public bodies are having to do more with less. That said, I fully appreciate that the devolved powers are putting a lot more pressure on resources, and that

a lot of intricate work is required, especially in relation to the new powers over social security.

You said that Audit Scotland's ability to charge fees has been reduced because more bodies come under the Scottish consolidated fund. Can you tell us why?

**Caroline Gardner:** Certainly. There are two elements to that. As the commission knows, we can charge an audit fee to some bodies. About three quarters of our overall income comes from that source. We are unable to charge other bodies because of where they sit in relation to the Scottish consolidated fund, as is set out in the Public Finance and Accountability (Scotland) Act 2000.

Most of the new bodies that we have taken on responsibility for this year, including Social Security Scotland, Revenue Scotland and the Scottish Fiscal Commission, sit in that category: we cannot charge them a fee, therefore the cost of the audit falls on the funds that the SCPA approves and oversees for us each year. That is the biggest part of the shift that you see.

At the same time, there has been restructuring in the public sector. For example, the forestry bodies have come out of the fee-charging category and have moved into the group of bodies that we cannot charge. Again, that represents an increased call on the funding that the commission approves for us.

Those two factors together account for a significant part of the increase to the proposed budget.

**Jenny Marra:** Okay. Thank you very much. I will move on to the discrepancy between your budget forecast and your request to increase the budget by £538,000. What has changed? Why did the three-year projection underestimate what you need?

**Caroline Gardner:** The commission knows that we have put in place a four-year plan to respond to the Scotland acts, as the new powers come into being. In that plan, we have shown a range of estimates—a low point, a mid-point and a high point. You are right—the figures that we have put forward this year are towards the upper end of the range for 2020-2021. A couple of things account for that. The first is the scale of the change that we have seen, particularly in relation to social security, where complex arrangements have been put in place for delivering the new social security responsibilities—there are different arrangements for different benefits and significant reliance on the delivery systems of the Department for Work and Pensions at United Kingdom level. All those things have led to extra work. Jenny Marra, in her role as convener of the Public Audit and Post-legislative Scrutiny Committee, will recall that Audit Scotland

qualified the accounts of Social Security Scotland this year, which reflected that complexity.

The second factor is the pace of change. A number of benefits have been brought forward and new benefits, including the new child payment, have been introduced on tight timescales, which meant that we had to ramp up our capacity to carry out the audit of Social Security Scotland more quickly than we had expected, when we first put the plan together.

**Jenny Marra:** It sounds as though some of Social Security Scotland's teething problems are having a much wider impact. Is your answer that the increase of half a million pounds is solely attributable to the social security system?

**Caroline Gardner:** It is not solely attributable to that. Certainly, decisions that the Government has made about how social security is delivered and timescales have meant that we have had to move to the upper end of our range of estimates for this year, rather than being around the mid-point, as we were in the previous two years.

Do you want to add to that, Stuart?

**Stuart Dennis:** I do not, really. You have covered the main reason why we have had to go to the higher end of the business case that we originally presented to the SCPA back in 2018-19.

**Jenny Marra:** Auditor General, as you come towards the end of your tenure, do you see the figure increasing again because of the social security situation?

**Caroline Gardner:** I would say that that will not happen because of social security. To an extent, what we are seeing is a timing issue rather than an increase in the overall volume of work. We are getting a clearer picture of the situation and we are building capacity, so I would not expect the budget to continue to increase due to social security.

However, as the chair of the Audit Scotland board said in his opening remarks, we still face a fair amount of uncertainty. Immediately, that is due to EU withdrawal. We do not know what funding will be returned to Scotland rather than to the UK, as we head through the transition period. Also, the constitutional position is clearly still not stable, with there being disagreement between the Scottish and UK Governments about another referendum. None of us knows what might come out of that conversation, as we saw with the Scotland Act 2016 after the referendum in 2014. That is the sort of uncertainty that I highlight for the future.

**Jenny Marra:** On value for money, Audit Scotland's budget now equates to 0.06 per cent of the public sector budget. How does that percentage compare with the figure in previous years and what conclusions can you draw from it?

**Caroline Gardner:** Stuart Dennis might be able to give you those figures now. However, if I may, I will offer a different comparison. As you said, I am coming towards the end of my term as Auditor General, and I have been looking back over our budget compared to the Scottish budget over a longer period. In the past 15 years, in cash terms, our budget has risen from £24 million in 2005-06 to a proposed £27 million in 2020-21. In real terms, that is a reduction of about 17 per cent: we have made really significant savings over that period. At the same time, the total Scottish public sector spending that we audit has risen from £27 billion to £42 billion, so there has been a steep increase in what we are auditing and a 17 per cent reduction in real terms in the cost of doing it. I offer the commission the assurance that we take very seriously our responsibility for value for money.

**Jenny Marra:** That is an impressive assurance, well expressed.

Do other bodies that you audit use that figure of the percentage of the public sector budget to which their budget equates? If so, how does Audit Scotland compare to those bodies?

**Caroline Gardner:** I am not aware of other public bodies using that figure. Historically, the National Audit Office has used a ratio of every pound that it spends to the pounds that it saves. The NAO has been reviewing that approach, because it does not do justice to the range of work that the body does. We cannot make a direct comparison because our baseline has been different, given the previous absence of social security spending and the absence of defence spending, which is where lots of the savings that the NAO has generated have come from.

**Jenny Marra:** Forgive me, but I meant my question to be about other audit bodies, such as the NAO. Does it make a similar comparison?

**Caroline Gardner:** The NAO expresses it in terms of pounds saved per pound spent, but it is not straightforward for us to make a comparison in that way because of differences between what the bodies do, in particular in relation to defence spending, on which, historically, a high level of savings have been identified.

**Bill Bowman:** I have questions on staff and staff numbers. Your budget states that the capital funding requirement for 2020-21 is £150,000, which is the same as for the current year and, looking forward, for the following couple of years. Given the planned increase in staff members of 6.6 whole-time equivalents in 2020-21 and a further projected increase in headcount, with an additional 24.5 by 2024-25, how do you assure yourself that current and projected capital funding is adequate and sustainable?

12:15

**Diane McGiffen:** We have a detailed budget planning process for information technology hardware, which is where the largest amount of capital requirement would go, and for software and software licenses. Our need for the capital budget has been stable despite growth, because since we moved a lot of our IT services to the cloud, more of our IT costs are in revenue funding.

We keep a close eye on our workforce planning and our resource planning. At the moment, we have incorporated in our capital proposals resources for new staffing. If there were to be any other significant shifts, we might have to change the projections, but our first port of call would be to prioritise in the capital budget any additional work.

We have more resourcing and equipment than we need to meet the establishment at the moment. That ensures that, when we bring in temporary staff, or short-term secondments or placements, we can provide those people with equipment. There is a body of resource that is available to support what we are doing.

**Bill Bowman:** I do not know exactly what equipment staff members have. If they have a laptop, is that paid for from the capital budget, or do you just class it as an expense when you replace it? How do you deal with such things?

**Diane McGiffen:** Stuart Dennis can explain the accounting treatment of such things.

**Stuart Dennis:** That expenditure comes from the capital budget. We have a replacement programme that involves on-going updating and replacement of laptops. We also have sufficient capacity to enable us to give laptops to temporary staff, if required.

**Bill Bowman:** Is that the biggest item in your capital expenditure?

**Diane McGiffen:** The biggest part of our IT capital expenditure is laptops, yes. Again, though, over time, the price of individual pieces of IT equipment has come down. Through good procurement practice, we are able to secure good pricing for the IT equipment that we buy and therefore to deliver value for money.

**Bill Bowman:** Is that the main part of your capital spend?

**Diane McGiffen:** It has not always been, because, in the past, we have requested capital funding to refurbish buildings or to make adjustments to our accommodation. We have no plans to do that from the current budget, but if we needed to rethink our property footprint, we would come back to the commission with a presentation to discuss our needs. In this budget proposal, our

main requirements are around IT resourcing and other equipment.

**Bill Bowman:** So, you expect to spend the £150,000.

**Diane McGiffen:** Yes.

**Bill Bowman:** Your other main asset is your staff. Where in the budget revision document do you discuss the productivity or efficiency of staff? You can increase headcount for a particular reason, but the output as a result of that increase could be affected by other issues, such as people working harder or in a less productive manner. How do we get a feel for what the increase in headcount means?

**Diane McGiffen:** The Auditor General has outlined the real-terms reduction in our funding and resourcing requirements over time, as well as the growth in the number of bodies that we audit. If you take those things together, you will see that, over time, we are continually auditing more, and our real-price resource requirement has been reducing.

On an operational basis, all our audits have a notional allocation of days related to the fee. Managers at business-group level and at audit level are involved in daily and weekly discussions about the resources and efficiency that are required to complete audits, and they compare that data against other data that we have in the business and the data that we use for benchmarking. We examine our time recording information and continually prioritise and allocate resources to achieve efficiency.

We recently reported on that through our audit committee, and the issue is a regular subject of discussion at board meetings, and quarterly at the Public Audit and Post-legislative Scrutiny Committee, when we present our in-year results, which relate to the progress that we are making in our work, our expenditure on that and the allocation of resources to it.

**Bill Bowman:** To follow up Jenny Marra's point about Social Security Scotland, I presume that you will have spent more time on the first year of the organisation than you would have hoped to, and you will become more efficient as you get to know it and other elements of new work.

Is there any particular measure that relates to how you look at your staff efficiency that it would be useful for us to see?

**Diane McGiffen:** We publish quarterly performance reports, which are on our website and are presented to the board, scrutinised by the audit committee at Audit Scotland and discussed by the board. They might be helpful in showing members the suite of key performance indicators that we regularly use to track all aspects of the

business. We would be very happy to have an offline discussion with members once they have had the chance to digest those reports. They contain a comprehensive suite of measures, and the audit committee and the board look at all of that in the round.

**Bill Bowman:** How do you balance a drive to efficiency with the maintenance of quality?

**Diane McGiffen:** You have put your finger right on the task that we are all involved in on a daily basis. There is an independent look at the quality of our work, there are peer reviews and internal reviews of its quality, and we have data and information about our use of resources. We continually look at that quality internally as a business in business groups that report to the management team, the audit committee and the board. We also report back through our annual quality report to the commissioners of audit, the Auditor General for Scotland and the Accounts Commission on what the quality of the audit has been. We have in place a whole system of processes that lead to the ability to form a view on the quality of the work that we have delivered on behalf of the Auditor General and the Accounts Commission.

**Ian Leitch:** The board takes that very seriously. In the current climate in the commercial sector in which audit's capability of reporting properly is under some suspicion, we have our audit quality framework, which members know about, the independent testing by the Institute of Chartered Accountants of Scotland, and internal mechanisms for checking. We are absolutely concerned about ensuring that the public sector audit model in Scotland is the best that it can be, and certainly the best in the UK. The board has very much got a grip of that.

**Alison Johnstone (Lothian) (Green):** I want to follow on from Bill Bowman's questions about staffing numbers. My question is more about the make-up of the staff complement and the gender balance within it.

In its 2018-19 budget bid, Audit Scotland highlighted the equal pay review from April 2015 to March 2016, which found that the gender pay gap for Audit Scotland was that women earned around 4.5 per cent less than men. At that time, the commission sought information on the pay ratio between the highest-paid and lowest-paid staff members in Audit Scotland. The assistant auditor general, Russell Frith, stated:

"The disclosure in our accounts to March 2017 was that the multiple between the median salary, which is the one that is required to be disclosed, and the highest one was 3.4 times."—[*Official Report, Scottish Commission for Public Audit*, 20 December 2017; c 9-10.]

In our budget report for 2018-19, we very much welcomed the active measures that had been taken to monitor pay ratios and the gender pay gap in the organisation. Do you anticipate that the pay proposals in the current budget proposal will further reduce the gender pay gap and the pay ratios?

**Caroline Gardner:** I will answer that question first; Diane McGiffen may want to come in after that.

As the commission knows, we have fixed cycles for reporting pay ratios and the gender pay gap. The cycles are slightly different. The pay ratio is included in our annual report and accounts each year, and we report the gender pay gap every two years, in line with the requirements that have been placed on us.

I expect that the pay ratio for the 2018-19 financial year, which will be published in June this year, will show a reduction. In broad terms, I think that that is because the movement of pay for staff in Audit Scotland has been more significant as a result of how pay progression works in the organisation than it has been for the most highly paid person in the organisation, whose pay is set differently. My pay is set on a different basis by the Scottish Parliamentary Corporate Body. Therefore, I expect the ratio to have reduced again.

The gender pay gap is always more difficult for us to predict because, although we take our responsibilities for equal pay in the broadest sense very seriously, the gender pay gap is, as the commission will know, very sensitive to changes in the composition of the workforce. Last time round, it grew slightly, largely because a large number of the trainee auditors whom we recruited—more than half that influx—were women, and although those people will become highly paid professionals in the future, they were at the bottom end of our pay scales at that point in time. Therefore, the pay gap increased at that point, but we expect it to come down over a longer period. We do not yet know whether it will have done over the two-year period in question.

Diane McGiffen might want to add to that.

**Diane McGiffen:** In two months' time, in March, follow-up information will be available when we follow up on the report that we published on our gender pay gap in 2018. I have suggested to the secretary to the commission that there might be an opportunity to discuss the issue at our session in June, when the commission will have much more current information available.

As the Auditor General said, our most recent report showed that the median pay gap was driven largely by an increase in the number of women who joined our professional trainee scheme, which is a great thing. The gender split there was that 57

per cent of the professional trainees who joined us were women. What will influence the next report is what the balance of men and women has been in the most recent intake. We monitor that over time and are very careful to understand what it means. You will know that gender pay gap reports look at the upper quartile, the upper middle quartile, the lower middle quartile and the lower quartile.

The main entry route into Audit Scotland is through the graduate trainee scheme. As that involves a significant number of people each year, it has a significant impact on our figures. We will be able to give you a fuller analysis of where we are now in two months' time, when we produce our next report, and we would be very happy to do that.

**Alison Johnstone:** You mentioned that women made up 57 per cent of the graduate intake. How did that come about? Was it the result of a proactive measure? Has work been done behind the scenes to ensure that women are attracted to the profession?

**Diane McGiffen:** We have done a lot of work to ensure that our roles are attractive to a diverse range of applicants. Although we have not been able to make a direct correlation between our activity and the outcome from the point of view of the offers that we make and the number of appointments, we look at all those figures through our diversity monitoring reports. We look at the gender mix of the applicants that we get for all roles, including graduate trainees, and the levels of interest that we get. We also analyse the gender balance of the candidates who are shortlisted and of those to whom offers are made. Once people join us, we also look at the gender balance when it comes to training opportunities, adjusted working hours and so on. We take a detailed look at all those factors in managing the business.

Although I could not say that a direct correlation can be made between our activity in that area and the outcomes, we work very hard to encourage a diverse range of people to come and join us. In addition, we are making sure that we are an attractive employer with a good culture, and that Audit Scotland is a good place to work, with a view to reaching as many people as possible and having a diverse workforce. By and large, we have been good at doing that.

**Alison Johnstone:** As you will appreciate, attracting a diverse workforce is about more than salary; it is also about flexibility. For example, we know that 92 per cent of single parents are women. Is there an opportunity for people who require a bit more flexibility to get involved in the profession? Is that message getting out there?

**Diane McGiffen:** We are doing our best to get that message out there on our own behalf, and I think that it is of growing interest to many in the profession, including firms that are doing a lot of work to retain women, in particular, and to encourage women who have left the profession to return.

Audit Scotland has a very strong offering when it comes to flexible working practices. We also have our time, place and travel policy, which I might have discussed previously. In conjunction with people's teams and their managers, it provides a great deal of autonomy over where, how and when people work, so that they can manage all those life events and circumstances that mean that, for some, it is much preferable to start slightly later or slightly earlier, because of other responsibilities that they have. Over the past couple of years, we have also been working on our carers accreditation to ensure that we support people with all types of caring responsibilities. We will have a focus on that over the next 12 months.

We have a strong offering. We know from feedback from colleagues and our annual survey that people who work at Audit Scotland really value flexible working. Because we cannot lead on salary, we know that the package in the round—offering a great workplace environment, flexible working and so on—has to be one of the ways in which we attract and retain colleagues, so we work hard at that.

12:30

**The Chair:** I am conscious of time, so I remind everyone to keep their questions and answers fairly tight.

**Rona Mackay (Strathkelvin and Bearsden) (SNP):** I will ask the panel about national performance audits.

In your annual report, you say that 11 section 22 and section 102 reports were issued in 2018-19, which was

“the most we have ever produced in a single year”.

I apologise if you covered this earlier and I missed it, but can you say why you had to produce so many reports last year and what the most significant issues were?

**Caroline Gardner:** Certainly. Section 22 reports, which are my area of responsibility, and section 102 reports on local government are produced in response to things that happen in public bodies, which are often things that have gone wrong. Alongside that, we have a planned programme of work, so we are clear that we intend to do work on social security, educational outcomes, health and social care integration and so on. That is planned rather than reactive work, in

which we have to respond to issues as they emerge. Tomorrow, for example, I will brief the Public Audit and Post-legislative Scrutiny Committee on events at NHS Lothian and Bòrd na Gàidhlig. We never know exactly how much of such work there will be, so we make a planning assumption and broadly assume that there will be seven or eight cases each year. They take different amounts of resource, depending on the size and complexity of the issue.

If there are more than seven or eight issues that we consider deserve to be reported on, we do that by flexing the amount of work elsewhere, either by delaying a piece of work, taking longer to complete it, reducing its scope or, in extreme circumstances, taking it out of the programme altogether. So far, we have always been able to manage things by flexing the rest of the programme, which ensures that we complete all the work that we want to do. However, you are right: the situation is unpredictable and we need to manage it in real time as issues arise each year.

**Rona Mackay:** How has that impacted on your budgeting proposals for 2020-21? Has it had a huge impact?

**Caroline Gardner:** It has not had a big impact on our proposals. We have managed to contain it in the overall programme. A couple of planned pieces of work have taken a bit longer than expected in order to make space for section 22 reports. You will have noted in our proposal that we have maintained the management contingency of £300,000, the purpose of which is to enable us to respond to unexpected things that we cannot plan for at the beginning of the year. This issue is one of those things.

**Rona Mackay:** You talked about postponing certain work in the light of other things that you have to make provision for. Could you give us a timescale for that? Would a programmed performance audit be deferred for years or months?

**Caroline Gardner:** It varies. I am sorry to give you an answer of "It depends," but it really does depend. When small additional amounts of resource are required, it might be as simple as delaying publication of a planned piece of work by three months. In that case, we simply push publication back a bit to give that team time to complete work on the section 22 report and provide the support to Parliament that is involved, and they then go back and complete the planned work. In other cases, in the light of all the calls on our time, it might mean simply saying that something becomes a lower priority and we put it on the back burner in the planning for the overall performance audit programme.

We plan the programme firmly for one year, with indications of what is coming for a couple of years beyond that. The commission and I quite often say that although a particular issue felt like a priority when we first put it into the programme, it has now drifted down the running order.

**Rona Mackay:** So you consider the priorities and make a judgment call on them.

**Caroline Gardner:** That is right.

**Alison Johnstone:** I want to inquire further about other administrative costs, which are on page 14 of the budget proposal.

Audit Scotland advises us that an additional £220,000 of funding is required in 2020-21 for the national fraud initiative. I would like to better understand what payments will be made using that additional resource. Will the funds be used to recruit additional staff to administer the NFI or to pay for services relating to the NFI?

**Caroline Gardner:** I may ask Stuart Dennis to add to this but, as you know, the national fraud initiative is carried out every two years and is a service that we provide to public bodies right across Scotland. The initiative involves data matching to look for data that suggests that duplicate payments or payments that are not warranted may be being made, and it is carried out UK wide and is currently run by the Cabinet Office. We make a payment to the Cabinet Office to cover the number of bodies in Scotland and the number of data matches that will be carried out here. It is a service that is provided.

**The Chair:** I have a quick question on the national fraud initiative. I assume that the money is under the "Legal & Professional Fees" budget line.

**Caroline Gardner:** I think that it is under "Other administrative costs".

**Stuart Dennis:** In the detail in appendix 1, it is under "Legal & Professional Fees".

**The Chair:** On page 14, Audit Scotland identifies individual cost pressures in its overall administrative costs budget, which include a requirement for an additional £25,000 to bring "travel and subsistence" costs

"in line with audit requirements".

How has that cost arisen and what steps have been taken to ensure that travel costs take account of carbon impact and other factors?

**Diane McGiffen:** We have a detailed way of managing travel and subsistence costs, and we review closely the patterns of travel and the costs. Over the past year, we have noticed in the cycle of audits that, in deployment of people, more costs have been associated with people staying away in order to be more efficient—they have stayed in

audit locations for prolonged periods rather than travelling there multiple times. There is a combination of things.

We publish annually a report on our carbon footprint, with the most recent such report having been published in June last year, I think. We have a strong track record of reducing our carbon footprint. Given the restriction on time, I can send the commission a link to the detail on that.

Over time, we have managed down our carbon emissions from travel, and we are in the process of resetting the objectives. We have a smaller car fleet now than we had previously—the chair of the commission will be familiar with our past discussions on that.

On the emissions cycle, there has been a switch from air travel to rail travel and we promote active travel. We have a cycle-to-work scheme and we have a strong commitment to efficient travel using public transport where possible. I mentioned our time, place and travel policy, which encourages thoughtful use of videoconferencing through Skype and so on, in order to minimise travel and enable people to take control of that. I can send the commission a link to the published details on all that.

**The Chair:** That would be useful.

On page 19, Audit Scotland sets out the 2020-21 proposed income and expenditure budget sector by sector, and demonstrates how expenditure lines are funded either from fees that have been charged to audited bodies or from funding from Parliament. Approximately 68 per cent of Audit Scotland's income derives from fees, with the remaining 32 per cent being provided by Parliament. According to appendix 2 on page 19, it is proposed that 74 per cent of Audit Scotland's governance costs and 40 per cent of its corporate services and overheads costs be met from parliamentary funding. How does Audit Scotland determine the level of parliamentary funding to be apportioned to each sector?

**Caroline Gardner:** Ian Leitch has made it one of the defining missions of his time as chair of Audit Scotland to get more clarity and certainty into how those necessary cost allocations are carried out. Our approach is summarised in our funding and fees strategy, which we have previously shared with the commission.

There are two levels of cost, some of which are easy to identify as belonging to a particular sector. Let us take the direct audit fee. We know that the time of someone who is auditing the City of Edinburgh Council should be charged to local government. However, in an integrated organisation like Audit Scotland, many costs have to be allocated. Examples include building costs and, as you have identified, governance costs.

The funding and fees strategy is underpinned by clearly argued and agreed allocation mechanisms for each category of costs. In some cases, that reflects clear time-recording information; in other cases, it reflects explicit assumptions about how the costs are allocated. All that goes into a big spreadsheet that Stuart Dennis is in charge of. It breaks down our costs among the sectors in the report.

As we discussed in answer to Jenny Marra's earlier question, there are changes from year to year: bodies occasionally move from one sector to another, particularly from chargeable to non-chargeable central Government bodies. However, the underlying assumptions remain the same and are revisited on a regular cycle by the board in order to make sure that they remain appropriate, as the world changes.

**The Chair:** You will be aware that the commission has in the past been concerned about cross-subsidies and their impact. What consideration is given to whether Parliament-approved funding should be used to fund certain sectors rather than others? For example, should the Accounts Commission's costs be met solely from local government fees? How do you work all that out?

**Caroline Gardner:** That is all covered by the allocation formula that underpins the funding and fees strategy. Stuart Dennis will keep me straight. I think that it is clear that the costs of Account Commission members are all met by local government as part of the overall allocation of costs to the local government sector. For other costs, for which it is less clear where they should sit—for example, the costs of the Audit Scotland management team—a working assumption is used to allocate costs among the different sectors on a fair and transparent basis. The board looks at that each year, to make sure that it is comfortable that we are applying it properly and that the figures that come out at the bottom make sense. The assumption is reviewed from time to time to make sure that it remains up to date and appropriate.

**Ian Leitch:** The chair of the commission will recollect that the critical thing was to make sure that there were no silo cross-subsidies—that is, that local government was not being subsidised by the health sector, or, perhaps worst still, the other way round. That is why we went into this operation some years ago, when we involved the commission fully in our consultation of all our audited bodies on how we would do that. There might be some subsidy in a silo—for example, you would not want the full costs of an audit on far-flung islands to be met wholly by the local authorities in which they sit, so a certain amount of pooling of costs will happen in that silo—but any suggestion of one silo slipping into another

subsidy must be avoided. There are clear demarcation lines.

On the margins, the management costs have to be considered. We keep a close eye on that, because we regard fees strategy as being important to our credibility. That is why it is so closely observed.

**The Chair:** I have a couple of odd questions to ask. I see—perhaps for the first time—no reference to efficiency savings in your report. You have always been very good at making efficiency savings.

**Caroline Gardner:** We have not set out explicit efficiency savings this time in the way that we did previously. That is partly because we are in a growth situation—and we are at the top end of that. We know that the growth has been offset by efficiencies that we have made elsewhere. Stuart Dennis will talk you through how that works and the underlying detail of the proposal.

**Stuart Dennis:** Where there has been growth in respect of new financial powers, an efficiency is built in: we are asking for an increase, but there is associated efficiency. On top of that, the £6.2 million efficiency savings that we have made since 2014-15 continue to flow forwards.

We are always looking at efficient ways of working. In this case, we have not specifically identified them by setting out what we are looking to achieve, but the budget has efficiency savings built in.

**The Chair:** You have internal targets for savings in the business.

**Stuart Dennis:** Yes, we look to do everything on a value-for-money and efficiency basis.

**The Chair:** You do not allocate a percentage to the different departments, or whatever, to achieve.

**Stuart Dennis:** No.

12:45

**Caroline Gardner:** We have not done that this time. As the commission knows, in previous years we have generated significant efficiency savings by focusing on specific issues, but we do not apply a blanket 5 per cent or 1 per cent efficiency saving assumption, because we think that to do so is not appropriate. We would not recommend that approach being taken to audited bodies and we do not take it to Audit Scotland.

**The Chair:** How do you measure savings?

**Caroline Gardner:** We do that by examining what we achieve for the cost of achieving it. Diane McGiffen can talk you through how we do that in the budget process overall.

**Diane McGiffen:** As I mentioned in an earlier answer, we have recently reported extensively on that to our own audit committee.

The budgeting process starts early on. We start with a blank sheet of paper. We consider what are our needs, including our growth needs, and we consider our on-going efficiency savings. We have programmes of work and programmes of development that are delivering efficiencies. Primarily, those involve looking at the cost of our people and the procurement of firms, in relation to which there are on-going savings in the life cycle of the contract that we have. Over time, we have looked at all our areas of expenditure and we have delivered significant savings, in particular from our property portfolio and from our move.

We continue to do that. At a business planning level, each business group is looking at how it can be more efficient in terms of its staff mix and skills mix, and how it uses people. In addition, because we have been growing and taking on more audit responsibilities, we are looking at how we can meet the new audit responsibilities in a way that delivers quality and value for money. We have reported on some of that in previous budget submissions.

We also report in our annual report and accounts on the efficiencies that we have achieved each year. Information on that will come to the commission in June this year, as part of the annual report and accounts. That is part of our daily work.

There is a strong challenge process when it comes to budgeting. There is challenge at business group level, at management team level and at the audit committee and the board, where we look at movement over time, planned efficiencies, capacity, the pressures that we face and the ways in which we are developing for growth.

The increase this year in our requirement to meet our new responsibilities, which we discussed earlier, has been driven partly by some prudent requests in relation to our new responsibilities in previous years. We previously consciously decided to make a mid-point request, rather than a request that was further up the range of options that we had. We take a prudent approach to growth and costing, and a significant challenge process is built into the system.

**The Chair:** I realise that we are out of time, but according to paragraph 54 on page 14 of the budget proposal document, the Office for National Statistics has reclassified Audit Scotland. Does that have any implications about which we should be concerned?

**Caroline Gardner:** We have done as much due diligence on that as we have been able to do. We

believe that there are no implications that we or the commission need to be concerned about, and we are keeping a close eye on the situation.

**The Chair:** Do members have any other questions?

**Bill Bowman:** I have a final question, which follows up on the chair's strong remarks about audit quality.

The budget proposal includes provision

"of £250,000 to support audit quality inspection and reporting",

which is the same level as last year. It was stated in the "Quality of public audit in Scotland: Annual report 2018/19" that 57 per cent of Audit Scotland's staff believe that the training or development that they receive enables a high-quality audit to be carried out, which means that 43 per cent of staff do not believe that they get enough training, which is in the context of the organisation increasing in size and its workload increasing. Should you be putting more into the budget under quality support?

**Diane McGiffen:** The budget line that you are referring to relates to the independent team that looks at the quality of audit.

**Bill Bowman:** I understand that, but it looks at what Audit Scotland has done.

**Diane McGiffen:** Yes, but the investment in quality in our delivery is reflected in our learning and development budget lines, in the way in which we recruit and model staff, and in other programmes of work in the budget. In other words, the money to support quality does not lie in a single place. The budget line that you mentioned relates to the team that reviews the work and reports in public on that. The investment in quality is built into learning and development, so—

**Bill Bowman:** But you are doing more, so do you need more support to enable you to look at the output?

**Diane McGiffen:** In this budget, we are planning to continue a programme of work that we have mapped out to meet the five-year audit appointment cycle that we are in. We will take stock of the scale of that when we look at the outcome of the next round of audit appointments and the split.

At the moment, we have active processes in place to manage quality. We report to the Accounts Commission, the board and the Auditor General on in-year risks, and we are very engaged in the wider discussions on the audit profession. At this stage, that does not indicate to us that we need to change the programme of work under the budget line to which you refer. Our investment in

quality and development is built into all the other budget lines.

**The Chair:** As we have no further questions, I thank members for their attendance. I again note that it is Ian Leitch's last meeting with the commission. Congratulations on surviving it, Ian. We wish you well.

**Ian Leitch:** If I could be familiar for a moment, Colin, I would like to thank you for the kindness and courtesy that you and your colleagues have shown over the time that I have been in post. It has been not only fascinating and challenging, but thoroughly enjoyable.

You will have seen today and on many previous occasions—I will spare their blushes—what highly competent people we have: the Auditor General, Caroline Gardner, and Diane McGiffen are superbly capable people, and I leave them in the very capable hands of the new chairman. All that remains for me to do—to misquote "The Two Ronnies"—is to say that it's goodbye from me and hello from him. [*Laughter.*] Thank you very much.

**The Chair:** Thank you, Ian.

12:51

*Meeting continued in private until 12:56.*



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The Scottish Parliament  
Pàrlamaid na h-Alba

## Purpose

1. This paper invites the Board to feedback on and approve the 2019/20 Audit Scotland annual report.

## Background

2. As previously discussed with the Board by correspondence, the structure and content of this year's report have been changed to reflect both the context of the COVID-19 pandemic and the change from three to corporate objectives to two.
3. The key points to note from this year's report:
  - There is a COVID-19 statement at the start of the Our Year section, and the report focuses on the impact of the pandemic on public service and our work, as well as touching on the previous themes of our growth and our response to the reviews of the audit industry
  - We are not including case studies or 'spotlights' this year. In the current circumstances, it would be inappropriate to produce a self-promotional or celebratory document.
4. Board members have previously reviewed, fed back on and approved a Word document version of the report. Their comments and amends have been incorporated into the DTP draft in the Appendix.

## Next steps

5. Subject to overall Board approval of this draft, we will make any requested amends, and carry out a final proof read. There are also a few outstanding data points to add in.
6. The outstanding production timeline is as follows:
  - Amends to DTP proof following Board review and proofread – Monday 1 June – Friday 5 June
  - Signing of accounts – Tuesday 9 June
  - DTP report final sign off – Tuesday 9 June
  - Papers to the SCPA (including electronic copy of annual report) – Wednesday 10 June
  - Publication on Audit Scotland website – Friday 12 June

## Recommendation

7. The Board are invited to feed back on and approve the 2019/20 annual report and note the next steps in the process.

## Purpose

1. This report provides a summary of the planning process for the 2020/21 Corporate Plan update.

## Background

2. Audit Scotland's Financial Regulations state that:

*'A Corporate Plan will be prepared and will be reviewed annually by the Board. It will set out the strategic approach to be adopted by Audit Scotland in performing its functions. So far as is possible, it will outline the financial consequences of proposals contained within it. The Corporate Plan will be approved by the Board'.*

3. The three-year corporate plan and annual updates set out:

- who we are, what we do and the value of public audit in Scotland
- the context and operating environment within which Audit Scotland operates
- how we will deliver the objectives set out in [Public Audit in Scotland](#) and the [Accounts Commission's strategy](#)
- our vision and objectives
- our audit and organisational priorities
- how we will achieve our vision of being world class (including key improvement priorities)
- our organisational arrangements (resources and governance).

4. The plan is a valuable tool for articulating the areas above for both external and internal audiences.

5. The audit and organisational priorities are widely recognised and provide a well-established organising framework for other strategies and plans and internal and external reporting in many areas including performance, risk and improvement.

6. The plan and its components parts also provide a common frame of reference for a suite of inter-linked strategies and plans which both inform and are informed by the corporate plan.

## The 2019/20 update

7. The [Corporate Plan 2019-20 update](#) was approved by the Board at its meeting on 1 May 2019.
8. The 2019-20 update refreshed and streamlined the strategic audit and organisational priorities, these are summarised below.

### Audit priorities



Financial sustainability, financial management and governance



Financial devolution, the fiscal framework and social security



Preparedness for EU withdrawal



Supporting parliamentary scrutiny



Service delivery and public sector reform

## Organisational priorities



## Updating the plan

9. The corporate planning process draws from a range of well-established sources and processes including:

- the commitments made in Public Audit in Scotland
- the Accounts Commission's Strategy, Action Plan and strategy seminars
- engagement on, and the principles in, the new Code of Audit Practice
- reviews of the external and internal operating environments
- the public sector audit risk framework (incorporating risk assessments, hotlists, current issues reports, cluster briefing etc) and the internal risk management framework
- engagement on the five-year rolling work programme
- feedback from the Best Companies survey and other engagement activity with external stakeholders
- key messages in the suite of annual and other reports on finance, performance and quality.

10. I am proposing a relatively light touch refresh for the 2020/21 update on the basis that:

- this is year three of the three-year 2018-21 plan and the update will highlight the progress made over the course of that period and continued commitment in key areas
- we carry out a more fundamental review for the 2021-24 corporate plan which will provide a vehicle to articulate any new priorities and strategic objectives arising from the appointment of new Auditor General and Board members.

## Key areas to update

11. The main areas of change/ key areas to highlight are likely to be

Section	Comments
Forewords	Chair – new chair key points might include - departure of AGS and former Chair Accountable officer – public audit is vital in unprecedented challenging times
Vision	Update strategy map to reflect any revisions to the strategic objectives (see below)

Section	Comments
Introduction	Includes context – key points to include; significant change & uncertainty inc. EU departure, UK/ Scottish governments and constitutional reform, demand and supply side pressures on public services, possibly pandemic disruption, reviews of audit profession
Audit priorities	Updates under existing headings & to work programme
Delivering world class audit	Updates under existing headings including response to reviews of audit profession, focus on quality, COAP and procurement project, development of audit methodologies and digital audit
Being a world class organisation	Updates under existing headings – focus on wellbeing, resourcing and proposal to revise 'leadership and management development to; 'developing our people, teams, managers and leaders' i.e. whole organisation
How we run Audit Scotland	Update numbers and links as appropriate

## Next steps

12. The key milestones are:

Period/ date	Actions
March	Accounts Commission Strategy finalisation – where outcomes will inform the priorities Leadership group workshop on medium and longer-term planning priorities
April	Engagement with the AGS, Accounts Commission and Business Groups Draft to Management Team
6 May	Draft Corporate Plan Update 2020/21 to Board for approval
w/c 26 May	Design and proofing
4 June	Publication
Summer	Internal and external communications

## Recommendations

13. The Board is invited to:

- consider the proposed structure, process and broad content for the 2020/21 corporate plan update.

Wednesday 13 May 2020 at 10.15am

By Teams

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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 draft minutes - Board meeting 24 March 2020 | For approval    |
| 7. Review of action tracker                              | For information |
- 

## Business management

- |  |                 |
|--|-----------------|
| 8. COVID-19 - verbal updates                           | For information |
| - Business continuity                                  |                 |
| - Audit priorities                                     |                 |
| - Organisational priorities                            |                 |
| - Financial position and planning                      |                 |
| - Governance   |                 |
| 9. Governance arrangements - review of Standing Orders | For approval    |
| 10. New audit appointments update                      | For approval    |
| 11. Information Security Management policy             | For approval    |
| 12. Review of Ethical Standard Policy on application   | For approval    |
- 

## Conclusion

13. Any other business
14. Review of meeting
15. Date of next meeting: 1 June 2020

Wednesday 13 May 2020, 10.15am

Audit Scotland by Videoconference

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## 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  
Nicola Paton, Digital Project Manager, Digital Services  
Stuart Dennis, Corporate Finance Manager  
Simon Ebbett, Communications Manager  
David Blattman, HR and OD Manager  
Robert Leask, Project Manager, Audit Quality and Appointments  
Fiona Kordiak, Director, Audit Services  
Neil Cameron, Manager, Performance Audit and Best Value

### 1. Welcome and apologies

Alan Alexander welcomed members and attendees to his first meeting as Chair of the Audit Scotland Board.

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

### 2. Declarations of interest

There were no declarations of interest.

### 3. Chair's report – verbal update

The Chair advised he had written to the Scottish Commission for Public Audit (SCPA) highlighting the risk to the governance of Audit Scotland in light of the delay to the recruitment of independent members. Diane McGiffen advised that , subject to final confirmation, it was now likely that the Parliament would proceed with interviewing board candidates before the end of May 2020.

The Chair advised he had reflected on the good governance of the Board and its Committees and confirmed he was proposing to continue as Chair of the New Audit Appointments Steering Group to provide continuity in light of the potential extension to lockdown and that this would be reviewed in due course.

The Chair also advised he proposed that, given the Board vacancy, he would continue as interim Chair of the Remuneration and Human Resources Committee (Remco), to ensure scheduled business can be considered by Remco following today's Board meeting but he anticipated that to be the last Remco meeting he chairs subject to the Board appointments being confirmed.

The Board confirmed it was content with the proposals.

The Chair advised of meetings with Diane McGiffen, engagement and preparation ahead of attendance at the Audit Committee and chairing a meeting of the New Audit Appointments Steering Group on 11 May 2020.

The Board welcomed the update.

#### **4. Accountable Officer's report – verbal update**

Caroline Gardner noted that she would build on the update that Diane McGiffen provided at the most recent meeting of the Audit Committee. She advised that the Coronavirus pandemic was a health, social and economic crisis which will affect how we all live and work for years to come. She advised that Audit Scotland has focused on the immediate consequences and are now planning ahead as a number of key decisions will be required on the work that we do by the new Auditor General for Scotland and the Accounts Commission.

Caroline advised that Audit Scotland colleagues have been working remotely since 16 March 2020, securely supported by Digital Services and that the Incident Management Team has been communicating with colleagues regularly confirming that that safety comes first.

Caroline advised that there was little financial impact on Audit Scotland's accounts to 31 March 2020. She advised that the 2019/20 underspend of £125k and that the draft accounts have been presented to the external auditors, Alexander Sloan, this week. Caroline invited members to note the achievement of the Finance team in delivering this as well as supporting the Comptroller function, paying suppliers and staff.

Caroline invited members to note that there had been two Leadership Group meetings, a meeting with the audit partners and firms and engagement between Audit Directors and the firms about how we work together, and praised the work of colleagues in supporting Accounts Commission meetings remotely.

Caroline advised that she had briefed the Public Audit and Post Legislative Scrutiny Committee (PAPLS) on the likely impact of Covid-19 on Audit Scotland's work and the Committee's work programme. Caroline also advised of ongoing contact with the other UK and Ireland audit agencies, highlighting the forthcoming meeting of the Auditors General on 22 May 2020 to discuss respective responses to the pandemic.

Caroline invited members to note that Audit Scotland are now looking at the prioritisation and resourcing the audit work, recognising the impact of the pandemic on audit bodies and audit work programmes. She advised that Fraser McKinlay, Director of Performance Audit and Best Value and Controller of Audit and Fiona Kordiak, Director of Audit Services are reviewing Audit Scotland's work programmes in more detail, adopting the principles of being flexible, pragmatic and consistent in approach. She advised that in assessing work priorities, the impact on colleagues and capacity would be key, recognising that financial reporting deadlines are changing and that audited bodies are facing unprecedented challenges. Caroline highlighted the briefing paper published on Audit Scotland's website which provided information on audit priorities and approach.

The Chair thanked Caroline for the update, praised the ongoing communications from the Incident Management Team and welcomed the support and care demonstrated for colleagues.

Heather Logan asked whether there were any concerns about the audit firms and their ability to deliver the audit work. Caroline Gardner advised that she had been impressed by the firms' response to the current situation and she confirmed Audit Scotland are keeping in touch on the likely impact through ongoing engagement and additional sector meetings.

Heather Logan asked whether Audit Scotland are currently employing any agency staff. Caroline Gardner confirmed that some temporary and fixed term employees whose contracts would otherwise have expired had been retained until the end of June. She also advised that Audit Scotland had cancelled the summer intern programme with regret, but was progressing with the graduate trainee recruitment and that successful candidates would join the organisation in September 2020 and that the scheme continues to be vital for ongoing recruitment and retention and organisational capacity.

Following discussion, the Board welcomed the update.

## 5. Accounts Commission Chair's report – verbal update

Graham Sharp acknowledged that colleagues across Audit Scotland have coped remarkably well and noted Accounts Commission members' appreciation of the communications. He noted the potential impact of both the immediate and longer-term audits and that this would be the focus over the coming months.

Graham advised that the Accounts Commission had met in the previous week to discuss issues including best value reporting.

Graham invited members to note that the Accounts Commission will proceed with the current work on the Local Government Overview, recognising that the work pre-dates Covid-19. He advised that thought was being given to the focus and timing of overview work for this year.

Members noted an impact report on equal pay would be published.

Graham advised a further meeting of the Commission is scheduled for 21 May 2020 and that the commission was likely to hold two virtual meetings in June if the current restrictions remain place.

The Board welcomed the update.

## 6. Review of minutes: Board meeting 24 March 2020

The Board considered the minutes of the meeting of 24 March 2020, which had been previously circulated.

The Chair formally recorded that the members of the Board had had an extended discussion on the revised draft minute he had circulated in advance of the meeting and subject to amendment this would be substituted for the draft circulated.

The members discussed the basis of minuting discussions on items taken in private and agreed this would be considered as part of the Board's review of governance scheduled for later in the year.

Following discussion, the Board members agreed a variation of the draft minute circulated by the Chair which Diane McGiffen would share for consideration and approval by members via correspondence.

**Action ASB111: Diane McGiffen to circulate an updated draft of the draft minute for approval by correspondence. (May 2020)**

## 7. Review of action tracker

The Board noted the updates provided on the action tracker and the Chair advised he had written to the Office of National Statistics and would report back in due course.

## 8. COVID-19 – verbal update

*Stuart Dennis, Corporate Finance Manager, Simon Ebbett, Communications Manager, David Blattman, HR and OD Manager joined the meeting.*

The Chair invited Stuart Dennis to provide an update on financial planning.

Stuart Dennis highlighted a number of critical finance functions which had continued to operate effectively in the current situation, these included; payroll, payment of suppliers and managing the comptroller function.

On the 2019/20 accounts position, Stuart advised that the core operational outcome was £125k better than budget, capital was £9k better than budget and the AME non cash pensions was significantly better at £4,180k. Stuart invited the Board to note that the audit of the accounts was

concluding this week and expressed his appreciation of the efforts of the Finance team and support from colleagues across the organisation to support this work at this difficult time.

Turning to the 2020/21 budget, Stuart provided an update on the cashflow position and invoicing. Stuart advised he anticipated some payment of invoices may be delayed and that he had been in contact with Finance colleagues at the Scottish Government regarding the potential cashflow issues this may cause. Stuart also advised he was engaging with business groups in relation to forecasting and savings on expenditure while considering the potential impact on in-house work in progress through to March 2021.

Stuart highlighted a number of potential implications of increased costs of audit work in order to meet extended deadlines and how that might be funded, the ability to deliver EAFA audit work by end December 2020, the longer term impact planning underway in relation to pensions, resourcing and funding issues and the procurement exercise on costs. Stuart advised that the medium-term financial plan is a live document which continues to be updated.

Heather Logan welcomed the comprehensive update and asked where additional funding could come from. Stuart advised that any additional funding could be requested through the Scottish Commission for Public Audit, would need their approval and would then be included in an Autumn budget revision. Stuart also provided assurance on the process of payment for the audit firms. Diane McGiffen advised that as part of the medium term financial planning the Board would be invited to consider the best options for sustainable funding for Audit Scotland, given that, regardless of whether fees were charged for audits or the work was directly funded, all the resources came through public funds. Caroline Gardner reflected on the significance of the potential issues arising and welcomed the consideration of the issues highlighted by Stuart and the Finance team.

Following discussion, the Board welcomed the update and the Chair requested a report to come to the Board's next meeting on 1 June 2020.

The Chair invited Diane McGiffen to provide an update on organisational priorities.

Diane McGiffen highlighted the critical business continuity arrangements in relation to people, audit work and public bodies. Diane invited the Board to note that fewer than ten colleagues had reported experiencing COVID symptoms, and that overall sickness absence levels were lower than at this point in previous years. Diane invited the Board to note that the Audit Committee is scheduled to review the Health Safety and Wellbeing annual report at its meeting on 1 June 2020 and that this documents key performance indicators for 2019/20, demonstrating no significant change from previous years.

Diane advised that Audit Scotland has been dealing with the immediate short term demands arising from the situation and is now looking to support emerging needs of colleagues working from home now for an extended period, recognising the challenges colleagues face reconciling the multiple demands on them as they work from home, home school and provide care for relatives and others.

Diane advised that the approach to audit work had been outlined at the PAPLS session, and reinforced that Audit Scotland's approach was to be pragmatic, flexible and consistent. She noted that reporting deadlines have been rescheduled and advised that assessments were ongoing as we work through resources to support the changes, anticipating peaks of work from July onwards and recognising the priority to complete financial statements as well as the work to progress corporate improvement programmes.

Diane invited members to note that the situation across public bodies remains very mixed and challenging and there is a lot for Audit Scotland to understand and respond to appropriately. Diane also highlighted the good relationships across audit agencies which is helpful in light of the bigger issues of scrutinising the flow of public finance across the reserved and devolved spending.

The Chair enquired about the colleagues who have displayed symptoms and Diane advised some colleagues have been advised to self-isolate. She also noted that Audit Scotland is largely able to work from home, although that can bring challenges, but that no one needs to

travel for business reasons and that the principle of, and communications on, safety first appears to be understood and well received by colleagues.

The Board welcomed the update, acknowledging the significant issues arising and the approach Audit Scotland are taking to understand and deliver audit work in this volatile and changing situation.

*Stuart Dennis, Simon Ebbett and David Blattman left the meeting.*

## 9. 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 Walker invited the Board to note that the practical options for holding virtual public meetings are being explored while the current situation continues. Martin then invited members to consider and approve the reinstatement of the Standing Orders in relation to the publication of Board papers and the publication of papers from the meeting on 24 March 2020.

The members noted and agreed the proposal to publish the papers from the meeting of 24 March 2020 together with those from today's meeting as set out in the report.

Following discussion, the Board welcomed the report and agreed to keep the Standing Orders under review.

Martin requested members consider the papers to be published from today's meeting under Any other business.

**Action ASB112: Martin Walker to arrange the publication of Board papers. (May 2020)**

## 10. New audit appointments update

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

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

The Chair invited members to note the progress outlined in the report, the potential impact on audit fees of COVID-19 and the outcome of the code consultation process. The Chair also invited members to note that letters seeking approval to extend the current audit appointments for one year had been issued to the Auditor General for Scotland and the Accounts Commission and both had agreed in principle to the extension. The Chair advised the option to extend by a further year second extension will remain under review.

Turning to the timetable for implementation of the new Code, the Chair invited members to note the proposed extension to engagement on the Code in light of significant gaps in responses received to date and invited Robert Leask to provide a verbal update on the impact on the key areas for procurement.

Robert Leask invited members to note the full cost impact from Covid-19 is not yet known for both the potential audit appointment extension and the procurement exercise. The Board noted that the option to extend by a second year would remain under review.

The Chair advised the Steering Group will be considering the scope for an interim project overview report in June 2020.

Following discussion, the Board noted the report.

*Robert Leask left the meeting.*

## 11. Information Security Management policy

*Nicola Paton, Digital Project Manager, Digital Services, joined the meeting.*

Nicola Paton introduced the Information Security Management policy, copies of which had been previously circulated.

Nicola Paton highlighted the amendments made to improve Audit Scotland's policy and invited the Board to approve the policy.

Nicola expanded on the proposal to remove reference to Cyber Essentials Plus, as ISO27001 accreditation is recognised as exceeding these requirements.

The Board recorded their congratulations to the team in achieving ISO27001 reaccreditation and approved the updates to the policy, noted this demonstrated ongoing commitment to excel in this important area.

*Nicola Paton left the meeting.*

## 12. Review of Ethical Standard Policy on application

*Fiona Kordiak, Director, Audit Services, and Neil Cameron, Manager, Performance Audit and Best Value, joined the meeting.*

Fiona Kordiak introduced the Review of Ethical Standard Policy on application report, copies of which had been previously circulated.

Fiona Kordiak invited the Board to consider and approve the updated policy which reflected on the Financial Reporting Council's updated standards. The main change applicable to Audit Scotland relates to limited secondment opportunities available for colleagues and advised that this is not permitted for audit firms.

The Chair welcomed the update and, recognising the nature of the guidance, requested future updates be shown in tracked changes.

Caroline Gardner highlighted that the key concern of loan assignments is the ability to maintain our independence while recognising it is useful for progression and development of colleagues. She advised that Fiona and the team are thinking through the arrangements in place to enable working with other agencies.

Following discussion, the Board approved the policy.

## 13. Any other business

The Chair invited Martin Walker to propose the papers for publication as highlighted at item 9 of today's agenda. Following discussion, members approved the publication of the papers proposed.

The Board also agreed the adoption of the Audit Committee minutes which had been previously circulated.

Heather Logan highlighted the application of the Ethical standards policy for any new Board member(s) and Diane McGiffen confirmed she would highlight this with the SCPA.

**Action ASB113: Diane McGiffen to liaise with the SCPA on the application of Ethical standard for new Board appointments. (May 2020)**

## 14. Review of meeting

The members agreed that the first virtual meeting had worked well, business had been carefully considered and the Chair thanked everyone for their contributions.

**15. Date of next meeting: 1 June 2020**

The members noted the next meeting of the Audit Scotland Board was scheduled for 1 June 2020.

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.
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.
ASB101	Board	11	ONS reclassification of Audit Scotland	Diane McGiffen to draft a letter to ONS on behalf of the Chair of the Board.	29/01/2020	Feb-20	Diane McGiffen	Diane McGiffen	Complete	No	A draft response has been shared with the Chair for comment.
ASB103	Board	13	Transition planning for Auditor General and Board appointments	Diane McGiffen to bring an update to the Remuneration and Human Resources Committee.	29/01/2020	Mar-20	Diane McGiffen	Diane McGiffen	Complete	No	A draft report has been prepared for Remco for consideration at its meeting on 13 May 2020.
ASB105	Board	18	Stakeholder engagement and feedback	Antony Clark and Simon Ebbett to share the feedback from Local Government and Communities Committee, if any, respondents with the Chair of the Accounts Commission. (February 2020)	29/01/2020	Feb-20	Antony Clark/Simon Ebbett	Antony Clark/Simon Ebbett	Complete	No	This information will be shared by correspondence and forms part of the annual quality of public audit in Scotland report in June 2020.
ASB106	Board	3	Governance arrangements	The Standing Orders to be reviewed at each meeting.	24/03/2020	May-20	Martin Walker	Martin Walker	Ongoing	No	There is a report at item 9 of the agenda for the Board meeting on 13 May 2020.
ASB107	Board	7	Procurement strategy	The Board will consider proposed timescales for the audit appointments process at its next meeting.	24/03/2020	May-20	Alan Alexander	Alan Alexander	Complete	No	There is a report at item 11 of the agenda for the Board meeting on 13 May 2020.
ASB108	Board	11	Review of minutes: Board meeting 29 January 2020	A review of the Board's Standing Orders to be scheduled including the recording of discussion on items not taken in public.	24/03/2020	May-20	Martin Walker	Martin Walker	Complete	No	There is a report at item 9 of the agenda for the Board meeting on 13 May 2020.
ASB109	Board	12	2019/20 Q3 Performance report	Additional information on the composition of the cost per audit day in PABV to be circulated.	24/03/2020	May-20	Martin Walker	Martin Walker	Ongoing	No	Information to be shared by correspondence w/c 11/05/20.
ASB110	Board	13	2019/20 Q3 Strategic improvement programme update	Update report on disruption, business continuity and mitigation actions.	24/03/2020	May-20	Martin Walker	Martin Walker	Ongoing	No	Covid-19 update is on the agenda for today's meeting.

## 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 situation.

## 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, this was the first meeting of the Board to take place via teleconference.
4. 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.
5. 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.

## Considerations

### Public meetings

6. The Board is 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 is challenging.
8. While practical options are being explored it is recommended that meetings take place via videoconference and that attendance is limited to Board members and those presenting papers.

### Publication of papers

9. The temporary variation of the requirement to issue meeting papers to Board members five working days before meetings can now be lifted. Papers have been issued in accordance with the standing orders and the additional flexibility this provision offered has not been required.
10. It is also recommended that the publication of Board papers on the website in advance of the meetings recommences. Subject to Board agreement, this would apply with effect from the June 2020 meeting.
11. There is a two-stage process to determine which papers are to be published. The Board agenda, agreed by the Chair, identifies which items might be considered in private along with an explanation of why this is the case. The Board then agrees which items are to be taken in private as a standing item at the start of the meeting. Items taken in private are in most cases draft documents, which are subsequently published.
12. Given the Board meeting on 24 March 2020 took place in extraordinary circumstances, it was not possible to follow the usual process. This included the circulation of some papers by correspondence. As a result, the papers for that meeting have not yet been published.
13. A proposal on the publication of papers for that meeting is attached as Appendix 1.

## Recommendations

14. The Board is invited to:

- note that practical options for holding virtual public meetings are being explored and that the current arrangements continue in the meantime
- approve the reinstatement of the Standing Orders in relation to the publication of papers
- confirm the publication of papers from the meeting on 24 March 2020
- agree that the variations to the Standing Orders are kept under review and considered at each Board meeting until further notice.

**Items for publication**

Reference	Report
3.	Governance arrangements
5.	2020/21 Operational budget
7.	Data protection policy
11.	Board minutes 29 January 2020
12.	2019/20 Q3 Performance Report
13.	2019/20 Q3 Strategic improvement programme update
C1	Action tracker
C2	Financial devolution and constitutional change update
C3	Brydon review
C4	Scottish Commission for Public Audit report on Audit Scotland's budget proposal for 2020/21
C5	2019/20 Annual report and accounts outline
C7	Corporate plan update
C8	New audit appointments update

Other items = standing items (welcome/ apologies, declarations of interest) and verbal updates – recorded in the minute

C = Items considered by correspondence

**Items not proposed for publication**

6.	Procurement strategy [Item taken in private to support effective conduct of business and due to commercial sensitivity]
C6	Medium term financial plan [Item taken in private to support effective conduct of business]

## Purpose

1. This report invites the Board to review and, subject to any amendments, approve the updated Information Security Management Policy.

## Background

2. This policy is the principal policy for the Information Security Management System (ISMS) and highlights the commitments and responsibilities of Audit Scotland colleagues, contractors and consultants employed by Audit Scotland on how information security must be managed.
3. The policy is the subject an effectiveness review as part of our annual policy review process. Policy updates have been made and were approved by the Knowledge, Information & Technology, Governance, Group (KITGG) on 16 April 2020 and Management Team on 28 April 2020.
4. The policy has previously been approved by KITGG, Management Team and the Audit Scotland Board, reflecting leadership and commitment to the ISO 27001:2013 information security standard.
5. Audit Scotland re-certification to the ISO 27001:2013 standard was achieved in August 2019 for a further 3-year period, subject to six monthly surveillance audits. The most recent of these as successfully completed in March 2020. The audit did not identify any Non-Conformances or Opportunities for Improvement.
6. The review and approval process of the policy demonstrates our continued commitment and compliance with the requirements of the ISO standard.

## Considerations

7. The following changes have been applied to the policy and have been highlighted as tracked changes:
  - minor wording changes / reordering of commitments
  - additional information security breach commitment included, as per the ISMS Scope & Objectives document
  - reference to achieving Cyber Essentials Plus certification removed, based on the Scottish Government presentation at the Public Sector Senior Leaders Cyber Forum (04/03/2020), which clarified that Cyber Essentials Plus was part of the Cyber Resilience Framework Initial baseline tier, which is superseded by the Advanced tier, of which ISO 27001:2013 forms part
  - digital security update provided to both Management Team and the Audit Committee
  - Corporate Governance Manager role description expanded to refer to records management, governance and compliance.
8. In addition, some changes have been made to the diagram in Appendix 1. The diagram has been updated to include the Records Management Policy and refreshed to include a clear visual of what ISMS Corporate documentation sits below the ISMS Framework.

## Recommendations

9. The Board is invited to consider and approve the updates made to the policy.

## Appendix - Information Security Management Policy

Version:	1.6	Status:	For Audit Scotland Board review
Author/Owner:	Digital Services Manager	Approval/Review:	Audit Scotland Board
Approval Date:		Next review by:	

### Introduction

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

### Scope

3. This policy is mandatory for all employees, contractors and consultants employed by Audit Scotland. Failure to comply with this policy and supporting information security policies may result in disciplinary action.

### Commitments

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

**Commented [NP1]:** Recommend this is the top priority above other commitments

**Commented [DR2R1]:** Agreed

- 4.6. identify and implement appropriate controls for information assets proportionate to levels of risk
- 4.7. communicate all appropriate information security policies to all employees, contractors, consultants, clients and other stakeholders
- 4.8. allocate individual accountability for compliance with all appropriate information security policies, standards, guidance and procedures
- 4.9. all information security breaches whether actual or suspected, be reported and investigated in line with approved policies.
- 4.10. continue to improve information security management
- 4.11. develop, implement and maintain an Information Security Management System (ISMS) in accordance with best practice contained within ISO/IEC 27001:2013 and ISO/IEC 27002:2013.

**Commented [NP3]:** Included in ISMS Scope & Objectives, therefore needs to be referenced here also.

## Responsibilities

5. Audit Scotland's Board through its Audit Committee has oversight of risks, including information risks.
6. Audit Scotland's Accountable Officer, with support from the Management Team, has overall responsibility for ensuring this policy is effectively implemented and delivered.
7. Audit Scotland's Senior Information Risk Officer (SIRO) is the Chief Operating Officer, who is responsible for the overall management of the organisation's information risks.
8. A monthly cyber security update is scheduled with the SIRO and a member of the Digital Services Management Team (DSMT) that ensures the latest updates are provided to Senior Management demonstrating leadership and commitment to ISO 27001:2013.
9. In addition to the SIRO monthly update, a 6-monthly update on Digital Security is provided to Management Team and then the Audit Committee.
10. Audit Scotland's Management Team will implement and manage appropriate controls to enable conformance to information security policies within their own areas of responsibility and will ensure individual accountability for control performance.
11. The Knowledge, Information and Technology Governance Group (KITGG) will support the Accountable Officer, Senior Information Risk Officer and Management Team by assessing and mitigating information security risks through standing agenda items Digital Security and Corporate Risk Register review, both providing assurance.

**Commented [DR4]:** Have removed "and the ongoing support for Audit Scotland to achieve Cyber Essentials Plus certification" as Scottish Government via the Public Sector Senior Leaders Cyber Forum on 04/03/2020 have clarified that ISO 27001 is in the Advanced tier of the Cyber Resilience Framework, whereas Cyber Essentials Plus is in the lower Initial Baseline tier. DSMT have agreed that pursuing a lower tier accreditation would not be an appropriate use of resources or budget.

12. The KITGG will maintain this policy and associated information security policies ensuring they are communicated, reviewed and updated in response to changes in risks faced by Audit Scotland, legislation, and internal operational working practices.
13. The KITGG will ensure all information security policies and our performance in meeting their requirements is monitored and reviewed on an annual basis.
14. The DSMT will maintain information security standards, guidance and procedures ensuring they are communicated, reviewed and updated in response to changes in risks faced by Audit Scotland, legislation, and internal operational working practices.
15. The Corporate Governance Manager (CGM) is the designated Data Protection Officer for Audit Scotland, responsible for updating Audit Scotland's Data Protection Policy. In addition, the CGM is the organisation's Records Manager managing data subject access requests and providing governance and compliance advice to staff.
16. Information Asset Owners must understand what information is held by their business area, and approve the permissions required to access it.
17. All Managers will be responsible for implementing and communicating appropriate information security policies, guidance and procedures.
18. All employees, contractors and consultants employed by Audit Scotland are required to play an active role in the protection of Audit Scotland's assets and treat information security appropriately, in order that this purpose can be achieved.

**Commented [NP5]:** Expanded this, as the role is wider than Records Management Policy.

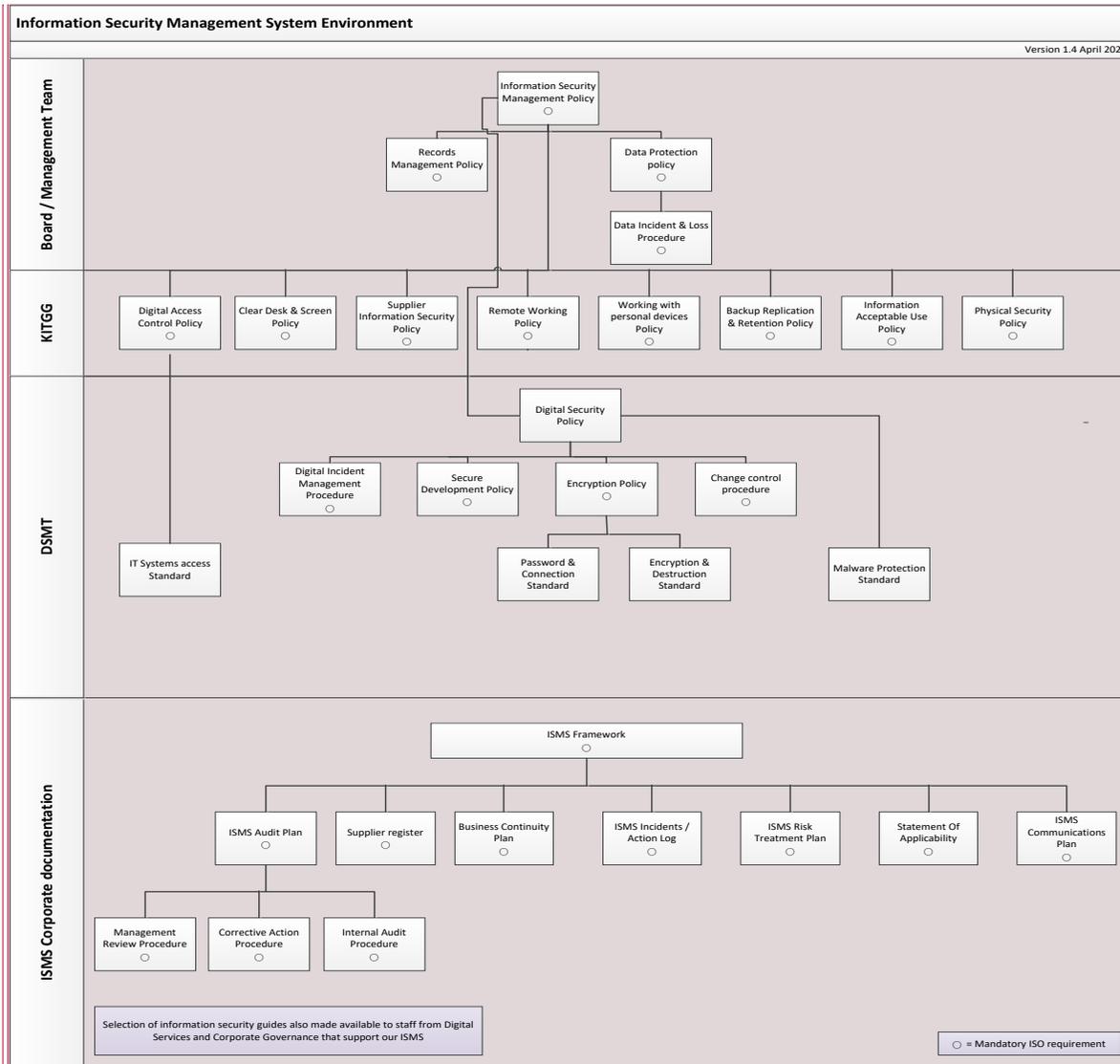
## Change Log

Version	Date	Author	Description
1.0	22/03/16	IT Manager	Information Security Management policy drafted for KITGG approval.
1.1	05/04/16	IT Manager	Some minor changes suggested by the KITGG and policy approved. For submission to the Audit Scotland Management Team for approval.
1.2	15/04/16	IT Manager	Minor changes to reflect Audit Management Team comments. Approved by Management Team and for submission to the Audit Scotland Board.
1.2	05/03/16	IT Manager	Approved by the Audit Scotland Board.
1.3	04/04/17	Digital Services Manager	Minor changes made by KITGG and approved. For submission to Management Team and the Board for final approval.
1.3	05/05/17	Digital Services Manager	Approved by Management Team and Audit Scotland Board.

1.4	12/04/18	Digital Services Manager	Annual effectiveness review and updates made and approved by KITGG. Approved by Management Team on 17/04/18 and Approved by the Board 02/05/18.
1.5	01/05/19	Digital Services Manager	Annual effectiveness review by KITGG, Management Team and the Board. Minor changes made to policy. Appendix 1 diagram updated to reflect current ISMS documentation.
1.6	02/04/20	Digital Services Manager	Annual refresh, additional objective included, CGM role updated and removed reference to Cyber Essentials Plus as superseded by ISO 27001.

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

**Commented [NP6]:** - Refreshed version on the next page



**Commented [NP7]:** Diagram refreshed to include Records Management Policy and a separate section for ISMS Corporate documentation for a clearer visual of what sits under the Framework.

## Purpose

1. This report invites the Board to consider and approve the updated Ethical Standard Policy on Application.

## Background

2. The Ethical Standard is published by the Financial Reporting Council (FRC) and is consistent with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants.
3. The Ethical Standard Policy on Application takes the FRC's Ethical Standard requirements and identifies the relevant Audit Scotland policies and how those requirements are applied.

## Update to Ethical Standard

4. The revisions to the Ethical Standard are intended to strengthen auditor independence and prevent conflicts of interest. The 'objective, reasonable and informed third party' test has been strengthened so that it should not be judged from the perspective of another practitioner.
5. The authority of the Ethics Partner function has been enhanced to ensure an organisation wide focus on ethical matters and the public interest.
6. The following prohibitions have been introduced:
  - loan staff assignments, i.e. secondments to an audited entity. An exception applies for staff of a UK national audit agency provided the role in either the national audit agency or the secondment has no management responsibilities and is for a period of no longer than three months (six months for trainees).
  - charging of fees on a contingent basis.
  - carrying out internal audit services and recruitment services for audited entities.
7. The list of non-audit services that auditors of Public Interest Entities (PIEs) are prohibited from undertaking has been replaced with a shortened list of permitted services.

## Updates to Ethical Policy on Application

8. In most cases, the changes to the Ethical Standard have not required changes to our own policies. For example, our Ethics Partner role already complied with the enhanced requirements and we do not charge contingent fees. This report sets out the minor changes to the policy on application as a result of the changes to the revised Ethical Standard which include:
  - updating of paragraph references for the new Standard
  - amendment of paragraphs 30 to 33 to reflect changes concerning loan staff assignments (secondments). Our staff can only be seconded to an organisation within the remit of the Auditor General or Accounts Commission if the duration is less than three months (six months for trainees) and does not involve staff with management responsibilities in Audit Scotland or the role they are seconded to. The safeguard for staff seconded to PABV from other organisations has also been strengthened to restrict them from undertaking work focussed on their other employer.
9. The increased restrictions on secondments will limit the development opportunities available to our staff. We will seek to maximise development opportunities through secondments which are not prohibited by the Standard, such as to other audit agencies, firms or the third sector.
10. All other relevant policies were reviewed for compliance with the Standard and updated as required.

## Recommendations

11. The Board is invited to approve the updated policy.

# Ethical Standard Policy on Application



 **AUDIT SCOTLAND**

Draft - Prepared for Audit Scotland  
May 2020

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# Ethical Standard Policy on Application

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## Foreword

Our vision is to be a world-class audit organisation that improves the use of public money. In the current challenging and complex environment for the public sector in Scotland, independent, objective and authoritative public audit helps to support a strong and effective system of financial accountability and transparency.

In order to deliver world-class audit and ensure continued trust in our work, we need to apply the highest professional and ethical standards. The Scottish public sector audit model provides a high level of safeguards to our independence that go above and beyond the requirements of the Financial Reporting Council's Ethical Standard. These include:

- independent appointment of auditors to ensure the auditor is free from any potential or perceived conflict of interest or other pressure that might compromise their judgement
- rotation of auditors every five to seven years to minimise any 'familiarity' threats to independence
- arrangements to control non-audit services through approval by Audit Quality and Appointments to minimise 'self-review' and other threats to independence

We have reviewed the FRC's Ethical Standard and chosen to enforce the highest level of protection to our audit work because we believe that the independence of the auditor is critical to high quality audit. However, high quality audit cannot be assured through rules and standards alone. It relies on each and every one of us embedding ethical principles in our day to day work.

Fiona Kordiak  
Director of Audit Services and Ethics Partner

## Introduction

**1.** The Financial Reporting Council's Ethical Standard (December 2019 edition) (the Standard) specifies the ethical requirements of auditors in both the private and the public sectors. Audit Scotland adopts the principles in the standard in common with all the national audit agencies in the UK. Compliance with the Standard also represents compliance with the parts of the International Ethics Standards Board for Accountants' (IESBA) Code of Ethics for Accountants covering audit work that has been adopted by most UK accountancy institutes (see appendix 1) and therefore applicable to a significant number of Audit Scotland staff.

**2. The principles of the Standard apply to all our work. Where sections of the standard need specific interpretation to our work (highlighted in blue boxes throughout this application guidance), this guide explains how they are applied and, where a policy is explicitly required, sets out that policy.**

However, you should be aware that this guide covers only those requirements where application guidance is necessary; it does not cover all the requirements of the Standard – the full standard is available on Sharepoint.

**3.** All staff are required to adhere to Audit Scotland's Staff Code of Conduct. You should read this application guide of the Standard in conjunction with the Code of Conduct and Audit Scotland's Counter Fraud Policy.

**4.** If you are in any doubt about the application of the Standard in any particular circumstances, you should discuss it with your line manager or your director (described as the Compliance partner) and, if there is still uncertainty, with Audit Scotland's Ethics Partner (Fiona Kordiak).

**5.** This section has been updated to reflect the revised Ethical Standard issued by the FRC, which comes into effect on 15 March 2020. Should any part of the Standard be revised in the future by the FRC prior to this application guide being updated, the revisions will come into force in line with their effective date.

**6.** The Standard is in two parts:

- **Part A** - sets out the overarching principles of integrity, objectivity and independence, together with supporting ethical provisions. These establish a framework of ethical outcomes to be met.
- **Part B** - sets out specific requirements relevant to certain circumstances that may arise which are designed to assist in meeting the ethical outcomes. The following application guidance principally addresses some of the specific requirements.

# Section 1 - General requirements and guidance

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## Introduction

**7.** Section one of the Standard sets out the general requirements for auditors to act with integrity, objectivity and independence and establishes some of the framework for compliance with other requirements.

**8.** Most of our audits are carried out under appointment by either the Auditor General or the Accounts Commission. This provides a strong safeguard against the threats to integrity, objectivity and independence that all auditors must consider before accepting an audit appointment. The independent appointment process means that Audit Scotland auditors cannot refuse an appointment. Where the auditor identifies a threat that would result in an equivalent private sector audit being refused, the auditor must consider whether the threats are of such significance that they should be reported formally to the audited body, the Auditor General for Scotland or the Accounts Commission, or to the Scottish Parliament. Any such report should be discussed in advance with the Ethics Partner and for local government with the Secretary to the Accounts Commission.

**9.** The following guidance below each requirement from the Standard explains how they are applied in Audit Scotland.

## Compliance

### Paragraph 1.1

The firm shall establish appropriate policies and procedures to ensure that its owners or shareholders, as well as the members of the administrative, management and supervisory bodies of the firm, or of an affiliate firm, do not intervene in the carrying-out of an engagement in any way which jeopardises the integrity, objectivity or independence of the firm or covered persons.

### Paragraph 1.2

The firm shall establish appropriate and effective organisational and administrative arrangements:

(a) that are designed to prevent, identify, eliminate or manage and disclose any threats to its independence;

(b) for dealing with and recording incidents which have, or may have, serious consequences for the integrity of its audit or other public interest assurance activities.

**10.** All Audit Scotland staff must:

- comply with the staff Code of conduct and any further guidance in this application guide
- notify any potential conflicts of interest to their business group's Compliance Partner (i.e. Director of Audit Services, Director of Performance Audit and Best Value, or Chief Operating Officer) when working on audits and
- make an annual declaration of compliance with the staff Code through the Fit and Proper self-assessment form.

## Ethics Partner

### Paragraph 1.12

The senior management of the firm shall designate a partner in the firm possessing the necessary seniority, relevant experience, authority and leadership levels (the 'Ethics Partner') as having responsibility for ensuring the firm's compliance with supporting ethical provision A1.1.

**11.** Audit Scotland's Ethics Partner is Fiona Kordiak, Director of Audit Services.

## Threats to Integrity, Objectivity and Independence

### Paragraph 1.28

When complying with supporting ethical provisions A2.1–A2.3, conditions and relationship that could give rise to threats to the integrity, objectivity or independence of the firm or covered persons are communicated to the appropriate person, having regard to the nature of the threats and to the part of the firm and the identity of any person involved.

**12.** Audit Scotland's policy is that all threats to integrity, objectivity or perceived loss of independence must be reported to your Compliance Partner or to the Ethics Partner. This requirement applies to all types of audit work.

### Paragraph A2.1

The firm and each covered person, shall ensure (in the case of a covered person, insofar as they are able to do so) that the independence of the firm and each covered person is not compromised with respect to each entity relevant to the engagement. This includes ensuring that the firm and each covered person is not involved in management decision-taking.

**13.** Audit Scotland's staff must not take decisions that are the responsibility of management of the audited body or its affiliates. An affiliate is a member of the same group as the audited body. The audited body may have control or significant influence over the affiliate and a financial interest in the affiliate or may be controlled by the affiliate.

**Paragraph 1.33**

The firm shall establish policies and procedures to require the engagement partner to identify and assess the significance of threats to the integrity and objectivity of the firm and covered persons on an individual and cumulative basis, including any threats that may compromise independence:

- (a) when considering whether to accept or retain an engagement;
- (b) when planning the engagement;
- (c) when forming an opinion and signing the report on the financial statements or other subject matter information;
- (d) when considering whether to accept or continue to provide nonaudit / additional services to an engagement by the firm; and
- (e) when potential threats are reported to them.

**14.** The Auditor General or Accounts Commission appoint auditors based on advice from Audit Quality and Appointments (AQA) so the risk to independence in relation to accepting audits is managed by the Auditor General or Accounts Commission's appointments. AQA applies the Ethical Standard when providing advice on audit appointments to the Auditor General and Accounts Commission. Auditors are therefore not required to identify threats to objectivity, including perceived loss of independence when considering whether to accept or retain an audit appointment.

**15.** For agreement audits such as EAFA, audit staff should document any threats to integrity, independence and objectivity and should consult AQA before initial acceptance of the engagement.

**16.** Audit Scotland normally only provides audit and audit-related services to audited bodies. Occasionally auditors may be asked to undertake non-audit services for their audited bodies; auditors must obtain prior approval before undertaking this work as described in paragraph 73.

## Identification and Assessment of Safeguards

**Paragraph 1.43**

The firm shall establish policies and procedures which set out the circumstances in which those additional requirements listed in paragraph 1.42 that apply to public interest entities or to listed entities or both are applied to other engagements

**17.** Audit Scotland exceeds the requirements of the standard by treating all public sector audits as listed entities for the purposes of paragraph 1.42. There are two public interest entities which are currently audited by private firms.

## Overall Conclusion

**Paragraph 1.50**

At the end of the engagement process, when forming an opinion to be reported, or otherwise reporting on the work undertaken, but before issuing the report, the engagement partner shall reach an overall conclusion that any threats to integrity or objectivity including any that could impair independence on an individual and cumulative basis have been properly addressed in accordance with this Ethical Standard. If the engagement partner cannot make such a conclusion, they shall not report, and the firm shall resign or otherwise withdraw from the engagement unless not permitted to do so by law or regulation.

**18.** If the engagement lead on an audit appointment or equivalent for a performance audit is unable to conclude that any threats to integrity, objectivity and independence have been addressed in accordance with the Ethical Standard, the engagement lead must refer the threat to the relevant Compliance Partner and/or to the Ethics Partner for resolution.

## Communication with those Charged with Governance

### Paragraph 1.54

The engagement partner shall ensure that those charged with governance of each entity relevant to an engagement ... are appropriately informed on a timely basis of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons.

**19.** Auditors must communicate the information required by paragraph 1.54 to those charged with governance through the annual audit plan, the annual audit report and other relevant communications.

### Paragraph 1.58

In the case of public interest entities, and listed entities, relevant to an engagement, the engagement partner shall ensure that the audit committee is provided with:

- (a) a written disclosure of relationships (including the provision of non-audit / additional services) that may bear on the integrity, objectivity or independence of the firm or covered persons. This shall have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties, and the threats to integrity or objectivity, including those that could compromise independence, that these create. It shall also detail any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable the integrity, objectivity and independence of the firm and each covered person to be assessed;
- (b) details of non-audit / additional services provided and the fees charged in relation thereto;
- (c) written confirmation that the firm and each covered person is independent;
- (d) details of any inconsistencies between this Ethical Standard and the policy of the entity for the provision of non-audit / additional services by the firm and any breach or apparent breach of that policy;
- (e) details of any breaches of the requirements in this Ethical Standard, and of any safeguards applied and actions taken by the firm to address any threats to independence; and
- (f) an opportunity to discuss independence issues.

**20.** The requirements of paragraph 1.58 apply to all audits. Auditors must communicate the information required by paragraph 1.58 to those charged with governance through the annual audit plan, the annual audit report and other relevant communications.

# Section 2 – Financial, Business, Employment and Personal Relationships

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## Introduction

**21.** Section 2 of the Standard sets out the requirements concerning relationships with audited bodies including transfers of staff in either direction.

**22.** Audit Scotland's Ethics Partner is Fiona Kordiak, Director of Audit Services. All staff are required to complete an annual Fit and Proper self-assessment to declare any potential threats from relationships with audited bodies so that appropriate safeguards can be put in place.

**23.** The following guidance below each requirement from the Standard explains how they are applied in Audit Scotland. The requirements relate to loans, employment, secondments and staff joining or leaving Audit Scotland from or to a public-sector body in Scotland.

**24.** Where a member of staff of Audit Scotland has left to join an audited body in a senior position, particularly as chief executive or finance director or equivalent, there remains a threat to the conduct of future audits especially where the member of staff leaving had management responsibility for members of the audit team. These threats and how Audit Scotland manages them are detailed below.

## Financial Considerations

### Paragraph 2.4

The firm, each of the firm's key audit partners and each of the firm's directly involved covered persons for any engagement, and any persons closely associated with the firm or any such partner or covered person, shall not:

- (a) hold any material financial interest (other than an indirect financial interest held through a diversified collective investment scheme) in, or engage in any transaction in, any financial instrument of any entity relevant to an engagement in the area of activity in which they (or in the case of a person closely associated, the area of activity in which the firm, key audit partner or covered person with whom they are closely associated) are involved relating to engagements; or
- (b) hold any financial interest, other than an indirect financial interest held through a diversified collective investment scheme, in:
  - (i) any entity relevant to an engagement for which they are a directly involved covered person; or
  - (ii) an entity which is an affiliate of such an entity; or
  - (iii) any other entity otherwise related to such an entity in circumstances where holding such a financial interest may cause, or may be generally perceived as causing, a conflict of interest; or, if a person holds such a financial interest, they shall be excluded from any role by virtue of which they would be a covered person for any such engagement.

**25.** No Audit Scotland staff may hold a financial interest in a financial instrument issued by any body where the auditor is appointed by the Auditor General or Accounts Commission, except for membership of a Pension Fund. Financial instruments are assets that can be traded, such as shares and bonds.

## Loans and Guarantees

### Paragraph 2.23

Covered persons and persons closely associated with them shall not accept a loan from, or have their borrowings guaranteed by, the entity relevant to the engagement, or the affiliates of such an entity, unless:

- (a) the entity is a bank or similar deposit taking institution;
- (b) the loan or guarantee is made in the ordinary course of business on normal business terms; and
- (c) the loan or guarantee is not material to the entity

Where a covered person or persons closely associated with them have accepted a loan from, or have their borrowings guaranteed by an entity relevant to an engagement, or the affiliates of such an entity, the covered person shall withdraw from the engagement where the loan falls into significant arrears.

**26.** If a member of staff or their household is in arrears with an audited body, for example council tax, especially if an arrestment of earnings order has been made, they must notify their line manager immediately and take no further part in any audit work involving that body until the outstanding debt has been repaid.

## Management Role with an Entity Relevant to an Engagement

### Paragraph 2.35

A firm shall not admit to the partnership, or employ a person in a position as a covered person, if that person is also employed by any entity relevant to the engagement, or by any affiliate of such an entity.

**27.** Audit Scotland will not employ, as financial audit staff, individuals who are also employed by an audited body.

**28.** Staff may be employed to work on other audit work, such as national performance audits, provided that the work is not focused on their other employer. For example, working on a Best Value assurance report of the employee's council would not be acceptable.

**29.** Any incidental work relating to the other employer (e.g. preparing a report from a national survey which includes the other employer) must be subject to specific review by a more senior member of staff.

## Loan Staff Assignments

### Paragraph 2.36

A firm shall not enter into an agreement with an entity relevant to an engagement, or with the affiliates of such an entity, to provide any partner or employee to work for a temporary period as if that individual were an employee of any such entity or its affiliates. An exception applies: in respect of staff employed by a UK national audit agency, in a role with no management responsibilities; when the role to be filled in an entity relevant to an engagement has no line management or management responsibilities; for a period of no longer than three months<sup>26</sup>; and where the service to be provided would not be prohibited by this Ethical Standard.

<sup>26</sup> Or no longer than six months for a staff member from a national audit agency employed on a training contract

**30.** The requirements at paragraph 2.36 cover staff on secondment to audited bodies. Secondments must be considered and planned in accordance with the [Secondment policy](#). Audit Scotland staff can only be seconded to an AGS or Accounts Commission audit where:

- the secondment period is 3 months or less (or 6 months or less in the case of trainees)
- the member of staff being seconded has no management responsibilities in Audit Scotland and
- the role seconded to involves no management or line management responsibilities

**31.** Although the Ethical Standard does not cover the secondment of staff from audited bodies to Audit Scotland, similar principles apply. Seconded to audit teams should not work on the audit of the body from which they are seconded. The Ethics Partner must authorise any departure from this policy, due to for example the previous role of the secondee.

**32.** Seconded to the Performance Audit and Best Value Group (PABV) may work on other audit work, such as national performance audits, provided that the work is not focussed on their other employer. For example, working on a Best Value assurance report of the employee's council would not be acceptable.

**33.** Any incidental work relating to the other employer (e.g. preparing a report from a national survey which includes the other employer) must be subject to specific review by a more senior member of staff.

### Partners and Engagement Team Members Joining an Entity Relevant to an Engagement

#### Paragraph 2.39

Firms shall establish policies and procedures that require in relation to any entity relevant to an engagement in which an individual is, or was at any time over the previous year (two years in the case of a partner), directly involved:

(a) for all such engagements:

(i) senior members of the engagement team to notify the firm of any situation involving their potential employment with any such entity; and

(ii) other members of the engagement team to notify the firm of any situation involving their probable employment with any such entity; and

(iii) all partners in the firm to notify the firm of any situation involving their potential employment with any such entity; and

(iv) any other employee of the firm and any other natural person whose services are placed at the disposal of or under the control of the firm, where such employee or other person is personally approved as a statutory auditor under relevant legislation, to notify the firm of any situation involving their probable employment with any such entity;

(b) anyone who has given such notice to be removed from the engagement team; and

(c) a review of the engagement work performed by any resigning or former engagement team member in the current and, where appropriate, the most recent engagement.

**34.** 'Partner' is defined as Audit Director and above (Band 4).

**35.** Staff in Band 4 must notify the Ethics Partner of any application for any job in a public body subject to audit by auditors appointed by the Auditor General or Accounts Commission. The Ethics Partner must notify the Auditor General of any application for any such jobs.

**36.** Staff in Bands 2 and 3 must notify the Compliance Partner of any application to a relevant audited body.

**37.** 'Any entity relevant to an engagement' is defined as any body which they have audited in the previous 12 months.

**38.** All other members of staff not covered by the above must notify the Compliance Partner of any job offer from a relevant audited body (as defined above).

**39.** Staff carrying out audit work at the specific body applied to must stop working on the audit immediately pending the outcome of the application/offer and, if successful, must not return to that work. Staff who notify potential employment but are not in the event selected must obtain their line manager's approval to return to the audit; such approval will be provided whenever and wherever it is reasonable and practicable to do so.

**40.** All work carried out on any audit activity at the audited body by the resigning member of staff must be reviewed by a more senior member of staff.

**Paragraph 2.45**

Where a partner, or another person (including a person whose services are at the disposal or under the control of the firm) who is personally approved as a statutory auditor as described in paragraph 2.40, is appointed as a director, a member of the audit committee or body performing equivalent functions, or to a key management position with an entity relevant to an engagement, having previously been a covered person:

(a) in the case of a partner, at any time during the two years prior to such appointment; or

(b) in the case of another person, at any time during the year prior to such appointment; the firm shall resign from the engagement where possible under applicable law or regulation and not accept another engagement for the entity until:

(i) in the case of a partner, a two-year period; or

(ii) in the case of another person, a one-year period;

commencing when the person ceased to be a covered person, or until the person ceases employment with the entity, whichever is the sooner.

**41.** Audit Quality and Appointments will normally recommend the Auditor General or Accounts Commission transfer that audit appointment to a firm where an individual in Band 4 leaves Audit Scotland to join an audited body as a director or in a key management position and they carried out the role of audit engagement partner or other relevant partner role at that body.

**42.** The Ethics Partner must put in place stringent safeguards if transfer to a firm is not possible (such as in the case of the Scottish Government or other audits where the Auditor General signs the independent auditor's report) to ensure that there is no loss of independence, e.g. independent review by another director or a firm. The Ethics partner must report any such arrangements to the Auditor General or Accounts Commission, as appropriate.

**43.** Audit Quality and Appointments will take the circumstances of the member of staff leaving into account if the next audit appointments are made within two years of the person leaving and will normally not recommend reappointment of Audit Scotland within a two-year period.

**44.** Audit Quality and Appointments will review the composition of the audit team where any other former member of the audit team of an audited body leaves Audit Scotland and within two years joins the audited body as a director or in a key management position.

## Family Members Employed by an Entity Relevant to an Engagement

### Paragraph 2.51

Where a covered person, or any partner in the firm, becomes aware that a person closely associated with them, or a close family member, is employed by an entity relevant to the engagement and that person is in a position to exercise influence on the accounting records or financial statements or other subject matter information or subject matter of such an engagement, that covered person or that partner shall either:

- (a) in the case of a person closely associated with them being employed by the entity in such a position, be excluded from any role in which they would be a covered person; or
- (b) in the case of a close family member of a covered person or any close family member of any partner in the firm, report the matter to the engagement partner to take appropriate action. If it is a close family member of the engagement partner or if the engagement partner is in doubt as to the action to be taken, the engagement partner shall resolve the matter in consultation with the Ethics Partner/Function.

**45.** From time to time, it will be the case that some Audit Scotland staff have family members who are employed by public bodies. Given the wide range of circumstances that may exist, each case is dealt with on its merits. However, the general policy is that the closer to the subject matter of audit work that the family member is employed (e.g. in a finance role), the more likely it is that the member of staff should not take part in the audit. Similarly, the more senior the member of staff and/or their family member, the greater the perceived threat to independence and objectivity.

**46.** It is unlikely that family members employed in roles such as teachers, doctors or nurses would normally create any threat to independence of staff members.

**47.** Staff engaged on audit work that covers several audited bodies need to be particularly vigilant in this area. Members of staff should discuss any such relationships with their line manager and if appropriate the Compliance and/or Ethics Partner.

## Governance Role with an Entity Relevant to an Engagement

### Paragraph 2.53

The firm or a partner or member of staff of the firm shall not accept appointment or perform a role:

- (a) as an officer or member of the board of directors of an entity relevant to an engagement of the firm;
- (b) as a member of any subcommittee of that board; or
- (c) in such a position in an entity which holds directly or indirectly more than 20% of the voting rights in the entity relevant to an engagement, or in an entity in which the entity relevant to such an engagement holds directly or indirectly more than 20% of the voting rights.

**48.** Audit Scotland encourages members of staff to take part in voluntary and community bodies, many of which receive substantial public funding. In taking on such roles staff need to be aware of the potential for their position to be perceived as creating a conflict of interest which may impair their integrity, independence or objectivity. Staff must discuss any such roles with their line manager and Compliance Partner and each case will be considered on its merits. The following examples may help:

- Example 1 – an engagement lead on the audit of a council is offered the role of treasurer or chair to a Citizens' Advice Bureau which is 40% funded by that council and the funding is discretionary. This could create a perception of a conflict between the roles and must be avoided.
- Example 2 – membership of a school board – while the school will be funded by the council, it is required to provide education as a statutory service. The likely influence of a member of a school board on the level of funding is negligible and the potential for conflict of interest is minimal.

**49.** Staff should not seek board membership of bodies where the Auditor General or the Accounts Commission appoint the auditor as this can limit flexibility in making audit appointments or in the deployment of staff. Any offers for such positions must be agreed with the Ethics Partner who may refer cases to the Management Team.

## Employment with the Firm

### Paragraph 2.57

Where a former director or a former employee of an entity relevant to an engagement, who was in a position to exert significant influence over the preparation of the financial statements or other subject matter information or subject matter of such an engagement, joins the firm, that individual shall be excluded from any role in which they would be a covered person relevant to that entity or its affiliates for a period of two years following the date of leaving the entity.

**50.** Paragraph 2.57 applies in full for financial audits. If the individual joining Audit Scotland has ASG management responsibility they must not be involved in the audit of their former employer, and the audit must be subject to an independent review for the first two years irrespective of the size of the body.

**51.** An individual joining PABV from a management position must not have any involvement in audit work or studies which focus on their former employer for a period of two years after joining. Any incidental work must be subject to specific review by another member of staff.

## Family and Other Personal Relationships

### Paragraph 2.62

The firm shall establish policies and procedures that require:

(a) partners and professional staff members to report to the firm any persons closely associated with them, any close family, and other personal relationships, where any of those persons is involved with an entity relevant to an engagement of the firm, where the partner or professional staff member considers that the relationship might create a threat to integrity or objectivity or may compromise independence;

(b) the relevant engagement partners to be notified promptly of any information reported by partners and other professional staff members as required by paragraph (a).

**52.** All staff must complete an annual Fit and Proper self-assessment form. This requires staff to immediately report circumstances that would negatively impinge on their independence to their line manager and where necessary to their Compliance Partner.

# Section 3 – Long Association with Engagements and with Entities Relevant to Engagements

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## Introduction

**53.** Section 3 of the Standard sets out the requirements concerning long association with an audit.

**54.** Audit Scotland adopts robust limits on how long any auditor spends on an audit, not just senior staff as required by the Ethical Standard. Audit Services Group records all staff's involvement in audits on an audit rotation database. In addition, the five year tender includes rotation of about half of Audit Services' audits to the private firms.

## General Requirements

### Paragraph 3.2

The firm shall establish policies and procedures to monitor the length of time and extent of involvement that partners and staff in senior positions, including those from other disciplines, serve as members of the engagement team(s) for recurring engagements for particular entities.

**55.** Business groups monitor the length of time that staff work on audits with a view to key senior staff not normally staying on the same audit for more than five years in the same role.

**56.** Business groups maintain a rotation database for this purpose and staff must confirm they have updated this every year via the Fit and Proper form.

## Key Audit Partners and Engagement Partners

### Paragraph 3.11

In the case of listed entities, save where the circumstances contemplated in paragraph 3.14 and 3.15 apply, the firm shall establish policies and procedures to ensure in respect of a recurring engagement that:

- (a) no one shall act as engagement partner for more than five years, this includes time spent participating in an engagement, where an audit engagement has moved between firms; and
- (b) anyone who has acted as the engagement partner for a particular entity for a period of five years, shall not subsequently participate in the engagement until a further period of five years has elapsed; and
- (c) on completing their rotation, the engagement partner, shall not continue to have significant or frequent interaction with senior management or with those charged with governance of the entity they have previously audited until the cooling off period has elapsed.

### Paragraph 3.14

3.14 When an entity becomes a public interest entity or another listed entity, the length of time the engagement partner has served the entity in that capacity is taken into account in calculating the period before the engagement partner is rotated off the engagement team. However, where the engagement partner has already served for four or more years, that individual may continue to serve as the engagement partner for not more than two years after the entity becomes such a public interest entity or another listed entity.

### Paragraph 3.15

3.15 In circumstances where the audit committee (or equivalent) of an entity that is a public interest entity or another listed entity decide that a degree of flexibility over the timing of rotation is necessary to safeguard the quality of the engagement and the firm agrees, the engagement partner may continue in this position for an additional period of up to two years, so that no longer than seven years in total is spent in the position of engagement partner. An audit committee and the firm may consider that such flexibility safeguards the quality of the engagement, for example, where:

- substantial change has recently been made or will soon be made to the nature or structure of the entity's business; or
- there are unexpected changes in the senior management of the entity; or
- the firm, having taken all reasonable succession planning steps, has no other partners with the necessary knowledge and experience who are able to take over as engagement partner.

In these circumstances alternative safeguards are applied to reduce any threats to a level where it is not probable that an objective, reasonable and informed third party would conclude the integrity, objectivity or independence of the firm or covered persons are compromised. Such safeguards may include ensuring that an expanded review of the engagement work is undertaken by the engagement quality control reviewer or a partner with relevant expertise, who is not involved in the engagement.

**57.** Paragraph 3.11 applies to all bodies. Although Audit Scotland applies the five year rotation as standard, where circumstances require a degree of flexibility over the timing of rotation to safeguard the quality of the audits, this may be extended for an additional period of up to two years, so that no longer than seven years in total is spent as engagement partner.

### **Engagement Quality Control Reviewers and Other Key Partners Involved in the Engagement**

#### **Paragraph 3.20**

In the case of public interest entities and other listed entities, the firm shall establish policies and procedures to ensure in respect of a recurring engagement that:

- (a) no one shall act as the engagement quality control reviewer or a key partner involved in the engagement for a period longer than seven years;
- (b) where an engagement quality control reviewer or a key partner involved in the engagement becomes the engagement partner, the combined period of service in these positions shall not exceed seven years; and
- (c) anyone who has acted:
  - (i) as an engagement quality control reviewer for a particular entity for a period of seven years, whether continuously or in aggregate, shall not participate in the engagement until a further period of five years has elapsed;
  - (ii) as a key partner involved in the engagement for a particular entity for a period of seven years, whether continuously or in aggregate, shall not participate in the engagement until a further period of two years has elapsed;
  - (iii) in a combination of roles as:
    - the engagement quality control reviewer,
    - a key partner involved in the engagement, or
    - the engagement partner for a particular entity for a period of seven years, whether continuously or in aggregate, shall not participate in the engagement until a further period of five years has elapsed.

The policies and procedures established by the firm shall include, in the application of the requirements in sub paragraphs (a) to (c)(iii) any time spent participating in an engagement where an audit engagement has moved between firms.

**58.** Paragraph 3.20 applies to all bodies.

**59.** The engagement lead for the Scottish Government audit, where the audit opinion is signed by the Auditor General, is considered to be the Audit Director, who is subject to the time limits.

**60.** The 'Key partner involved in the engagement' is an audit partner involved at group level and responsible for key decisions or judgements on significant matters such as on significant subsidiaries or divisions of the audited body or on significant risk factors that relate to that body.

### **Other Partners and Staff Involved in the Engagement in Senior Positions**

#### **Paragraph 3.21**

In the case of public interest entities and other listed entities, the engagement partner shall review the safeguards put in place to address the threats to the objectivity and independence of the person or persons conducting the engagement arising where partners and staff have been involved in the engagement, or been responsible for the relationship between the audit firm and the entity, including periods prior to the firm's appointment as auditor, in senior positions for a continuous period longer than seven years and shall discuss those situations with the Ethics Function / Partner.

**61.** All staff will normally be limited to five years on any one audit, except in exceptional circumstances where the Ethics Partner may allow the limit to be extended by up to two years.

# Section 4 – Fees, remuneration and evaluation policies, gifts and hospitality, litigation

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## Introduction

**62.** Section 4 of the Standard sets out the requirements concerning fees and remuneration. Fees for Audit Scotland's audits are set by AQA independently of auditors. This provides a strong control against threats to independence in combination with the independent appointment.

## Fees

### Paragraph 4.1

The engagement partner shall be satisfied and able to demonstrate that the engagement has assigned to it sufficient partners and staff with appropriate time and skill to perform the engagement in accordance with all applicable Engagement and Ethical Standards, irrespective of the engagement fee to be charged.

**63.** Audit engagement leads must assign sufficient staff with appropriate skills for the work to be carried out in accordance with applicable standards including the Audit Guide, the Auditing Best Value Manual or Audit Management Framework as appropriate, irrespective of the audit fee, budget or planned timetable.

### Paragraph 4.5

Fees for the provision of engagements, non-audit and audit-related services to an entity relevant to an engagement, its UK parent undertaking and any worldwide controlled undertaking shall not be contingent fees.

**64.** Audit Scotland does not undertake any work on a contingent fee basis.

**Paragraph 4.24**

Where it is expected that the total fees for services receivable from a non-listed entity that is not a public interest entity and its subsidiaries relevant to a recurring engagement by the firm will regularly exceed 15% of the annual fee income of the firm or, where profits are not shared on a firm-wide basis, of the part of the firm by reference to which the engagement partner's profit share is calculated, the firm shall not act as the provider of the engagement for that entity and shall either resign or not stand for reappointment, as appropriate

**Paragraph 4.27**

Where it is expected that the total fees for services receivable from a public interest entity or other listed entity and its subsidiaries relevant to a recurring engagement by the firm will regularly exceed 5% of the annual fee income of the firm or the part of the firm by reference to which the engagement partner's profit share is calculated, but will not regularly exceed 10%, the engagement partner shall disclose that expectation to the Ethics Partner/Function and to those charged with governance of the entity, including the audit committee where there is one, and discusses with both the threat to integrity, objectivity and independence of the firm and covered persons and whether safeguards need to be applied to eliminate or reduce the threat to a level where independence would not be compromised.

**Paragraph 4.51**

Where it is expected that the total fees for services receivable from a non-listed entity, that is not a public interest entity, and its subsidiaries relevant to a recurring engagement will regularly exceed 10% of the annual fee income of the firm or the part of the firm by reference to which the engagement partner's profit share is calculated, but will not regularly exceed 15%, the engagement partner shall disclose that expectation to the Ethics Partner/Function and to those charged with governance of the entity and the firm shall arrange an external independent quality control review of the engagement to be undertaken, before the firm's report is finalised.

**65.** The fees receivable from the audit of the Scottish Government and EAFA are above 5% of the total annual audit fee. The Scottish Government group of audits is the only audit which normally has fees exceeding 10% of ASG's total fee income. However, each subsidiary is audited independently and the engagement lead for the consolidated account has no direct influence, in that role, over the audit judgements for the subsidiaries.

**66.** The threats to objectivity envisaged by the standard are fully mitigated because these audit appointments are made independently of the body by the Auditor General and consequently this requirement does not apply.

## Remuneration and Evaluation Policies

### Paragraph 4.36

The firm shall establish policies and procedures to ensure that each of the following is true in relation to each entity relevant to an engagement by the firm:

- (a) a primary criterion for evaluating the performance or promotion of members of the engagement team is how they have contributed to the quality of engagements undertaken;
- (b) the objectives of the members of the engagement team do not include selling non-audit / additional services to the entity;
- (c) the criteria for evaluating the performance or promotion of members of the engagement team do not include success in selling non-audit / additional services to the entity; and
- (d) no specific element of the remuneration of a member of the engagement team is based on their success in selling non-audit / additional services to the entity.

**67.** The selling of non-audit services is not a feature of either performance appraisal or staff remuneration.

## Gifts and Hospitality

### Paragraph 4.40

A firm, its partners and any covered person, and persons closely associated with them, shall not offer or accept pecuniary and nonpecuniary gifts or favours, including hospitality, from an entity relevant to the engagement, or any other entity related to that entity, unless an objective, reasonable and informed third party would consider the value thereof as trivial or inconsequential.

### Paragraph 4.43

The firm shall establish policies on the nature and value of gifts, favours and hospitality that may be accepted from and offered to other entities, which are likely to subsequently become an entity relevant to an engagement and issue guidance to assist partners and staff to comply with such policies, including on events that would trigger the application of the policy.

**68.** Audit Scotland's gift and hospitality policy is consistent with the Ethical Standard requirements and is set out in the Code of Conduct. All staff must confirm compliance with this via the annual Fit and Proper self-assessment form.

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# Section 5 – Non-audit / Additional services provided to audited entities

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## Introduction

**69.** Section 5 of the Standard sets out the requirements for providing services to audited bodies in addition to the core audit work. Audit Scotland's focus is on financial audit and there is no incentive to conduct non-audit services. Any such work will be carried out only if requested and can be accepted only with approval from AQA.

**70.** Paragraphs 5.1 to 5.34 of section 5 set out the general approach to providing non-audit services to audited bodies, and additional services to bodies which they may not audit but for which they undertake other public interest assurance services. This approach is applicable irrespective of the nature of the non-audit/additional services in a given case.

**71.** Paragraphs 5.39 to 5.127 of section 5 illustrate the application of the general approach to a number of common non-audit/additional services.

**72.** The following guidance below each requirement from the standard explains how they are applied in Audit Scotland.

## General Approach to Non-audit / Additional Services

### Paragraph 5.10

The firm shall require others within the firm, when considering whether to provide a non-audit / additional service to an entity relevant to an engagement, or to any of its affiliates, to communicate details of the proposed non-audit / additional service to the engagement partner who considers the implications for the integrity, objectivity and independence of the firm and covered persons before provision of the non-audit / additional service is accepted.

**73.** Any non-audit services carried out by ASG must be arranged through the audit engagement lead. All proposed non-audit services must first be approved by Audit Scotland's Ethics Partner then by AQA. Requests should be made in writing to AQA and should be accompanied by express assurance from the auditor that the Engagement Partner has reviewed the proposed work and that they do not consider that it represents a conflict with the firm's role as external auditor, in particular a self-review threat.

**74.** AQA will make its decision on any request having regard to the APB Ethical Standard currently in force and may consult Audit Scotland's Ethics Partner. For example, in accordance with paragraph 5.44 of the Ethical Standard (), approval would not be given for external auditors to seek appointment as internal auditors.

**75.** While it is unlikely that work carried out at an audited body by PABV or work carried out by any other member of staff would constitute work which might threaten an auditor's independence or objectivity, all staff need to be aware of the possibility in relation to any improvement work or advice and must discuss any proposed work with the audit engagement lead.

**76.** Audit Scotland staff do not provide additional services to bodies that are not audited.

### Evaluation of specific non-audit services and additional services

**77.** Paragraphs 5.43 to 5.127 give the following examples of non-audit services where extreme care is required: Internal audit services; Information technology services; Valuation services; Actuarial valuation services; Tax services; Litigation support services; Legal services; Recruitment and remuneration services; Corporate finance services; Transaction related services; Restructuring services; and Accounting Services. The requirements of paragraph 5.43 to 5.127 apply to all audits.

### Audit related services

#### Paragraph 5.36

Audit related services are:

- Reporting required by law or regulation to be provided by an auditor;
- Reviews of interim financial information;
- Reporting on regulatory returns;
- Reporting to a regulator on client assets;
- Reporting on government grants;
- Reporting on internal financial controls when required by law or regulation;
- Extended audit work that is authorised by those charged with governance performed on financial information and/or financial controls where this work is integrated with the audit work and is performed on the same principal terms and conditions.

**78.** Audit related services are those non-audit services that are largely carried out by the engagement team and where the work involved is closely related to the financial audit.

**79.** Each type of audit related services may be undertaken. The type of audit related service most likely to be undertaken is work on the certification of grant claims. Auditors must seek approval from the Ethics Partner then AQA as described in paragraph 73.

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# Appendix 1

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## Application of IESBA Ethics Code to UK Accountancy Bodies

**80.** The International Ethics Standards Board for Accountants (IESBA) develops ethical standards and guidance for use by professional accountants. The IESBA Code issued in July 2009 (updated in 2018) serves as the foundation for codes of ethics developed and enforced by members of the International Federation of Accountants (IFAC). No member body of IFAC or firm issuing reports in accordance with International Auditing and Assurance Standards is allowed to apply less stringent standards than those stated in the IESBA Code.

**81.** Each professional institute in the UK adopted the IESBA Code as the basis for their own ethics codes from 1 January 2011. Members are required to comply with their institute's code.

**82.** Information on each institute's ethics code is as follows

- CIPFA has a [Standard of Professional Practice on Ethics](#) (SOPP on Ethics).
- ICAS has a [Code of Ethics](#).
- The ACCA Rulebook contains their [Code of ethics and conduct](#) at section 3
- ICAEW has a [Code of Ethics](#).

## Audit Committee Meeting

Wednesday 13 November 2019, 10.00

Audit Scotland offices, Nelson Mandela Place, Glasgow

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### Present:

H Logan (Chair)  
A Alexander  
G Sharp

### In attendance:

C Robertson, BDO  
J So, Alexander Sloan  
C Gardner, Auditor General for Scotland and Accountable Officer  
I Leitch, Chair of the Audit Scotland Board  
D McGiffen, Chief Operating Officer  
G Fitzpatrick, Corporate Governance Manager  
M Walker, Associate Director, Corporate Performance and Risk  
O Smith, Senior Manager, Audit Quality and Appointments  
J Gilchrist, Manager, Audit Quality and Appointments  
S Dennis, Corporate Finance Manager  
P Weetman, Emeritus Professor of Accounting, University of Edinburgh

### 1. Private meeting

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

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

### 2. Welcome and apologies

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

The Chair welcomed Pauline Weetman as an observer to the meeting and explained her interest in the business of the Audit Committee in relation to her own role within the Accounts Commission.

Steven Cunningham had previously submitted his apologies. There were no other apologies.

### 3. Declarations of interest

There were no declarations of interest.

### 4. Minutes of meeting 4 September 2019

The Audit Committee members reviewed the minutes of the meeting of 4 September 2019, which had previously been circulated.

The Chair invited feedback on the minutes of the previous meeting.

Alan Alexander requested an update on the pension and lease issues. Stuart Dennis, Corporate Finance Manager, indicated that discussions were underway with the external

auditors Alexander Sloan and that a further update would be provided on this matter at the next meeting of the Board.

The Audit Committee members approved the minutes of the last meeting.

## 5. Review of actions tracker

The Audit Committee members reviewed the action tracker, which had previously been circulated.

On action 85AC, the Chair and members noted the circulation of the redesigned Self-Assessment questionnaire for the Audit Committee. Graeme Sharp indicated that he felt there was an opportunity to further streamline the questionnaire.

Alan Alexander advised that it would be helpful to set an end date for consultation. Gayle Fitzpatrick indicated that a communication advising of the process for revision and deadline would be issued to the Audit Committee within the week. The questionnaire will be issued for completion by committee members in April 2020.

The Audit Committee members noted the progress on the actions in the tracker.

**Action 92AC: G Fitzpatrick to issue deadline for finalising the 2020 Self-Assessment Questionnaire for Audit Committee by end of November 2019.**

## 6. Audit Committee terms of reference (TOR)

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

The Chair requested that tracking on page three be removed and invited comments from the members.

A discussion took place on the TOR in relation to the presence of observers at the Audit Committee. Martin Walker advised that the Standing Orders and Audit Committee's TOR did not preclude observers attending meetings. He also advised that the Standing Orders and the TOR could be reviewed and updated to provide more clarity in this area.

As there were no other comments on the TOR, the Chair advised that any variation on the wording with regard to observers in governance documents could be discussed at the Board meeting on 27 November 2019.

## 7. Internal audit report: Audit Quality Framework

*Owen Smith, Senior Manager, Audit Quality and Appointments (AQA) and John Gilchrist, Manager, Audit Quality and Appointments (AQA), joined the meeting.*

BDO submitted the internal audit report: Audit Quality Framework, a copy of which had been previously circulated.

Claire Robertson, BDO, indicated substantial assurance had been provided on both the design and operational effectiveness of the Audit Quality Framework (AQF). Claire advised that BDO had found no areas where meaningful improvements could be made, that she was comfortable in the assessment that had been made and there were no recommendations arising from the audit.

The Chair invited any questions or comments on the report. The members considered that the audit provided good assurance. Ian Leitch noted the positive nature of the report and praised the work of the AQA team in progressing the Audit Quality Framework.

The Audit Committee noted the internal audit report on the Audit Quality Framework.

## 8. Internal audit report: Progress report 2019/20

Claire Robertson, BDO, submitted the Internal audit report: Progress report 2019/20, a copy of which had been previously circulated.

Claire Robertson indicated that the internal audit plan was on track with three further audits (Recruitment and Selection, Learning and Development and Communications and Engagement) scheduled to be concluded during 2019/20.

The Chair invited questions and comments from members. Alan Alexander indicated the summary was welcome and that it would also be helpful to have the estimated audit completion date in future progress reports.

The Audit Committee noted the internal audit progress report to the period 2019/2020 to date.

**Action 93AC: Claire Robertson to include target audit completion dates in future progress reports. (4 March 2020)**

## 9. Internal audit recommendations progress report

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

The Chair asked what constituted a 'skill' and whether it included training courses. Diane McGiffen advised that the skills database could cover formal qualifications, previous experience, skills, training and learning and development objectives. Diane also advised that discussion is taking place across business groups to ensure the data captured can helpfully inform resource planning.

Graeme Sharp queried whether skills covered in the database would be related to job functions or be more competency based. Diane McGiffen indicated that the database would aim to capture a balance in terms of formal qualifications and other relevant experience such as data analytics skills.

The Chair asked whether the statistics in the database will be used by the AQA team. Diane McGiffen indicated that this would be the case.

The Chair asked how the new Time Recording System (TRS) was being applied to MKI system users. Martin Walker advised that the new TRS was currently live for CentralTime TR users in Corporate Services and Performance Audit and Best Value and that a period of parallel running was under way. Martin also advised that the new TRS will be available for MKI users in the Audit Services Group in December 2019.

The Chair then asked whether there would be any risks to fees being lost because the TRS system was going live for MKI users without a period of parallel running. Martin Walker advised this is not a risk as the functionality of the new TRS was being tested by the parallel running in Corporate Services and Performance Audit and Best Value and that the system used to log time did not impact on the actual time logged.

In relation to the Cost of Audit point three, the Chair asked what was going to be delivered that was not currently available and whether the cost of the resources required to undertake the additional analysis could exceed the benefit of the analysis. Martin Walker advised that the comparative and time series analysis carried out by the Performance, Risk Management Group would complement the work done in business groups, that it would add value and that the additional resources required to carry out the analysis were not significant.

Ian Leitch asked whether issues with audit costs were used to alert the Audit Quality and Appointments (AQA) team as to any quality issues with an audit. John Gilchrist advised audit costs going over budget did not necessarily reflect an audit quality issue but might highlight where the quality of information submitted to the audit team required additional audit work to be carried out. Owen Smith referred to the flexible fee setting system which allows for additional fees to be levied where required and that additional fees beyond a set range require approval by AQA.

Diane McGiffen advised that cost monitoring was one part of the comprehensive audit quality framework and the importance of distinguishing between audit costs and audit fees.

The Audit Committee noted the progress on the implementation of audit recommendations.

## 10. Draft interim audit quality report

Owen Smith, Senior Manager, Audit Quality and Appointments, introduced the draft interim audit quality report, a copy of which had been previously circulated.

The Chair invited questions and comments.

Alan Alexander noted that paragraph five in the covering paper could be expanded to include more detail on the actual process underpinning the various reviews to provide additional assurance on the conclusions reached in the report.

Alan Alexander also asked about the reason for the drop in the audit outputs delivered to schedule and noted the difference between local government and NHS audits. John Gilchrist indicated that this was as a result of the quality of material submitted to the audit team for the Renfrewshire and Glasgow Clyde Valley IJB audits, and that the Renfrewshire Council audit opinion had been modified due the quality of accounting records.

Alan Alexander asked for further information in relation to the reporting on Best Value and value for money in the West Dunbartonshire Council and Midlothian IJB annual audit plans. John Gilchrist advised that guidance on the reporting is principles-based to allow innovation and some flexibility in how auditors report on best value. John Gilchrist also advised that an explanation of best value and value for money is included within the report.

Alan Alexander asked how the findings from the last report from the Financial Reporting Council would inform the planned audit tender process. John Gilchrist advised that all such reports help inform the process and advised that an assessment of audit quality was the main criteria to be used in the evaluation process.

Caroline Gardner provided further assurance that the weighting of costs and quality will be considered by the Steering Group and come back to Audit Committee before any tender and procurement process begins.

Alan Alexander asked about the requirement to include a section on adding value in the annual audit plans and the Chair noted that this issue had been raised previously in relation to one of the audit firms. John Gilchrist advised that this more likely reflected an element of modesty on the part of the audit team rather than an absence of value being added and advised that the issue had been discussed with the firm in question.

The Chair asked about the monitoring of actions taken by councils following the publication of Best Value Assurance Reports (BVARs). John Gilchrist advised this will be covered as part of the AQA review of annual audit reports. Owen Smith added that BVARs are also covered in the independent ICAS reviews which form part of the Audit Quality Framework.

The Chair noted that the wording of item 39 on the action tracker may need updated to reflect the earlier discussion.

The Audit Committee noted the assurance on audit quality.

**Action 94AC: Owen Smith and John Gilchrist to revise the draft interim quality report to reflect points raised by the Audit Committee. (November 2019)**

## 11. Audit quality framework review

Owen Smith, Senior Manager, Audit Quality and Appointments (AQA), introduced the Audit Quality Framework (AQF) review report, copies of which had been previously circulated.

The Chair invited questions and comments.

Alan Alexander advised that he had a number of areas he wanted to explore with regards to the stakeholder engagement report included at appendix B and sought further information on the independence of the report and on benchmarking. Owen Smith advised the survey was carried out by external consultants so that all respondents could offer clear feedback on the audit and the audit teams. Owen also advised that the comprehensive nature of the Code of Audit Practice in Scotland, and the different types of audit work carried out across the UK, meant that the opportunities for benchmarking results with other audit agencies were limited.

The Chair sought clarification on the survey sample and why audited bodies which had been surveyed by the Firms had been excluded. John Gilchrist advised that this was intended to avoid duplication and reduce the risk of 'consultation fatigue' in some audited bodies. The Chair noted this but was concerned that there would still be merit in all bodies being asked the same questions by an independent researcher.

Alan Alexander sought clarification on whether the 35% response rate was sufficient to draw robust conclusions. John Gilchrist advised that the external consultants provided assurance that the response rate was good for this type of survey. John also advised that planned refinements to the survey should help to increase the response rate in future surveys.

Alan Alexander suggested that the balance between qualitative and quantitative data be considered in future survey reports and AQA discuss this with the external consultants.

Alan Alexander asked how the survey report would be used. Owen Smith advised that the survey formed one part of the comprehensive quality framework and helps to inform the overall assessment of quality. John Gilchrist advised that the survey report also informs the regular conversations with the Firms and audit teams on quality.

Ian Leitch asked about the impact of changes to the members of audit teams. John Gilchrist advised that arrangements are in place to minimise the impact on the audited body and the audit team.

Discussion then turned to the proposed revisions to the KPIs. The Chair invited the external and internal auditors' views on the key performance indicators (KPIs). Both advised that the proposed KPIs were relevant and that the planned refinements made good sense.

Caroline Gardner advised that she is comfortable with the proposed changes to the AQF and of the continued interest of the other UK audit agencies in the framework. In response to a question by the Chair, Caroline Gardner advised that the KPIs in the AQF cover more areas than those used in the other audit agencies and that there may be opportunities to develop a core suite of indicators to support more benchmarking. Diane McGiffen advised that a Public Audit technical forum meeting was taking place in December 2019 and it is anticipated that further development work on KPIs and benchmarking would take place during 2020.

Ian Leitch took the opportunity to thank the AQA team for its good work.

Having considered the proposed changes to quality reporting and KPIs, the independent feedback reporting, the Audit Committee agreed to recommend approval of the AQF to the Board.

*Owen Smith and John Gilchrist left the meeting.*

## **12. Q2 Financial performance report**

Stuart Dennis, Corporate Finance Manager, introduced the Q2 Financial performance report, copies of which had been previously circulated.

The Chair invited questions and comments.

Graeme Sharp sought additional information on the variances on fee income and Stuart Dennis advised these were principally areas where additional audit work had been required.

Alan Alexander noted the additional expenditure on agency staff and asked whether this highlighted any underlying resourcing issues. Diane McGiffen advised that the issue had been identified early, had been reported previously to the Audit Committee and the Board and reflected some of the resourcing pressures being experienced during 2019/20.

Diane McGiffen, then provided an update on a broad range of work under way on resourcing, including a review being led by Audit Directors. She advised that the review had identified that there was a number of contributing factors and, as a result, a broad range of actions being taken forward to address the pressures, including the timing of ICAS exams and the availability of professional trainees at key points in the audit cycle.

The Chair asked whether there was a risk to audit quality associated with the short-term use of agency staff. Diane McGiffen advised that all agency staff had to be appropriately qualified, a focussed induction process was in place, that a number of agency staff had prior experience of Audit Scotland and that robust arrangements were in place to ensure quality.

The Audit Committee noted the Q2 Financial report.

### **13. Review of standing orders 2019**

Martin Walker, Associate Director, Corporate Performance and Risk, introduced the review of standing orders report, copies of which had been previously circulated.

The members were invited to consider the proposed amendments to the standing orders and subject to any further amendments, recommend them to the Board for approval at its meeting on 27 November 2019.

The Chair invited questions and comments. None were raised.

The members noted the report and approved presentation of the updated standing orders to Board on 27 November 2019.

### **14. Review of risk register**

Martin Walker, Associate Director, Corporate Performance and Risk, introduced the review of risk register report, a copy of which had been previously circulated.

The Chair invited questions and comments.

Graeme Sharp asked whether any changes to the number of Section 102 reports, at a time where there have been increasing levels of Section 22 reports, would result in resourcing pressures and the ability to deliver on the audit programme. Diane McGiffen advised that any resources required to deliver statutory work would be prioritised as required and noted that the General Election publication moratorium would mean that a number of statutory reports would be laid in a short timeframe before the statutory deadline. Caroline Gardner noted that emerging audit issues are monitored closely, potential statutory reports are identified early in the process and resources can be prioritised accordingly.

The Chair asked if there were any single points of failure the organisation is aware of in respect of capacity. Diane McGiffen advised that when capacity pressures arise audit resources can be assigned from other parts of the organisation.

The Chair asked whether these controls were considered when assigning the risk assessment scores. Martin Walker confirmed that this was the case.

The Audit Committee noted the review of the risk register.

### **15. Risk interrogation: Value for money**

Martin Walker, Associate Director, Corporate Performance and Risk introduced the Risk interrogation: Value of Money report, copies of which had been previously circulated.

The Chair indicated that the report was very comprehensive and invited questions and comments from the members.

Alan Alexander asked for an explanation on the footnote on page eight in reference to the difference between Audit Scotland and the National Audit Office. Caroline Gardner advised that the size of some major UK government departments, most notably the Department for Social Security and the Ministry of Defence impact on the calculation.

Alan Alexander sought clarification on the statistics relating to downloads. Martin Walker advised that this included people accessing the full range of audit outputs including reports, checklists and interactive data tools.

Graeme Sharp sought clarification on the comparability of costs and fees charged by the firms. Stuart Dennis explained how the figures are calculated and the treatment of pooled costs.

Diane McGiffen advised the data contained in the risk interrogation along with related analysis of audit costs would inform the audit procurement and tendering process.

The Chair highlighted the comprehensive nature of the risk interrogation.

The Audit Committee noted the Risk interrogation on value for money.

## **16. Risk interrogations schedule 2020**

Martin Walker, Associate Director, Corporate Performance and Risk, introduced the Risk interrogations schedule 2020 report, copies of which had been previously circulated

The Audit Committee was invited to consider and agree the proposed interrogation schedule for 2020.

The Chair queried the timing of the first proposed risk interrogation on Audit Scotland's preparedness for changes to Board membership and the appointment of a new Auditor General for Scotland. Diane McGiffen agreed that early dialogue would be welcome on this matter and Martin Walker advised he will email all concerned and seek views in the next couple of weeks.

The members noted the report and approved the schedule in principle, subject to further discussion before March 2020.

**Action 95AC: Martin Walker to formally email Audit Committee to seek views on the risk interrogation schedule for 2020. (December 2019)**

## **17. Business continuity planning update 2019**

Gayle Fitzpatrick, Corporate Governance Manager, introduced the Business continuity planning (BCP) update 2019 report, a copy of which had been previously circulated.

The Audit Committee was invited to note the detailed business continuity planning which has been taking place during 2019, and given the General Election and European Withdrawal negotiations are live matters consider the proposal that the review of the BCP be rescheduled to early 2020.

The members noted the report, and agreed that the formal review of the BCP be rescheduled to early 2020 and presented to the meeting of the committee on 4 March 2020.

## **18. Data incidents/loss report**

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

Gayle Fitzpatrick advised that there had been no data incidents in quarter two.

The Chair asked whether the organisation undertook annual testing of staff on their understanding of the General Data Protection Regulations (GDPR). Gayle Fitzpatrick advised that there are number of arrangements in place to ensure staff are kept apprised of GDPR and our statutory obligations around this, including newsletters, videos, mandatory online training for new starts, the 'your business at risk' survey and regular updates to staff via Yammer, but that there was no annual testing in place.

The Chair requested that an offline discussion take place on this matter.

The Audit Committee noted data incidents/loss report.

**Action 96AC: The Chair will discuss annual testing of GDPR with the Chief Operating Officer prior to next Audit Committee meeting in March 2020. (February 2019)**

## **19. External auditor's independence, objectivity and value for money**

Gayle Fitzpatrick, Corporate Governance Manager, introduced a report on External auditor's independence, objectivity and value for money, a copy of which had been previously circulated.

The Chair invited comments and questions. There were none. The Chair asked Jillian So, Alexander Sloan, whether she had any comments or issues regarding the statement and was told she had none.

The Audit Committee noted the report.

## **20. Any other business**

There was no other business.

## **21. Review of meeting**

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

The Audit Committee member expressed themselves satisfied with the papers, focus and pace of the meeting.

## **22. Date of next meeting: 4 March 2019**

The next meeting will be held at 10.00am on 4 March 2019, Nelson Mandela Place, Glasgow.

## Audit Committee Meeting

Wednesday 4 March 2020, 10.00am

Audit Scotland offices, 102 West Port, Edinburgh

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### Present:

H Logan (Chair)  
A Alexander

### In attendance:

C Robertson, BDO  
S Cunningham, Alexander Sloan  
J So, Alexander Sloan  
G Fitzpatrick, Corporate Governance Manager  
S Dennis, Corporate Finance Manager  
M Walker, Associate Director, Corporate Performance and Risk  
D McGurk, Service Delivery Manager  
C Gardner, Auditor General for Scotland and Accountable Officer  
I Leitch, Chair of the Audit Scotland Board  
D McGiffen, Chief Operating Officer  
D Blattman, Human Resources and Organisational Development Manager  
S Burgess, Assistant Human Resources Manager  
T Bray, Senior Business Partner, Organisational Development  
G Smail, Audit Director

### Apologies:

G Sharp  
S Ebbett, Communications Manager

#### 1. Private meeting

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

#### 2. Welcome and apologies

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

Graham Sharp, Chair of the Accounts Commission had previously submitted his apologies for the meeting and had met with the Chair to share his thoughts prior to the meeting. The meeting was quorate according to the Terms of Reference.

There were no other apologies.

#### 3. Declarations of interest

There were no declarations of interest.

#### 4. Minutes of meeting 13 November 2020

The Audit Committee members reviewed the minutes of the meeting of 13 November 2020, which had previously been circulated.

The Chair invited feedback on the minutes of the previous meeting.

There was a discussion about the Code of Audit Practice and whether this was on track. Alan Alexander advised that the new code was currently out for consultation and that the result would be brought to the Audit Committee meeting scheduled for 6 May.

The Audit Committee members approved the minutes of the meeting.

## 5. Review of actions tracker

The Audit Committee members reviewed the action tracker, which had previously been circulated.

The Chair queried the wording of the description of 96AC and asked that all items be included with the same wording as in the relevant minutes. In respect of the comments section for this item Diane McGiffen, Chief Operating Officer indicated this would be revised to reflect the original discussion and correspondence with the Chair.

The Chair enquired about the progress on the self-assessment questionnaire for Audit Committee members. Gayle Fitzpatrick, Corporate Governance Manager advised that the revised questionnaire would be circulated on 27 March 2020 as scheduled.

The Audit Committee members noted the progress on the actions in the tracker.

**Action 97AC: Wording of action 96AC to be revised in the action tracker by the next Audit Committee on 6 May 2020.**

## 6. Audit Committee terms of reference (TOR)

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

The Audit Committee reported they were content with the current version of the Terms of Reference.

## 7. Internal audit reports

*David Blattman, Human Resources and Organisation (HR & OD) Development Manager, Susan Burgess, Assistant Human Resources Manager, Tracey Bray, Senior Business Partner (Organisational Development) and Gordon Smal, Audit Director joined the meeting.*

Clare Robertson, BDO submitted the internal audit reports on Staff Recruitment and Selection, Learning and Development and Communication and Engagement, copies of which had been previously circulated.

### Staff recruitment and Selection

Claire summarised the report advising that reasonable assurance was provided on design and operational effectiveness, and that she would be happy to take questions.

The Chair had previously circulated questions to David Blattman, HR & OD Manger, which David addressed at the meeting.

The Chair asked about the cost and rationale for advertising in various online forums and print media. David advised that an extensive range of advertising was undertaken to widen the coverage of potential candidates, including those potentially not actively looking for a new post.

Alan Alexander asked how Audit Scotland benchmarks the cost of recruitment. David advised that recruitment costs are benchmarked against the Chartered Institute for Professional Development (CIPD) data, while noting the data is not directly comparable due to differences in roles and structures.

Alan also asked whether the current approach to recruitment and selection was appointing the right people. David assured the Audit Committee that this was an area where the organisation was

successful and outlined the three and six months follow up meetings with new starts to seek their views. He also advised that low turnover rates indicate good levels of retention.

The Chair asked how variations in the processes around interview question forms and wash up sessions were determined and how procedures on this had been tightened following the audit. David advised that any variation in the processes is agreed in consultation between the business group, the HR & OD Manager and the Assistant HR Manager. The procedure now states that forms must be returned within 14 days of the wash-up meeting and, if they are not, this will be escalated by means of a senior member of the HR & OD staff speaking with Audit Directors or Management Team members, as appropriate.

The Chair asked about the number of staff trained in recruitment, the regularity of their use, and the frequency of refresher training. David advised that 71 colleagues have been trained and that recruitment within some business groups is routine meaning that many colleagues are regularly involved in recruitment. He also advised there is no evidence to highlight the need for more frequent refresher training.

The Chair asked about the intensity and efficiency of the induction process and the effectiveness of the absorption of the training. David advised that induction involves a broad range of activity including a suite of online modules covering data protection, workstation assessment, and diversity alongside on the job and professional training. He confirmed HR & OD have tightened up the monitoring of the completion and recording of induction training, including escalation where required.

The Chair asked what the HR & OD team wanted to get from the new Cascade HR system. David advised that the team were ambitious for their intended use of Cascade, including the automation of some tasks which are currently labour intensive. The HR & OD team are considering where additional modules of the system may be deployed.

Ian Leitch enquired whether the organisation used psychometric testing as part of the recruitment and selection process. David advised that generally this is not the case for junior positions, but it can be used for more senior positions and that a menu of assessment tools is available to inform the selection process.

The Audit Committee noted the internal audit report.

## Learning and Development

Claire summarised the report indicating that reasonable assurance was provided on design and operational effectiveness and advised she would be happy to take questions.

The Chair asked whether Continuing professional development (CPD) was evidenced or noted. David advised CPD will be evidenced via the Cascade system.

The Chair asked Gordon Smail, Audit Director, how CPD issues arise in the discussions at the Audit Quality Committee. Gordon advised that there had been good discussions about the need to protect time for CPD, and that this formed part of the wider discussions about resourcing.

Alan asked whether the use of the term mandatory is used consistently and understood across the organisation. Gordon advised that there are different levels of mandatory training across teams based on the needs of particular audits.

The Chair asked how the organisation ensures and assesses absorption of technical training and the reason for not testing individuals. Gordon assured the Audit Committee that the organisation monitors this closely through the audit quality regime and reports to the Audit Quality Committee. He advised that there is a close correlation between the training that is offered, the needs of an audit and reflecting any areas of concern identified through hot and cold reviews. Gordon also advised that the intention is to get a better balance between hot and cold reviews, where hot reviews provide more real time feedback on the quality of the audit work and the effectiveness of the training.

The Chair asked whether Cascade was tested prior to its selection to ensure that it would improve the efficiency of the administrative processing around learning and development. David advised that the main focus of the system implementation to date had been on core HR functions and that the team

were considering how the learning management module might improve efficiency and the user experience.

The Chair asked whether testing on the completion of training would provide assurance on the effectiveness of the training. David advised that while some firms do include testing, the view in the HR&OD profession is that this only tests the acquisition of knowledge in the short term and cannot guarantee the application of that knowledge in a practical setting. He also advised that feedback is collected at the time of training being delivered and this is positive.

The Audit Committee noted the internal audit report.

*David Blattman, Human Resources and Organisation (HR & OD) Development Manager, Susan Burgess, Assistant Human Resources Manager, Tracey Bray, Senior Business Partner (Organisational Development) and Gordon Smal, Audit Director, left the meeting.*

## Communication and Engagement Strategy

Claire Robertson summarised the report advising that substantial assurance had been provided on both design and operational effectiveness, that a number of areas of good practice had been identified.

Alan Alexander asked how BDO considered what an appropriate implementation period might be for recommendations. Claire advised that BDO consider each management response in relation to the exposure of risk rather than focus on the timescales and that it is for management, who have the fuller breadth and depth of information at their disposal, to determine an appropriate implementation period.

The Chair had previously submitted questions on the report to Simon Ebbett, Communications Manager prior to the Audit Committee meeting. Simon had provided a management response in relation to the recommendation for a workshop around scenarios to be held with audit staff advising that this would be covered through ongoing engagement in existing forums rather than a stand-alone event.

Heather advised that Graham Sharp had asked whether there was enough resilience within the team given the work pressures and whether there was duplication in reporting. Diane McGiffen assured the Audit Committee that while reports might cover some similar areas, they were tailored to the audience needs. Diane also advised that while the Communications Team used different working patterns it is at full establishment. The Audit Committee noted the internal audit report.

## 8. Internal audit progress report 2019/20

Claire Robertson, BDO, submitted the Internal audit progress report, copies of which had been previously circulated.

Claire advised that good progress had been made with the recommendations BDO had previously made and she was content with the additional information provided on those recommendations partially complete.

The Chair asked for an update on the Time Recording System (TRS). Martin Walker outlined the current position and indicated that the go live date for Audit Services Group (ASG) has been rescheduled from April 2020 to October 2020. Martin explained the rationale for the rescheduling was due to a number of factors, including some system performance issues arising from additional security measures on the underlying platform which was impacting on the user experience. He also advised that the October go live date was to coincide with the start of the next audit year and would avoid the introduction of a new system when the financial audit work was at its peak.

The Chair asked for reassurance that the TRS would be delivered to the new deadline. Caroline Gardner, Auditor General for Scotland and Accountable Officer advised that most projects were delivered to schedule and Diane McGiffen advised that all time is recorded at present albeit in two systems and that the delay did not have a significant impact.

Alan Alexander asked the whether there had been optimism bias within the project timescales. Martin advised that this was not the case and explained that a number of challenges had arisen over the

course of the project, including licensing costs and changes to the security requirements which had required the prioritisation of other digital projects over this one.

The Chair queried whether further security issues were anticipated between now and October that could impact on the project being delivered. Martin advised that the organisation is in a stronger position in terms of system capacity and performance to overcome any potential challenges. He also noted, that digital and cyber security is an ever changing and challenging area, and in this context, security would be prioritised over improvement projects where necessary.

The Audit Committee noted the internal audit progress report to the period 2019/20 to date.

## 9. Internal audit recommendations progress report

Gayle Fitzpatrick, Corporate Governance Manager, introduced the Internal audit recommendations progress report, copies of which had been previously circulated.

The Chair asked Gayle if there was anything further to note given the discussion covered in Item 8 also reflected this report.

Gayle advised she had nothing further to add.

The Audit Committee noted the progress of the audit recommendations.

## 10. Co-operation between internal and external auditors

Claire Robertson, BDO, submitted the Co-operation between internal and external auditors, copies of which had been previously circulated.

The Chair asked for more detail on joint working between BDO and Alexander Sloan in relation to the provision of joint technical updates for Audit Committees and induction and training for new Board and Committee members. Claire advised these matters had been discussed at the last two liaison meetings, including the potential for joint events between the internal and external auditors in respect of technical updates and processes. She advised a further update on progress will be provided at the next Audit Committee to be held on 6 May 2020.

The Audit Committee noted the Co-operation between internal and external auditors.

**Action 98AC: Claire Robertson and Stephen Cunningham to provide an update on the support they will jointly provide to assist in the smooth transitions occurring in the Board and Audit Committee at the next Audit Committee on 6 May 2020.**

## 11. Internal audit plan 2020/21 progress update

Gayle Fitzpatrick, Corporate Governance Manager, introduced the Internal audit plan 2020/21 progress update report, copies of which had been previously circulated.

The Chair invited questions on the report, of which there were none.

The Audit Committee welcomed the report and noted that the Internal Audit Plan for 2020/21 will be presented at the next meeting on 6 May 2020.

## 12. 2019-20 Year-end statutory accounts timetable

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

Stuart Dennis introduced the 2019-20 Year-end statutory accounts timetable, copies of which had been previously circulated.

The Chair invited questions on the report, of which there were none.

It was noted that the Audit Committee are content with the timetable.

The Audit Committee noted the report.

### **13. 2019/20 Accounting policies, key accounting estimates and judgements**

Stuart Dennis, Corporate Finance manager, introduced the 2019/20 Accounting policies, key accounting estimates and judgements report, copies of which had been previously circulated.

The Chair thanked Stuart for the update and invited questions, of which there were none.

The Audit Committee noted the report.

### **14. External auditors plan 2019/20**

Stephen Cunningham, Alexander Sloan introduced the External auditors plan 2019/20, copies of which had been previously circulated.

The Audit Committee noted the report.

### **15. Q3 Financial performance report**

Stuart Dennis, Corporate Finance Manager, introduced the quarter three financial performance report, copies of which had been previously circulated.

The Chair invited questions and comments.

Discussion focused on the underspend at the end of quarter three and the forecast for the final quarter. Stuart highlighted that there were some risks including the provisions for pensions and holiday pay and the need for some contingency for unplanned expenditure.

Stuart provided assurance to the Audit Committee on the monitoring that takes place and provided examples of how this is done. Caroline Gardner highlighted that the budget is very tight this year and as Accountable Officer she must ensure the organisation breaks even and advised of her gratitude for the meticulous work that is going on to achieve this.

Diane McGiffen advised the Audit Committee that the organisation's income is based on work completed and so the risks around any impact arising from the Covid-19 virus were being monitored carefully.

The Audit Committee noted the Q3 Financial report.

### **16. Review of risk register**

Martin Walker, Associate Director, Corporate Performance and Risk introduced the review of Risk register report, copies of which had been previously circulated.

Martin also tabled an addendum in relation to the potential impact of Covid-19 which highlighted the risks around the potential impact of the virus on Audit Scotland's capacity to deliver the audit and on the capacity of bodies to be audited. In addition, Audit Committee were invited to note the increased level of risk around the potential cost implications of the tender for the next round of audit appointments based on the new Code of Audit Practice.

The Chair invited questions and comments.

The Chair enquired whether the failure to deliver year end accounts should be included as part of the risk register. Martin advised that while the theoretical risk exists; this is very unlikely to materialise based on the controls in place and Audit Scotland's track record in this area.

The Audit Committee noted the review of the risk register.

### **17. Risk interrogation: Independence**

Martin Walker, Associate Director, Corporate Performance and Risk introduced the Risk interrogation: Independence, copies of which had been previously circulated.

The Chair invited questions and comments.

Alan Alexander asked whether the Risk interrogation should be called, 'Independence of audit' for clarity and whether this, and other risk interrogations should be in the public domain. The Chair noted that Graham Sharp had made a similar observation, which she shared, that the term 'independence' was being more closely associated now with political leanings and that the term 'objective' might be more usefully deployed. Diane McGiffen advised that there is a publication framework in place and that the publication of internal reports could be discussed at a future meeting of the Board.

Ian Leitch noted that the report provided positive assurance.

The Chair asked about the implications specific to independence and the Audit Scotland model within the Bryden report. Martin advised that a report would be coming to the Audit Committee in May and Board in June.

The Audit Committee noted the report.

**Action 99AC: Board to consider the framework for information in the public domain at the next Board on 24 March 2020.**

## 18. Digital security update

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

David McGurk introduced the Digital security update report, copies of which had been previously circulated.

The Chair invited questions and comments.

The Chair asked about the security issues around the Cascade HR system. David advised that the system was secure and that multi factor authentication was being progressed for additional flexibility while maintaining security.

Alan Alexander welcomed the accessibility of the report noting it was covering technical issues in a less technical way which was useful for the reader. He asked about the extent to which continuous action was required to maintain digital security. David agreed this was the case and advised that the digital environment and digital security threats are changing rapidly.

Caroline Gardner, Auditor General for Scotland and Accountable Officer noted that a Scottish college had recently been hacked and the impact this had caused. Caroline also noted the pressure of the increasing number and complexity of digital threats that exist and thanked the digital team for their vigilance and hard work.

The Audit Committee members noted the contents of the report.

*David McGurk left the meeting.*

## 19. Data incidents/loss report

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

The Chair invited questions, of which there were none.

The Audit Committee noted data incidents/loss report.

## **20. Annual Assurance and statement of control process 2020**

Gayle Fitzpatrick, Corporate Governance Manager, introduced the Annual Assurance and statement of control process 2020 report, a copy of which had been previously circulated.

The Chair invited questions.

The Chair asked if the process was on track and going to plan. Gayle advised that it was in progress with no issues so far.

The Audit Committee noted the Annual Assurance and statement of control process 2020.

## **21. Business continuity arrangements annual review 2020**

Gayle Fitzpatrick, Corporate Governance Manager, introduced the Business continuity arrangements annual review 2020 report, a copy of which had been previously circulated.

Gayle highlighted the main changes in the business continuity arrangements, and noted the substantial contribution of Ian Metcalfe, Corporate Performance Officer.

The Chair invited questions. Discussion focused on the broader focus and improved format. Alan Alexander noted the arrangements were comprehensive and Covid-19 would likely test the arrangements.

The Audit Committee approved the arrangements and noted that it would be subject to minor amendments as necessary.

## **22. Any other business**

There was no other business.

## **23. Review of meeting**

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

The Audit Committee member expressed satisfaction with the papers and the focus and pace of the meeting.

## **24. Date of next meeting: 6 May 2020**

The next meeting will be held at 10.00am on 6 May 2020, 102 West Port, Edinburgh.

## Professional Support: Performance summary for 2019/20 and plan for 2020/21

### Audit Director, Audit Services Group and Performance Audit and Best Value

13 May 2020

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#### Introduction

1. This report updates the Audit Scotland Board on Professional Support, our performance in 2019/20 and our priorities for 2020/21.
2. We will adjust our plans for 2020/21 as the impact of Covid-19 on audit becomes clearer. At this stage:
  - Professional Support is involved in wide-ranging professional discussions on accounting and auditing related issues. We anticipate a significant increase in the volume and complexity of technical enquiries from auditors as the year progresses.
  - Professional Support is dealing with increased demand for technical training as Audit Scotland staff look to balance their time between audit work with other work-related activities. Preparation of high-quality training and effective delivery of training in the current context is challenging.

#### Background

3. Professional Support's overall aim is to support the delivery of high quality financial and performance audits by:
  - Providing support on Audit Scotland's financial audit and performance audit methodologies.
  - Producing technical and other guidance that supplements the Code of Audit Practice (the Code), to all audit providers including the appointed firms.
  - Supporting and contributing to professional leadership (Audit Scotland's wider activities in public audit and accounting).
  - Carrying-out internal audit quality reviews.
  - Providing technical training.
  - Coordinating audit-related counter-fraud activity.
4. Professional Support is not a business group in itself; it is a 'joint-venture' between Audit Services Group (ASG) and Performance Audit and Best Value (PABV). We work closely with Audit Quality and Appointments to produce Code-related guidance.
5. The Professional Support core team involves colleagues from across the organisation. Some are full-time specialists, while others combine the work with audit delivery. The core team consists of eleven staff, which in resource terms translates to 7.7 full-time equivalent staff.
6. The core team is supported by a 'wider network' of colleagues from ASG and PABV. They provide additional resource to our projects as and when their audit commitments allow. This is primarily to support the audit methodologies and to provide the resource we need to carry out internal quality reviews of financial audits (internal quality reviews of performance audits are carried out by the core team).
7. Professional Support's business planning and performance reporting is aligned to Audit Scotland's corporate priorities: Delivering World Class Audit and Being a World Class Organisation. This report summarises what we achieved in 2019/20 and our priorities for 2020/21 under the two corporate headings.

8. Appendix 1 summarises the 2020/21 planned projects, including how they support the delivery of high-quality audits in the individual audit delivery business groups. As indicated earlier, our work to support auditors deal with the audit challenges presented by Covid-19 will affect the priorities and planned timescales as listed.
9. Appendix 2 is our communications and engagement strategy, which is designed to support delivery of the priorities for 2020/21 set out in this plan.

## Delivering World Class Audit

10. Professional Support's contribution to Delivering World Class Audit involves:
  - Technical and other guidance and advice, to all auditors delivering work under the Code.
  - Supporting Audit Scotland's audit methodologies.
  - Quality reviews and supporting internal reviews into complaints about audit quality.
  - Technical training.
11. In 2019/20 we:
  - Coordinated the production of, and published, guidance for all auditors on planning the 2019/20 audits. We also improved the underlying systems and processes for its production and the form and content of the guidance.
  - Produced thirteen technical guidance notes, including model independent audit reports for all sectors. These inform the judgement of all audit providers and promote consistency and reflected feedback from users on presentation and content.
  - Published quarterly technical bulletins, supplemented by 89 briefing notes, to keep auditors and audited bodies up to date with the latest technical developments relevant to the public sector.
  - Implemented new 'help-desk' arrangements for handling technical enquiries and dealt with around 800 requests for advice and other enquiries from auditors.
  - Developed new outputs, including improved distribution of answers to frequently asked questions to support auditors in 'real-time'.
  - Updated ASG's audit programmes and its Audit Guide. This included updates flowing from previous quality reviews.
  - Completed a root and branch review of the PABV Audit Management Framework (AMF), to embed INTOSAI standards (internationally recognised standards for performance audits) and respond to findings from previous quality review.
  - Contributed to eight 'cold' quality reviews. We also introduced a new programme of 'hot' reviews in PABV. These take place during the 'live' audits and help identify any key issues which need to be addressed before the audit is completed.
  - Developed peer review guidance on behalf of the UK and Irish audit agencies, providing a consistent framework for all audit agencies to review each other's performance audit reports.
  - In response to the quality review results, we developed supplementary guidance and delivered training to all ASG staff on risk assessment and on designing audit (assertion) tests.
  - Delivered technical training sessions, including training on professional scepticism, interview skills, financial awareness, and on the AMF for staff involved in performance audits.
  - Ran the annual staff quality survey to obtain data on the extent to which Audit Scotland staff feel supported in delivering high quality audits. The results are included in Audit Scotland's annual Transparency Report.

**12.** Our priorities for 2020/21 include:

- Technical and other guidance and advice, all auditors:
  - Coordination and production of guidance on planning 2020/21 audits, including further refinement of systems and content.
  - Technical guidance notes and technical bulletins to time and quality, reflecting the views of users and other stakeholders, and technical advice on issues arising.
- Supporting Audit Scotland’s audit methodologies
  - ASG Audit Guide, with reference to audit quality monitoring results and developments in public audit more generally. Focus will be on areas where attention is required, including aspects of audit planning and risk assessment, the approaches to controls testing and audit sampling.
  - PABV’s Audit Management Framework, tailoring approach to other outputs i.e. overview reporting, statutory reporting etc. Developing methodology guides for audit teams, refreshed guidance on auditing both outcomes and equalities, and updating a range of other outputs.
- Quality reviews
  - ASG – review arrangements, peer review arrangements, on us and by us, shifting the balance of quality review activity to include ‘hot’ reviews.
  - PABV – further embed the quality review programme covering ‘cold’/‘hot’ and peer reviews.
- Technical training
  - Training and development (ASG): audit approach refresh, informed by the development work outlined above and the results of quality reviews. Also, routine audit updates aligned with the corporate shift towards ‘mandated’ training.
  - Training and development (PABV): training requirements from the AMF review and quality monitoring. Specific focus on documentation and records management etc. Also, routine Issues & Investigation methodology training, and interviewing skills, aligning with shift towards ‘mandated’ training.

## Being a World Class Organisation

**13.** Professional Support’s contribution to Being a World Class Organisation includes our input to the organisation and our external contributions to auditing and accounting more widely:

- Supporting professional leadership, including audit-related anti-fraud activity.
- Identifying and sharing good practice with the public sector in Scotland.
- Developing the core team and capacity for professional support.

**14.** In 2019/20 we:

- Supported Audit Scotland’s Leadership Group in a wide-range of activities relating to public audit and accounting, including engagement with auditing and accounting standard-setters. We refer to this as ‘professional leadership’.
- Responded to seven consultations on technical and professional matters.
- Organised and led ‘roundtable’ debates with auditors on the application of ‘going concern’ audit responsibilities in the public sector and judging materiality in respect of prescribed financial objectives.

- Engaged with other audit agencies as part of the Public Audit Forum (the UK public audit agencies).
  - Issued good practice notes to promote good practice in key areas of financial and performance reporting, including the Management Commentary in local government annual reports.
  - Developed core-team resourcing and project oversight arrangements.
  - Developed the core team through regular team meetings and at our annual development day, which is supported by Audit Scotland's HR&OD team.
  - Achieved further integration of Professional Support activities across the organisation.
- 15.** Professional leadership represents a significant element of our work. This supports Audit Scotland's position and reputation across a wide-range of audit-related interests, stakeholders and influencers. It also involves professional and technical advice for the Auditor General and the Accounts Commission.
- 16.** Our priorities for 2020/21 include:
- Supporting professional leadership
    - Wide-range of activities relating to public audit and accounting, including engagement with auditing and accounting standard-setters.
    - Update of Ethical Standard implications for the business.
  - Identifying and sharing good practice
    - Further good practice notes.
    - Engaging with other audit agencies to share good practice and the potential for joint working in key areas of development and audit quality.
  - Developing the core team and capacity for Professional Support activity
    - Team well-being, Best Companies and our response, to secure sustainable Professional Support service to Audit Scotland and auditors.
    - Resourcing, including longer-term resource planning and wider-network development.
    - Learning and development for the core team, to ensure we make time for our own technical training and personal development.

## Recommendations

- 17.** The Audit Scotland Board is invited to note this Professional Support update, our performance in 2019/20 and our plans for 2020/21.

## Appendix 1

13 May 2020

### 2020/21 priorities

Professional Support contributes to and supports cross-group, one-organisation working. Our 2020/21 priorities are listed here as a summary and as a reference point. Sponsors/leads: GS = Gordon Smail; POB = Paul O'Brien; EB = Elaine Barrowman, NC = Neil Cameron, SP = Sarah Pollock.

<b>Support for public audit (for Audit Scotland and firms)</b>	<b>Sponsor/Lead</b>	<b>Timing</b>
Guidance on planning 2020/21 audits	GS/POB	Jun – Oct 20
Sector specific technical guidance and enquiries from auditors	POB/NC	Jun 20 – Mar 21
Technical bulletins	POB/NC	2020/21
Grant claim and other returns guidance	POB/AC	2020/21
Good practice notes	POB/NC	Nov 20 – Feb 21
National Fraud Initiative support	POB/AC	Apr – June 20
<b>ASG project-specific (for ASGMT)</b>		
Audit programme updates	EB/KC	Apr – May 20
Audit output/report templates	EB/KC	2020/21
Financial audit approach refresh – planning, controls, sampling	EB/Others	2020/21
Audit Guide update/refresh	EB/Others	May – Sept 20
Quality reviews – internal hot and cold reviews, peer review	TBC	Sep 20 – Feb 21
Technical training	POB/NC	Oct 20 – Jan 21
<b>PABV project-specific (for PABV LT)</b>		
Audit Management Framework – overview and statutory reporting	EB/SP	2020/21
Audit Management Framework – further guidance for auditors	EB/SP	2020/21
Quality reviews – internal hot and cold reviews, peer review	EB/SP	2020/21
Technical training – AMF application	EB/SP	2020/21
<b>Professional Support core team</b>		
Resource planning	GS/POB/EB	2020/21
Core team development	GS/POB/EB	2020/21
Communications and engagement	GS/POB/EB	2020/21

## Appendix 2

13 May 2020

### Communications and engagement plan

This appendix summarises activities and are in addition to our ongoing/routine communications and engagements in corporate groups (e.g. Audit Quality Committee, Personal Development and Growth Group, group staff meetings (PABV and ASG super-teams), training etc. GS = Gordon Smal; POB = Paul O'Brien; EB = Elaine Barrowman.

Objectives (per the second column in the table below):

1. To account for how we are applying our resource and what we are achieving.
2. To inform colleagues/stakeholders about our work.
3. To seek input from colleagues and stakeholders about PS, its work and our focus.

We will review and update at core team meetings over 2020/21.

<b>Activity – communications</b>	<b>Objective</b>	<b>Lead</b>	<b>Timing</b>
PS annual report to ASMT, ASGMT, PABVLT	1	GS/POB/EB	Apr 20
PS annual report to AS Board	1,2	GS/POB/EB	May 20
PS annual report to AGS & Commission (PA/FAA cttees)	2	GS/POB/EB	May 20
Transparency report – PS contribution to quality	2	GS	Jun 20
Yammer PS generally	2	GS	2020/21
Yammer ASG approach refresh	2,3	EB	2020/21
Yammer technical output	2,3	POB	2020/21
Knowledge cafes	2,3	POB/EB	Oct 20
Share-point site review and update	2	POB	Oct 20
<b>Activity – engagement</b>			
Meeting with AGS	3	GS/POB/EB	May 20
Meeting with ASGMT and PABV LT (Inc. Directors)	3	GS/POB/EB	Apr 20
ASG Super-teams	2,3	POB/EB	2020/21
PABV group meetings/clusters	2,3	POB/EB	2020/21
Staff focus groups – Senior Managers	2,3	GS/POB/EB	Nov 20
Staff focus groups – Senior Auditors	2,3	POB/EB	Dec 20
Staff focus groups – Trainees	2,3	POB/EB	Jan 21
Meetings with AQA	3	GS/POB/EB	Jul + Feb 20

Monday 1 June 2020 at 11.30am

By video-conference

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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 13 May 2020        | For approval    |
| 7. Governance arrangements - review of Standing Orders | For information |
| 8. Review of action tracker                            | For information |
- 

## Governance

- |  |                 |
|--|-----------------|
| 9. 2019/20 Annual report on international work   | For approval    |
| 10. 2019/20 Annual report on freedom of information and environmental information      | For approval    |
| 11. 2019/20 Annual report on complaints  | For approval    |
| 12. 2019/20 Annual report from the Chair of the Audit Committee to the Board           | For approval    |
| 13. 2019/20 Governance statement on internal control and certificate of assurance      | For approval    |
| 14. 2019/20 Draft audit management letter  | For information |
| 15. 2019/20 Annual report on quality of public audit in Scotland                       | For approval    |
| 16. 2019/20 Audit Scotland annual report and accounts – Year end 30 March 2020         | For approval    |
| 17. Internal interim report on mainstreaming equality                                  | For information |
| 18. Policy on the provision of non-audit services by Audit Scotland's external auditor | For approval    |
- 

## Business planning and performance

- |   |                 |
|---|-----------------|
| 19. Impact of Covid-19 on Audit Scotland finances     | For information |
| 20. 2019/20Q4 Financial performance report            | For information |
| 21. 2019/20 Q4 Corporate performance report           | For information |
| 22. 2019/20 Q4 Strategic improvement programme update | For information |
| 23. New audit appointments update                     | For information |
| 24. European Union withdrawal update                  | For information |
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## Conclusion

25. Any other business

26. Publication of papers

For approval

27. Review of meeting

28. Date of next meeting: 18 September 2019 (venue to be confirmed)

Wednesday 13 May 2020, 10.15am

Audit Scotland by Videoconference

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## 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  
Nicola Paton, Digital Project Manager, Digital Services  
Stuart Dennis, Corporate Finance Manager  
Simon Ebbett, Communications Manager  
David Blattman, HR and OD Manager  
Robert Leask, Project Manager, Audit Quality and Appointments  
Fiona Kordiak, Director, Audit Services  
Neil Cameron, Manager, Performance Audit and Best Value

### 1. Welcome and apologies

Alan Alexander welcomed members and attendees to his first meeting as Chair of the Audit Scotland Board.

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

### 2. Declarations of interest

There were no declarations of interest.

### 3. Chair's report – verbal update

The Chair advised he had written to the Scottish Commission for Public Audit (SCPA) highlighting the risk to the governance of Audit Scotland in light of the delay to the recruitment of independent members. Diane McGiffen advised that , subject to final confirmation, it was now likely that the Parliament would proceed with interviewing board candidates before the end of May 2020.

The Chair advised he had reflected on the good governance of the Board and its Committees and confirmed he was proposing to continue as Chair of the New Audit Appointments Steering Group to provide continuity in light of the potential extension to lockdown and that this would be reviewed in due course.

The Chair also advised he proposed that, given the Board vacancy, he would continue as interim Chair of the Remuneration and Human Resources Committee (Remco), to ensure scheduled business can be considered by Remco following today's Board meeting but he anticipated that to be the last Remco meeting he chairs subject to the Board appointments being confirmed.

The Board confirmed it was content with the proposals.

The Chair advised of meetings with Diane McGiffen, engagement and preparation ahead of attendance at the Audit Committee and chairing a meeting of the New Audit Appointments Steering Group on 11 May 2020.

The Board welcomed the update.

#### **4. Accountable Officer's report – verbal update**

Caroline Gardner noted that she would build on the update that Diane McGiffen provided at the most recent meeting of the Audit Committee. She advised that the Coronavirus pandemic was a health, social and economic crisis which will affect how we all live and work for years to come. She advised that Audit Scotland has focused on the immediate consequences and are now planning ahead as a number of key decisions will be required on the work that we do by the new Auditor General for Scotland and the Accounts Commission.

Caroline advised that Audit Scotland colleagues have been working remotely since 16 March 2020, securely supported by Digital Services and that the Incident Management Team has been communicating with colleagues regularly confirming that that safety comes first.

Caroline advised that there was little financial impact on Audit Scotland's accounts to 31 March 2020. She advised that the 2019/20 underspend of £125k and that the draft accounts have been presented to the external auditors, Alexander Sloan, this week. Caroline invited members to note the achievement of the Finance team in delivering this as well as supporting the Comptroller function, paying suppliers and staff.

Caroline invited members to note that there had been two Leadership Group meetings, a meeting with the audit partners and firms and engagement between Audit Directors and the firms about how we work together, and praised the work of colleagues in supporting Accounts Commission meetings remotely.

Caroline advised that she had briefed the Public Audit and Post Legislative Scrutiny Committee (PAPLS) on the likely impact of Covid-19 on Audit Scotland's work and the Committee's work programme. Caroline also advised of ongoing contact with the other UK and Ireland audit agencies, highlighting the forthcoming meeting of the Auditors General on 22 May 2020 to discuss respective responses to the pandemic.

Caroline invited members to note that Audit Scotland are now looking at the prioritisation and resourcing the audit work, recognising the impact of the pandemic on audit bodies and audit work programmes. She advised that Fraser McKinlay, Director of Performance Audit and Best Value and Controller of Audit and Fiona Kordiak, Director of Audit Services are reviewing Audit Scotland's work programmes in more detail, adopting the principles of being flexible, pragmatic and consistent in approach. She advised that in assessing work priorities, the impact on colleagues and capacity would be key, recognising that financial reporting deadlines are changing and that audited bodies are facing unprecedented challenges. Caroline highlighted the briefing paper published on Audit Scotland's website which provided information on audit priorities and approach.

The Chair thanked Caroline for the update, praised the ongoing communications from the Incident Management Team and welcomed the support and care demonstrated for colleagues.

Heather Logan asked whether there were any concerns about the audit firms and their ability to deliver the audit work. Caroline Gardner advised that she had been impressed by the firms' response to the current situation and she confirmed Audit Scotland are keeping in touch on the likely impact through ongoing engagement and additional sector meetings.

Heather Logan asked whether Audit Scotland are currently employing any agency staff. Caroline Gardner confirmed that some temporary and fixed term employees whose contracts would otherwise have expired had been retained until the end of June. She also advised that Audit Scotland had cancelled the summer intern programme with regret, but was progressing with the graduate trainee recruitment and that successful candidates would join the organisation in September 2020 and that the scheme continues to be vital for ongoing recruitment and retention and organisational capacity.

Following discussion, the Board welcomed the update.

## 5. Accounts Commission Chair's report – verbal update

Graham Sharp acknowledged that colleagues across Audit Scotland have coped remarkably well and noted Accounts Commission members' appreciation of the communications. He noted the potential impact of both the immediate and longer-term audits and that this would be the focus over the coming months.

Graham advised that the Accounts Commission had met in the previous week to discuss issues including best value reporting.

Graham invited members to note that the Accounts Commission will proceed with the current work on the Local Government Overview, recognising that the work pre-dates Covid-19. He advised that thought was being given to the focus and timing of overview work for this year.

Members noted an impact report on equal pay would be published.

Graham advised a further meeting of the Commission is scheduled for 21 May 2020 and that the commission was likely to hold two virtual meetings in June if the current restrictions remain place.

The Board welcomed the update.

## 6. Review of minutes: Board meeting 24 March 2020

The Board considered the minutes of the meeting of 24 March 2020, which had been previously circulated.

The Chair formally recorded that the members of the Board had had an extended discussion on the revised draft minute he had circulated in advance of the meeting and subject to amendment this would be substituted for the draft circulated.

The members discussed the basis of minuting discussions on items taken in private and agreed this would be considered as part of the Board's review of governance scheduled for later in the year.

Following discussion, the Board members agreed a variation of the draft minute circulated by the Chair which Diane McGiffen would share for consideration and approval by members via correspondence.

**Action ASB111: Diane McGiffen to circulate an updated draft of the draft minute for approval by correspondence. (May 2020)**

## 7. Review of action tracker

The Board noted the updates provided on the action tracker and the Chair advised he had written to the Office of National Statistics and would report back in due course.

## 8. COVID-19 – verbal update

*Stuart Dennis, Corporate Finance Manager, Simon Ebbett, Communications Manager, David Blattman, HR and OD Manager joined the meeting.*

The Chair invited Stuart Dennis to provide an update on financial planning.

Stuart Dennis highlighted a number of critical finance functions which had continued to operate effectively in the current situation, these included; payroll, payment of suppliers and managing the comptroller function.

On the 2019/20 accounts position, Stuart advised that the core operational outcome was £125k better than budget, capital was £9k better than budget and the AME non cash pensions was significantly better at £4,180k. Stuart invited the Board to note that the audit of the accounts was

concluding this week and expressed his appreciation of the efforts of the Finance team and support from colleagues across the organisation to support this work at this difficult time.

Turning to the 2020/21 budget, Stuart provided an update on the cashflow position and invoicing. Stuart advised he anticipated some payment of invoices may be delayed and that he had been in contact with Finance colleagues at the Scottish Government regarding the potential cashflow issues this may cause. Stuart also advised he was engaging with business groups in relation to forecasting and savings on expenditure while considering the potential impact on in-house work in progress through to March 2021.

Stuart highlighted a number of potential implications of increased costs of audit work in order to meet extended deadlines and how that might be funded, the ability to deliver EAFA audit work by end December 2020, the longer term impact planning underway in relation to pensions, resourcing and funding issues and the procurement exercise on costs. Stuart advised that the medium-term financial plan is a live document which continues to be updated.

Heather Logan welcomed the comprehensive update and asked where additional funding could come from. Stuart advised that any additional funding could be requested through the Scottish Commission for Public Audit, would need their approval and would then be included in an Autumn budget revision. Stuart also provided assurance on the process of payment for the audit firms. Diane McGiffen advised that as part of the medium term financial planning the Board would be invited to consider the best options for sustainable funding for Audit Scotland, given that, regardless of whether fees were charged for audits or the work was directly funded, all the resources came through public funds. Caroline Gardner reflected on the significance of the potential issues arising and welcomed the consideration of the issues highlighted by Stuart and the Finance team.

Following discussion, the Board welcomed the update and the Chair requested a report to come to the Board's next meeting on 1 June 2020.

The Chair invited Diane McGiffen to provide an update on organisational priorities.

Diane McGiffen highlighted the critical business continuity arrangements in relation to people, audit work and public bodies. Diane invited the Board to note that fewer than ten colleagues had reported experiencing COVID symptoms, and that overall sickness absence levels were lower than at this point in previous years. Diane invited the Board to note that the Audit Committee is scheduled to review the Health Safety and Wellbeing annual report at its meeting on 1 June 2020 and that this documents key performance indicators for 2019/20, demonstrating no significant change from previous years.

Diane advised that Audit Scotland has been dealing with the immediate short term demands arising from the situation and is now looking to support emerging needs of colleagues working from home now for an extended period, recognising the challenges colleagues face reconciling the multiple demands on them as they work from home, home school and provide care for relatives and others.

Diane advised that the approach to audit work had been outlined at the PAPLS session, and reinforced that Audit Scotland's approach was to be pragmatic, flexible and consistent. She noted that reporting deadlines have been rescheduled and advised that assessments were ongoing as we work through resources to support the changes, anticipating peaks of work from July onwards and recognising the priority to complete financial statements as well as the work to progress corporate improvement programmes.

Diane invited members to note that the situation across public bodies remains very mixed and challenging and there is a lot for Audit Scotland to understand and respond to appropriately. Diane also highlighted the good relationships across audit agencies which is helpful in light of the bigger issues of scrutinising the flow of public finance across the reserved and devolved spending.

The Chair enquired about the colleagues who have displayed symptoms and Diane advised some colleagues have been advised to self-isolate. She also noted that Audit Scotland is largely able to work from home, although that can bring challenges, but that no one needs to

travel for business reasons and that the principle of, and communications on, safety first appears to be understood and well received by colleagues.

The Board welcomed the update, acknowledging the significant issues arising and the approach Audit Scotland are taking to understand and deliver audit work in this volatile and changing situation.

*Stuart Dennis, Simon Ebbett and David Blattman left the meeting.*

## 9. 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 Walker invited the Board to note that the practical options for holding virtual public meetings are being explored while the current situation continues. Martin then invited members to consider and approve the reinstatement of the Standing Orders in relation to the publication of Board papers and the publication of papers from the meeting on 24 March 2020.

The members noted and agreed the proposal to publish the papers from the meeting of 24 March 2020 together with those from today's meeting as set out in the report.

Following discussion, the Board welcomed the report and agreed to keep the Standing Orders under review.

Martin requested members consider the papers to be published from today's meeting under Any other business.

**Action ASB112: Martin Walker to arrange the publication of Board papers. (May 2020)**

## 10. New audit appointments update

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

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

The Chair invited members to note the progress outlined in the report, the potential impact on audit fees of COVID-19 and the outcome of the code consultation process. The Chair also invited members to note that letters seeking approval to extend the current audit appointments for one year had been issued to the Auditor General for Scotland and the Accounts Commission and both had agreed in principle to the extension. The Chair advised the option to extend by a further year second extension will remain under review.

Turning to the timetable for implementation of the new Code, the Chair invited members to note the proposed extension to engagement on the Code in light of significant gaps in responses received to date and invited Robert Leask to provide a verbal update on the impact on the key areas for procurement.

Robert Leask invited members to note the full cost impact from Covid-19 is not yet known for both the potential audit appointment extension and the procurement exercise. The Board noted that the option to extend by a second year would remain under review.

The Chair advised the Steering Group will be considering the scope for an interim project overview report in June 2020.

Following discussion, the Board noted the report.

*Robert Leask left the meeting.*

## 11. Information Security Management policy

*Nicola Paton, Digital Project Manager, Digital Services, joined the meeting.*

Nicola Paton introduced the Information Security Management policy, copies of which had been previously circulated.

Nicola Paton highlighted the amendments made to improve Audit Scotland's policy and invited the Board to approve the policy.

Nicola expanded on the proposal to remove reference to Cyber Essentials Plus, as ISO27001 accreditation is recognised as exceeding these requirements.

The Board recorded their congratulations to the team in achieving ISO27001 reaccreditation and approved the updates to the policy, noted this demonstrated ongoing commitment to excel in this important area.

*Nicola Paton left the meeting.*

## 12. Review of Ethical Standard Policy on application

*Fiona Kordiak, Director, Audit Services, and Neil Cameron, Manager, Performance Audit and Best Value, joined the meeting.*

Fiona Kordiak introduced the Review of Ethical Standard Policy on application report, copies of which had been previously circulated.

Fiona Kordiak invited the Board to consider and approve the updated policy which reflected on the Financial Reporting Council's updated standards. The main change applicable to Audit Scotland relates to limited secondment opportunities available for colleagues and advised that this is not permitted for audit firms.

The Chair welcomed the update and, recognising the nature of the guidance, requested future updates be shown in tracked changes.

Caroline Gardner highlighted that the key concern of loan assignments is the ability to maintain our independence while recognising it is useful for progression and development of colleagues. She advised that Fiona and the team are thinking through the arrangements in place to enable working with other agencies.

Following discussion, the Board approved the policy.

## 13. Any other business

The Chair invited Martin Walker to propose the papers for publication as highlighted at item 9 of today's agenda. Following discussion, members approved the publication of the papers proposed.

The Board also agreed the adoption of the Audit Committee minutes which had been previously circulated.

Heather Logan highlighted the application of the Ethical standards policy for any new Board member(s) and Diane McGiffen confirmed she would highlight this with the SCPA.

**Action ASB113: Diane McGiffen to liaise with the SCPA on the application of Ethical standard for new Board appointments. (May 2020)**

## 14. Review of meeting

The members agreed that the first virtual meeting had worked well, business had been carefully considered and the Chair thanked everyone for their contributions.

## 15. **Date of next meeting: 1 June 2020**

The members noted the next meeting of the Audit Scotland Board was scheduled for 1 June 2020.

## 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 situation.

## 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.
3. On 23 March 2020 the formal 'lockdown' measures introduced by the UK and Scottish Governments took effect. The Board met the following day, the first meeting of the Board to take place via teleconference.
4. 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.
5. The Board also agreed to keep the [Standing Orders](#) under review at each meeting.
6. At its meeting on 13 May 2020 the Board agreed that the temporary variations to the standing orders on the issue and publication of papers was no longer required. This means that one variation, on meeting in public, remains in place.

## Considerations

7. The Board is 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.
8. Holding a virtual public meeting, which is accessible, while having appropriate digital security arrangements in place is challenging.
9. While 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 for practical and digital security reasons.

## Recommendations

10. The Board is invited to:
  - Note that practical options for holding virtual public meetings are being explored and that the current arrangements continue in the meantime.
  - Agree that the variations to the Standing Orders are kept under review and considered at each Board meeting until further notice.

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)
ASB106	Board	3	Governance arrangements	The Standing Orders to be reviewed at each meeting.	24/03/2020	May-20	Martin Walker	Martin Walker	Ongoing	Yes	Two of the three varied orders reinstated on 13/05/20. Public meetings remains under review.
ASB109	Board	12	2019/20 Q3 Performance report	Additional information on the composition of the cost per audit day in PABV to be circulated.	24/03/2020	May-20	Martin Walker	Martin Walker	Ongoing	No	Information shared by correspondence w/c 25/05/20.
ASB110	Board	13	2019/20 Q3 Strategic improvement programme update	Update report on disruption, business continuity and mitigation actions.	24/03/2020	May-20	Martin Walker	Martin Walker	Complete	Yes	An update on Covid-19 was considered at the Board meeting on 13/05/20.
ASB111	Board	6	Review of minutes: Board meeting 24 March 2020	Diane McGiffen to circulate an updated draft of the draft minute for approval by correspondence.	13/05/20	May-20	Diane McGiffen	Diane McGiffen	Complete	No	The amended draft minute has been circulated and approved by correspondence with members.
ASB112	Board	9	Governance arrangements - review of Standing Orders	Martin Walker to arrange the publication of Board papers.	13/05/20	May-20	Martin Walker	Martin Walker	Complete	No	The papers as agreed at the meeting on 13/05/2020 have been published on Audit Scotland's website.
ASB113	Board	13	Any other business	Diane McGiffen to liaise with the SCPA on the application of Ethical standard for new Board appointments.	13/05/2020	May-20	Diane McGiffen	Diane McGiffen	Complete	No	Diane McGiffen shared a copy of Audit Scotland's updated policy with the SCPA on 25/05/2020.

## Purpose

1. This is the 2019/20 annual report to the Board on our Freedom of Information (FOI) and Environmental Information Regulations (EIRs) arrangements, requests and performance. This report forms part of the suite of assurance reports in support of the Accountable Officer's governance statement in the annual report and accounts.

## Background

2. Audit Scotland, the Auditor General and the Accounts Commission are subject to the Freedom of Information (Scotland) Act 2002 (FOISA) and the Environmental Information (Scotland) Regulations 2004 (EIRs).
3. Audit Scotland developed and implemented suitable joint arrangements for the discharge of FOISA/EIRs in 2005 for all three bodies. These arrangements are reviewed annually.
4. The Scottish Ministers' Code of Practice on the discharge of functions by Scottish public authorities under FOISA and the EIRs require us to monitor our handling of information requests.
5. Since 1 April 2013 public bodies are required to submit their FOI and EIR handling statistics, on a quarterly basis, to the Scottish Information Commissioner (SIC). Audit Scotland has complied timeously with this requirement.

## FOI/EIR overview for 2019/20

6. This annual report has been prepared to fulfil our FOI/EIR good practice requirements under the Scottish Ministers section 60 Code of Practice and incorporates our SIC quarterly returns.

## Governance

7. The Knowledge, Information and Technology Governance Group (KITGG) provides oversight of our FOI/EIR arrangements and reports its activity to Management Team, the Audit Committee and the Board as necessary. The Corporate Governance Manager is responsible for day-to-day management of our FOI/EIR arrangements.
8. The FOI/EIR policy was reviewed by the KITGG and Management Team and re-approved by the Board in August 2019. Staff acknowledged compliance with the policy via the Fit and Proper form in November and December 2019.
9. We reviewed our FOI publication scheme, in March 2020, to ensure it remains up to date.

## Approach to requests

10. It is our policy to be as open and transparent as possible and our approach to FOI/EIR requests is to treat them as a 'business as usual' activity. This means that we normally supply information to those requesting it in the normal course of business and do so without treating them as FOI/EIR requests.
11. More complex 'business as usual' requests and all other requests, which may have to be considered by a FOI panel, are recorded in our FOI/EIR system.
12. Where it is appropriate, we can apply exemptions and exceptions to the information being requested. Audit Scotland has established a group of senior managers (an FOI panel) trained in considering FOI/EIR exemptions and exceptions to complex requests.
13. The following statistics and analysis are based on our recorded FOI/EIR requests for 2019/20.

## Statistics and Analysis

### Number of requests received

14. Audit Scotland recorded 31 FOI and no EIR requests this year. These were received in:

Requests received	2019/20		2018/19	
	FOI	EIR	FOI	EIR
Q1 (April – June)	5	0	11	0
Q2 (July – September)	10	0	6	0
Q3 (October – December)	10	0	13	0
Q4 (January – March)	6	0	8	0
<b>Total</b>	<b>31</b>	<b>0</b>	<b>38</b>	<b>0</b>

### Type of requester

15. We categorise the requests we receive for analysis purposes. This year we received:

Requester type	2019/20		2018/19	
	FOI	EIR	FOI	EIR
Media	3	0	7	0
MSP/MP	5	0	1	0
Organisation	11	0	10	0
Members of the public	12	0	19	0
Other	0	0	1	0
<b>Total</b>	<b>31</b>	<b>0</b>	<b>38</b>	<b>0</b>

16. Themes emerging from the information being requested are:

- 23% - reports, draft reports and correspondence relating to those reports
- 23% - data held on other organisations
- 31% - Audit Scotland's governance, policies, procedures
- 23% - contract information: Information technology, equipment, other contracts.

### Responding to requests

17. Information requested was released in full on 22 (71%) occasions, partially released on four (13%) occasions, the information requested was not held by us on four (13%) occasions and there was one refusal (1%). The one refusal was for Best Companies proprietary information. This information was exempt under Freedom of Information (Scotland) Act 2002 (FOISA) section 33 (1b), the commercial interest and the economy exemption.

### Cost of administrating and responding to requests

18. Time spent on specific requests is generally recorded to the job code for the audit work concerned. In addition, the time spent on FOI/EIR training is coded to the general learning and development job code.
19. Eleven members of staff recorded 512 hours (compared to 416 in 2018/19) for administering our FOI systems and procedures, replying to some requests and dealing with complex requests at FOI panels. This equates to approximately £28,954 (compared to £23,514 in 2018/19) using the average hourly rate from the Time Recording System. However, the full cost to Audit Scotland of complying with FOI/EIRs will be higher due to the way some FOI/EIR work and training is recorded.

## Time taken to respond

20. FOISA and the EIRs require public bodies to reply to requests within 20 working days and within 40 working days for complex or voluminous EIRs. Audit Scotland met this requirement for 87% of the requests.

## Charging for dealing with requests

21. Public bodies can make charges for dealing with FOI and EIR requests. We issued no fee notices in 2019/20.
22. Public bodies are also able to refuse a request where it will cost more than £600 to process. Where public bodies estimate the cost to be greater than £600, they are to inform the requester that they may be able to supply some information if they narrow their request.
23. No requests were refused on excessive cost of compliance this year.

## FOI/EIR panels, reviews and appeals

24. FOI Panels met four times this year to consider applying exemptions to some or all the information being requested.
25. In six requests, we applied exemptions to the information we held. This included information which was otherwise accessible, or which related to law enforcement, personal information and the audit function. The most common exemption used was for personal information.
26. Where an applicant is not satisfied with our initial response to their request, they can ask Audit Scotland for a review. In 2019/20 there were two requests for reviews. Following review, the original responses were upheld, and the information remained redacted.
27. If an applicant remains dissatisfied with how we dealt with their request after a review they can make an appeal to the Scottish Information Commissioner (SIC). There were no appeals to the SIC this year.

## FOI/EIR Training

28. Audit Scotland staff undertake basic FOI/EIR training when they join Audit Scotland and refresher training is given as necessary.
29. In addition, staff updates are published when changes occur. A staff brief was issued in September 2019 and on FOI Day in March 2020 to remind staff of our FOI/EIR arrangements, performance and changes to legislation.
30. The Scottish Parliament passed the Coronavirus (Scotland) Act 2020 and all colleagues have been updated on the temporary amendments made to the Freedom of Information (Scotland) Act 2002 which came into effect on 7 April 2020. The changes includes provision for extensions to the timescales for responding to requests from 20 to 60 working days.
31. Maintaining training records is a dynamic process due to staff joining and leaving the organisation at any point during the year. As at 6 April 2020 three individuals (1% of staff) had not completed the FOI/EIR training.

## Conclusion

32. The report concludes that our FOI/EIR arrangements are working well and that there are no significant issues which require to be brought to the attention of the Board.

## Recommendations

33. The Board is invited to note the report.

## Purpose

1. This is the 2019/20 annual report to the Board on complaints received by Audit Scotland about its work. This report forms part of a suite of assurance reports in support of the Accountable Officer's governance statement in the annual report and accounts.

## Background

2. The Public Services Reform (Scotland) Act 2010 (the Act) required the Scottish Public Services Ombudsman to introduce a set of complaint handling principles, to which all public bodies must adhere.
3. Audit Scotland actively engages with the public in a variety of ways including through the correspondence process, freedom of information requests, our main office receptions and through our audit engagements etc. Interaction with the public, when handled well, enhances our reputation. However, if handled poorly it may harm our reputation and lead to dissatisfaction and complaints.
4. Audit Scotland, the Auditor General and the Accounts Commission introduced a joint complaint handling process in December 2012. The joint complaints handling process was reviewed and updated in 2014 and again in December 2018. A further review of our guides for staff and members of the public was undertaken in December 2018 and our complaints handling procedure continues to work effectively.
5. The complaints procedure is a two-stage process, stage one is front line resolution within five working days or if more complex, or are not resolved at stage one, stage two is resolved within 20 working days.
6. In January 2020 the Scottish Public Services Ombudsman published a revised Model Complaints Handling Procedure (MCHP). The Ombudsman expects the revised MCHP to be fully implemented by 1 April 2021.

## Complaints received

7. The Corporate Governance team maintains the register of complaints received. The register shows that there were four complaints received in 2019/20 (compared to five in 2018/19).
  - One complaint, about audit opinions and judgements, was rejected as being out with our complaints handling procedure. The complainant was redirected to the Scottish Public Service Ombudsman and following additional correspondence we suggested he contact Police Scotland.
  - One complaint, concerning the disclosure of personal information, was not upheld.
  - One complaint, regarding the investigation into the quality of an Audit Scotland report, was not upheld, however we found that communication was not as timely as it could have been.
  - One complaint is ongoing.
8. Two complaints were completed within the 20-day deadline. Due to the complexity of the complaint one was completed four days late.

## Appeals to the Scottish Public Services Ombudsman (SPSO)

9. The Scottish Public Services Ombudsman Act 2002 (the Act) provides a framework for matters that can be considered by the SPSO for investigation. There were no appeals to the SPSO in 2019/20.

## **Conclusion**

- 10.** The report on complaints handling 2019/20 concludes that there are no significant issues that should be brought to the attention of the Board.

## **Recommendations**

- 11.** The Board is invited to note the report.

## Purpose

1. This report presents the 2019/20 Annual report from the Chair of the Audit Committee to the Board for approval.

## Background

2. The Audit Committee is a standing Committee of the Board established under Audit Scotland's Standing Orders. The Audit Committee consists of the members of the Board, other than the Chair of the Board and the Accountable Officer. In practice the Chair of the Board and the Accountable Officer attend the meetings.

## Programme of work

3. The Audit Committee met five times in 2019/20, four times in person and once by video conference due to the Covid-19 pandemic. In accordance with its Terms of Reference and the Audit Committee Planner the committee considered a broad range of work across 111 agenda items, including 84 papers. This included reports on/from:
  - Financial management.
  - Governance, including the annual assurance and statement of control process.
  - Internal and external audit.
  - Audit quality.
  - Organisational risk.
  - Audit Scotland's annual report and accounts.
4. The Audit Committee reviewed the rolling action tracker at each of its meetings.
5. The Audit Committee carries out an annual review of its effectiveness based it on a self-assessment checklist completed by members. A report on the outcome of the review and the actions arising was presented to the meeting of the Audit Committee on 6 May 2020.

## The annual report and accounts and financial management

6. The Audit Committee approved the timetable to facilitate the completion of the Statutory Accounts for the Year ended 31 March 2020 at its meeting on 4 March 2020.
7. The audit of the 2019/20 accounts has concluded and was reported to the Audit Committee on 1 June 2020.
8. The Audit Committee considered financial performance reports each quarter.

## Governance

9. The annual review of Audit Scotland's principal governance policies (Standing Orders, Financial Regulations and Scheme of Delegation) was undertaken in September and November 2019. The review resulted in minor changes.

10. In addition, the Audit Committee considered its Terms of Reference at each of its meetings and minor amendments were made where appropriate during the year.
11. The Code of Conduct for members and employees was reviewed by the Board in September 2019 to ensure it remained up-to-date and in line with the model code published by the Scottish Government. The Code is published on the Audit Scotland website along with the annual declaration of Members' interests.
12. The Audit Committee reviewed and approved the Business Continuity Plan and its supporting arrangements in March 2020. The Business Continuity Plan was restructured in light of the preparations for the potential impact of Brexit and the emerging worldwide Covid-19 pandemic.
13. The Audit Committee considered a suite of annual assurance reports in accordance with the annual assurance and statement of control process. The reports were on:
  - Information Governance and Security.
  - Data Incidents.
  - Hospitality and Gifts.
  - Bribery and Fraud.
  - Whistleblowing.
  - Correspondence Handling and Whistleblowing.
  - Audit Quality.
  - Health, Safety and Wellbeing.
  - Governance statement on internal control and Certificate of Assurance.

### Internal and external audit

14. The external auditors and internal auditors have attended all of the Audit Committee meetings during 2019/20.
15. At each meeting there is a private session with both external and internal auditors. This provides the opportunity for the auditors to raise issues with members of the committee and for the committee to ask questions and seek the view of auditors. No material issues were raised during 2019/20.
16. At its meeting in March 2020 the Audit Committee considered a report from the internal and external auditors on their joint working arrangements.
17. The Audit Committee approves the programme of internal audit work each year. BDO carried out seven internal audits and one follow-up review during 2019/20; all reports were presented to the Audit Committee. An overall assurance assessment is given in each internal audit report for the design and operational effectiveness of systems and internal controls.
18. The table below details the Audits and overall assurance assessments:

Audit	Design	Operational Effectiveness
Corporate Governance	Substantial	Substantial
Core Financial Controls – Financial Planning	Substantial	Substantial
IT Assurance	Substantial	Substantial

Implementation of the Audit Quality Framework	Substantial	Substantial
Staff Recruitment	Reasonable	Reasonable
Learning and Development	Reasonable	Reasonable
Communication and Stakeholder Engagement	Substantial	Substantial
Follow-up Review	Good progress	

19. There were sixteen recommendations from the seven internal audits. Eleven recommendations were classed as low significance and five of medium significance. Management responses have been provided for all audit recommendations and work is being undertaken to implement them as appropriate.
20. Reports on progress with internal audit recommendations are brought to each Audit Committee meeting.
21. The internal audit service and scrutiny provided by BDO offered substantial assurances in the round for the 2019/20 annual internal audit report.
22. The Audit Committee was satisfied with the performance of internal audit and that the internal audit programme had been delivered to the required standard for the year.
23. The cost of the internal audit work for 2019/20 was £31,234.42. This was an overspend of £1,234.32 against the budget of £30k. This was due to an invoice for a 2018/19 audit being paid in 2019/20. The number of days planned to be used for audit by BDO was 53 days and this target was met.

## Audit quality

24. The Audit Quality Framework approved by the Board in October 2017 committed to providing regular reporting to the Audit Committee on audit quality as well as to the Auditor General for Scotland and the Accounts Commission.
25. In November 2019, the revised Audit Quality Framework was approved by Audit Committee and Board. Positive feedback from stakeholders resulted in minor changes to the framework. Changes included rationalised reporting, an updated suite of key performance indicators (KPIs) and a revised complaints procedure.
26. The Audit Quality and Appointments team have concluded that there are no major concerns on the quality of the audit work reviewed to date or in the delivery of audit reporting to timescales.
27. The Quality of Public Audit in Scotland annual report 2018/19 was presented to the May 2019 meeting of the Audit Committee. The report concluded that the review of audit quality provided evidence of compliance with auditing standards and the Code of Audit Practice, together with evidence of good levels of qualitative performance. Key findings were that ICAS did not identify any concerns with audit opinions and that auditors had taken improvement action to address any quality issues raised in prior year. The report shows that Public audit in Scotland is well placed to meet the challenges arising from current reviews of the auditing profession.
28. The Quality of Public Audit in Scotland annual report 2019/20 was presented to the May 2020 meeting of the Audit Committee and highlights continued improvement in audit quality.
29. The Chair of the Audit Committee also attended three meetings of the Audit Quality Committee as an observer in 2019/20.

## Risk management

30. Audit Scotland's Risk Management Framework was reviewed and approved by the Audit Committee on 22 May 2019. In accordance with the framework the committee reviewed the Risk Register at each of its five meetings.

- 31.** Each year the Audit Committee also agrees a schedule of risk interrogations which consider one or more of the risks on the register in greater detail. In 2019/20, the Committee considered four detailed risk interrogations on:
- focus and scope.
  - reputation
  - value for money and
  - independence.
- 32.** The Audit Committee considered quarterly reports on data incidents and noted the corrective actions proposed by Audit Scotland to reduce further incidents. It also received detailed six-monthly updates on digital and cyber security risks.

## **Governance statement**

- 33.** The Audit Committee considered a report on the effectiveness of the systems of internal control. There were no matters arising from Audit Scotland's business groups which would require to be raised specifically in the Accountable Officers governance statement.
- 34.** Internal auditors provided Audit Scotland with reasonable assurance that, there are no major weaknesses in the internal control system for the areas reviewed in 2019/20.
- 35.** It is the Audit Committee's opinion, based on our scrutiny and oversight of the work of Audit Scotland, that the Accountable Officer and Board can take assurance that there are sound systems of internal control in place within Audit Scotland to support the achievement of the organisation's policies, aims and objectives as set out by the Audit Scotland Board.
- 36.** On the basis of the work reviewed and progress made during 2019/20, the Audit Committee can advise the Board that, in its opinion, the internal control systems in Audit Scotland are effective.

## **Recommendation**

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

## Purpose

1. This report informs the Board of the review of Audit Scotland's internal controls that support the achievement of the organisation's policies, aims and objectives as set by the Board. The report also provides the Certificate of Assurance on Audit Scotland's internal controls.
2. The Audit Committee will consider the statement at its meeting immediately before the Board meeting on 1 June 2020. The Board is invited to approve the contents of this report and recommend it to the Accountable Officer to support the Governance Statement.

## Background

3. Management Team agreed to adopt the internal control checklist and certificate of assurance process in 2011 to support the Accountable Officer's Governance Statement.

## Considerations

4. Business groups reviewed their internal controls between 9 to 27 March 2020 with the aid of the internal control checklist. Based on the review and checklist findings the business group Directors completed and approved their business group's Certificate of Assurance.
5. Business group Directors reported that generally the controls in their areas have been and are working well. The responses, including evidence and detailed action points where relevant are available on SharePoint.
  - Audit Services
  - Corporate Service
  - Performance Audit and Best Value.

## Recommendations

6. The Board is invited to approve the contents of this report and recommend it to the Accountable Officer.

# CERTIFICATE OF ASSURANCE

To Audit Scotland's Accountable Officer

## ANNUAL ACCOUNTS 2019/20 ASSURANCE FOR THE GOVERNANCE STATEMENT

1. I am aware that, as Director for **Performance Audit and Best Value**, you are required to sign a governance statement for the annual accounts for 2019/20. To assist you in that process, I can confirm that I have received and reviewed the required assurances from my own Assistant Directors/senior managers.
2. Based on that review, and my own knowledge of internal control matters in my business group I can confirm that these controls have been, and are, working well. There are, in my opinion, no significant matters arising in my area of responsibility which would require to be raised specifically in the governance statement.

Name of Director: Fraser McKinlay

Business Group: Performance Audit and Best Value



Signature:

Date: 25 March 2020

# CERTIFICATE OF ASSURANCE



To Audit Scotland's Accountable Officer

## ANNUAL ACCOUNTS 2019/20: ASSURANCE FOR THE GOVERNANCE STATEMENT

1. I am aware, as Director for the **Audit Services Group**, that you are required to sign a governance statement for the annual accounts for 2019/20. To assist you in that process, I can confirm that I have received and reviewed the required assurances from my own Assistant Directors/senior managers.
2. Based on that review, and my own knowledge of internal control matters in my business group I can confirm that these controls have been, and are, working well. There are, in my opinion, no significant matters arising in my area of responsibility which would require to be raised specifically in the governance statement.

Name of Director: Fiona Kordiak

Business Group: Audit Services

A handwritten signature in black ink that reads "Fiona Kordiak".

Signature:

Date: 8 April 2020

# CERTIFICATE OF ASSURANCE



To Audit Scotland's Accountable Officer

## ANNUAL ACCOUNTS 2019/20: ASSURANCE FOR THE GOVERNANCE STATEMENT

1. I am aware that, as Director for **Corporate Services Group**, you are required to sign a governance statement for the annual accounts for 2019/20. To assist you in that process, I can confirm that I have received and reviewed the required assurances from my own Assistant Directors/senior managers.
2. Based on that review, and my own knowledge of internal control matters in my business group I can confirm that these controls have been, and are, working well. There are, in my opinion, no significant matters arising in my area of responsibility which would require to be raised specifically in the governance statement.

Name of Director: Diane McGiffen

Business Group: Corporate Services Group

Signature:

A handwritten signature in black ink that reads "Diane McGiffen".

Date: 12 May 2020



**Alexander Sloan**  
Accountants and Business Advisers

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**AUDIT SCOTLAND  
MANAGEMENT LETTER  
FOR THE YEAR ENDED 31 MARCH 2020**

DRAFT

## Executive Summary

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As the External Auditor we are required by legislation to report to the Scottish Commission for Public Audit (the 'Commission') our findings from the annual audit of the Accounts of Audit Scotland. The purpose of this report is to summarise for the Commission the key issues arising from our audit of the Accounts for the year ended 31 March 2020. The report covers the following points:

- Scope of the Audit (Page 2&3)
- Auditors Independence and Ethics (Page 4)
- Key Audit Risks (Page 5&6)
- Significant Accounting Policies and Estimates (Page 7)
- Internal Controls & Internal Audit (Page 8)
- Audit Team (Page 9)

Based on our detailed audit work which is carried out in accordance with International Standards on Auditing (UK) we have been able to satisfy ourselves that the Financial Statements provide a true and fair view of Audit Scotland's affairs and have therefore issued an unqualified audit opinion on the Financial Statements. Our opinion is based on the signing of the letter of representation and the accounts by the Accountable Officer.

Should you require any further information on any aspect of the audit then please contact the Audit Partner or Manager who will be pleased to assist you.

## Scope of the Audit

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The scope of an external audit is set by the Financial Reporting Council. The main objective of the audit is to form an opinion as to whether the Accounts of Audit Scotland give a true and fair view of the state of affairs of Audit Scotland at 31 March 2020 and of its net resource outturn for the year, and confirm that the Accounts are prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and Directions by Scottish Ministers.

As part of our audit we carry out the following work:

- Examine, on a test basis, evidence relevant to the amounts and disclosures in the Accounts.
- Assess any significant estimates and judgements made by Audit Scotland in the preparation of the Accounts.
- Assess whether the accounting policies are appropriate to Audit Scotland's circumstances, consistently applied and adequately disclosed.
- Evaluate the overall adequacy of the presentation of information in the Accounts to ensure compliance with the Financial Reporting Manual (FReM)
- Report to you our opinion as to whether the Accounts give a true and fair view and are properly prepared in accordance with relevant legislation.
- Report to you our opinion as to whether the information specified by Scottish ministers on remuneration and other transactions has adequately been disclosed and whether the information given in the Performance Report and Accountability Report is consistent with the accounts.
- Consider whether based on audit testing the expenditure has been incurred and the receipts have been applied in accordance with section 22(1)(a) and (b) of the Public Finance and Accountability (Scotland) Act 2000.

Our audit methodology for the collection of audit evidence is based on our own Audit Manuals, which are continuously updated to reflect current auditing standards. The methodology adopts a risk-based approach in accordance with International Standards on Auditing (UK).

## Scope of the Audit (cont.)

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Although we are required under International Standards on Auditing to consider fraud when carrying out our audit, the purpose of our audit is not the detection of fraud. Responsibility for the prevention and detection of fraud rests with the Accountable Officer who should not rely wholly on the external audit function to discharge these responsibilities. We noted no incidents of misconduct, fraud or irregularity during the course of our audit.

Our audit report is made solely to the Commission, as a body, in accordance with Section 25(3) of the Public Finance Accountability (Scotland) Act 2000. Our audit work is undertaken so that we might state to the Commission those matters we are required to state to them in an auditor's report and for no other purpose.

## Audit Independence and Ethics

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The Audit Plan for the period ended 31 March 2020 stated that under the Financial Reporting Council's (FRC) Revised Ethical Standard 2016 there were no ethical issues that we required to inform the Audit Committee of Audit Scotland or the Commission.

We can confirm that as far as we are aware there are no changes to these matters and that no issues arose affecting the objectivity and independence of the audit team.

We can specifically confirm:

- the firm is not dependent on the audit fees;
- the firm is not owed significant overdue fees;
- there is no actual or threatened litigation between the firm and Audit Scotland;
- no benefits have been received by the audit team;
- the firm does not have any mutual business interest with Audit Scotland or the Commission;
- no members of the audit team have any personal or family connections with Audit Scotland, the Commission or their officers.

At the conclusion of the audit we have also conducted a review of our independence and objectivity. In our professional opinion, our independence and objectivity has not been compromised and the firm has acted in accordance with the FRC's Revised Ethical Standard 2016.

## Key Audit Risks

The following risk areas were identified during the planning of the audit and were documented in our audit planning letter. These points were considered during the course of our audit and our findings for each point are set out below:

Risk	Audit Findings
<p><b>Management Override of Controls</b> International Standard on Auditing (UK) 240 requires us to treat management override of financial controls as a significant risk.</p>	<p>No issues were identified, from our audit work, that affected the accounts or our audit opinion.</p>
<p><b>Revenue Recognition</b> ISA (UK) 240 requires the auditor to presume that there are risks of fraud in revenue recognition.</p>	<p>No issues were identified, from our audit work, that affected the accounts or our audit opinion.</p>
<p><b>Work In Progress</b> As set out in our planning letter our audit involved a detailed review of the work in progress balance.</p>	<p>We have reviewed Audit Scotland's work in progress and are satisfied that the balance is not materially misstated.</p>
<p><b>Provisions</b> As set out in our planning letter our audit involved a detailed review of the provisions in place for dilapidations, voluntary early release arrangements and rent free periods.</p>	<p>We have reviewed supporting documentation and assumptions in respect of the provisions and are satisfied that the provisions are not materially misstated.</p>

## Key Audit Risks (continued)

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Following the issuing of our audit planning letter, the following risk area was identified and reported to the Audit Committee as key risk. Our findings are set out below:

Risk	Audit Findings
<b>Covid-19 Pandemic</b> There is a risk that the operations and finances of Audit Scotland could be adversely impacted as a result of the Covid-19 outbreak.	We have discussed the impact of Covid-19 with senior management of Audit Scotland. Based on the work carried out we are satisfied there is no impact on the audit report.

## Qualitative Aspects of the Financial Statements

Qualitative Aspects	Audit Findings
<p><b>Disclosures</b> Audit Scotland is responsible for the preparation of their financial statements. We consider whether they are presented in accordance with Financial Reporting Manual (FReM).</p>	<p>We did not identify any material disclosure errors within Audit Scotland's financial statements.</p>
<p><b>Accounting Policies</b> FReM requires that entities should review their accounting policies regularly to ensure they are appropriate to its particular circumstances for the purposes of giving a true and fair view. As part of the audit we consider the appropriateness of these policies.</p>	<p>We have reviewed the significant accounting policies and are satisfied that they are reasonable and appropriate to Audit Scotland's circumstances.</p>
<p><b>Accounting Estimates and Judgements</b> FReM requires that entities should use estimates and judgements appropriate to its particular circumstances for the purposes of giving a true and fair view. As part of the audit we consider the appropriateness of these estimates and judgements.</p>	<p>We have reviewed the significant accounting estimates and judgments and are satisfied that they are reasonable and appropriate to Audit Scotland's circumstances.</p>
<p><b>Timing of Transactions</b> Audit Scotland are responsible for having accounting systems in place which accurately record financial transactions. During the audit we consider whether transactions have been recorded within the correct period.</p>	<p>No material recording issues were identified during the course of the audit.</p>
<p><b>Going Concern</b> The Accountable Officer is responsible for assessing whether Audit Scotland is a going concern for 12 months from the date of signing of the audit report. As auditors we review the Accountable Officer's assessment and whether we believe it is appropriate.</p>	<p>During our audit we have considered Audit Scotland's assessment that the organisation is a going concern. Based on discussions with the Management team, review of budgets and as there is no expectation that funding will be withdrawn, we are satisfied that the organisation's assessment is appropriate.</p>

## Internal Controls

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Overall responsibility for maintaining adequate financial reporting systems and systems of internal control, as well as for the prevention and detection of fraud, irregularities, and other errors, rests with the Accountable Officer.

In accordance with International Standards on Auditing (UK) each year we write to the Commission where we identify matters which arose during the course of our audit which we consider should be brought to the attention of the Commission.

It should be noted that any such matters are those that come to our attention during the normal course of our audit work and not as a result of a special review of Audit Scotland's systems, procedures and controls.

For the audit for the year ended 31 March 2020 there are no such matters that require to be brought to the attention of the Commission.

## Internal Audit

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As part of our audit work we have reviewed the Internal Audit Reports on the controls within Audit Scotland and held bi-annual meetings with Audit Scotland's Internal Auditors.

Having an effective working relationship with the Internal Auditors has helped us to gain a greater understanding of Audit Scotland and its control environment.

# Audit Team

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If you require any further information regarding any of the issues outlined in this Management Letter please contact the Partner or Manager who will be pleased to assist you:

Position	Name	Direct Dial	E-mail
Partner	Steven Cunningham	0141 204 8984	steven.cunningham@alexandersloan.co.uk
Manager	Jillian So	0131 228 7960	jillian.so@alexandersloan.co.uk



**Alexander Sloan**  
Accountants and Business Advisers

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[www.alexandersloan.co.uk](http://www.alexandersloan.co.uk)

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Alexander Sloan is registered to carry on audit work and regulated for a range of investment business activities by the Institute of Chartered Accountants of Scotland.

## Purpose

1. This report provides the Board with an update on how we are mainstreaming equalities in Audit Scotland and provides a progress update on our three Equalities and Human Rights outcomes. Audit Scotland and the Accounts Commission are listed authorities and we prepare one report to cover both in view of the degree of overlap of the material and activity involved.

## Background

2. We last published a Mainstreaming Equalities Report in April 2019; we are required to publish such a report on a biennial basis so the next one is due April 2021. As this is a significant exercise, we have established a pattern of preparing an interim internal report in the intervening year. This is helpful in identifying those areas where we need to place more focus in the second twelve months. The report contains a lot of detail to aid the preparers of the April 2021 report, for the identification of themes and trends which may be worthy of reporting.

## Considerations

3. Good progress has been made in advancing equalities through performance audit work and there are now more examples of where it has been included in the scope of local financial audits. However, in many cases the inclusion of equalities in best value audits and local financial audits has tended to be scheduled for later in the appointment round. So, we expect to see more coverage in those types of audits by the time we report externally in April 2021. This may, however, be impacted by the current crisis affecting the public sector and our ability to proceed as planned.
4. There are now a few examples of where human rights and socio-economic inequality, our newest outcome, has been taken into consideration in the scoping of an audit and/or we have been better at articulating that the scope of an audit embraces socio-economic inequality.
5. Through the work of the People Focus Group and routine corporate reporting we continue to advance equalities as an employer. Only one Equality Impact Assessment (EIA) has been completed in 2019/20. Members of EHRSG continue to promote the importance of EIAs when undertaking training at meetings of superteams and cluster groups.

## Conclusion

6. Overall good progress has been made in mainstreaming equalities and in progressing the three equality outcomes. In light of the exceptional challenges facing the public sector, with Covid-19, we may have to be more flexible in our expectations of the progress likely to be made through audit work in the next 12 months. At the same time the current crisis has highlighted inequality, in its broadest sense. It will be important for Audit Scotland and the Accounts Commission to adopt a proportionate approach commensurate with our core purpose.

## Recommendations

7. The Board is invited to note the report.

# Mainstreaming Equality and Equality Outcomes

Interim progress report 2019-20

ACCOUNTS COMMISSION 

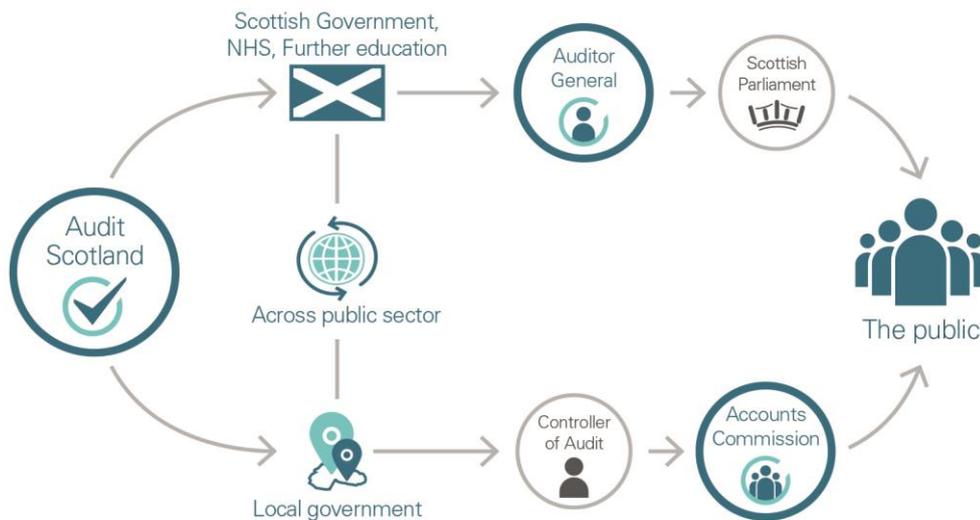
 AUDIT SCOTLAND

Prepared by EHRSG for Management Team  
April 2020

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About Audit Scotland

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

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

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

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# Executive summary

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1. This report sets out how Audit Scotland and the Accounts Commission, working with the Auditor General for Scotland, are addressing their responsibilities under the Equality Act 2010. Equality outcomes were first set in 2013, revised in 2017 and a further outcome added in 2019. They are summarised in one place in Appendix 1. A report summarising the progress made in mainstreaming equality and progressing the two 2017 equality outcomes over the years 2017-19 was published in April 2019. This report is an interim report, for the year to April 2020, produced to inform Management Team.
2. Overall good progress has been made in 2019/20. With respect to Outcome 1: *Audit work reflects how public services meet the diverse needs of all citizens and communities*, the equality thread which runs through our performance audits has been strengthened. This reflects the now more established role played by our external advisors, the Equality and Human Rights Advisory Group, in shaping the scope of specific audits and our work programme. We have developed our Audit Management Framework to more routinely consider the scope of audits, how we engage with service users, and report on findings, in the context of advancing equalities. The report contains examples of where this is evident in our performance audits.
3. Equalities are part of our considerations for local government Best Value audit scopes and communications strategies. Guidance to auditors in this area has been refreshed to embrace fairness, reflecting the revised statutory best value characteristics. Having said that audit teams are tending to plan the audit of equalities, in local government, in years four or five of this audit appointment round.
4. Information on equalities continues to feature in some annual audit reports; the financial audit planning guidance for 2018/19 was the first to explicitly include equalities as an area to be considered over the course of an audit appointment. The results of that emphasis are likely to become more apparent later in 2020.
5. Progress continues to be made on Audit Scotland's Outcome Two: *Audit Scotland promotes, understands and supports a diverse and inclusive workforce*. It is an area we continually revisit to ensure we are responsive to what we learn from both the gathering of employment data and our annual staff survey.
6. In April 2019 we established a new outcome: *in our audit work we will reflect, where appropriate, on how public bodies address human rights and socio-economic disadvantage*. This development was in recognition of Scotland's changing landscape including new financial powers, Social Security Scotland, the new Budget Review Process, the National Performance Framework and the Fairer Scotland Duty. This new outcome is becoming reflected in our audit work, for example the Social Security audit team is working with the Scottish Human Rights Commission to ensure that implications of the UN Right to Social Security are appropriately reflected in our work in this area.
7. This work will be approached in the same measured and consistent manner as our audit duties. The Fairness and Equality section of best value guidance has been refreshed to reflect this new outcome. Further materials will be developed to support auditors.

# Introduction

## Roles

**8.** A biennial report is published jointly by the Accounts Commission and Audit Scotland. This interim report is produced for internal information and submitted to the Management Team. We have selected this format for ease of preparation of the 2021 report.

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

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

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

# 225

Public bodies audited 2019/20



## 76

Central government  
bodies and  
Scottish Parliament



## 73

Joint boards  
and committees



## 32

Councils



## 23

NHS



## 21

Further education  
colleges

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

**12.** For more information about Audit Scotland and the Accounts Commission, including our vision, structure, aims and priorities, see Audit Scotland's [Corporate Plan](#) and the [Accounts Commission's Strategy and annual action plan 2019-24](#), both published on our [website](#).

## About this report

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

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

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

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

**15.** Audit Scotland and the Accounts Commission are listed authorities for both the Equality Act and the Specific Duties in Scotland. Consequently, they are required to report progress on mainstreaming the public sector equality duty and to report progress on their published equality outcomes. Revised [equality outcomes](#) were published in 2017 and a third one published in 2019:

- Outcome One: Audit work reflects how public services meet the diverse needs of all citizens and communities
- Outcome Two: Audit Scotland promotes, understands and supports a diverse and inclusive workforce
- Outcome Three: in our audit work we will reflect, where appropriate, on how public bodies address human rights and socio-economic disadvantage.

**16.** Audit Scotland and the Accounts Commission, as separate organisations, have individual responsibility to publish this information every two years. As the work of these bodies is so closely linked, a joint report is considered preferable. It should be noted that Outcomes One and Three relate to audit work commissioned by the Accounts Commission and the Auditor General. Outcome Two tends to only relate to Audit Scotland, which undertakes audit work for both the Accounts Commission and the Auditor General.

**17.** The Equality and Human Rights Steering Group (EHRSG) oversees the mainstreaming of the public sector equality duty, and the implementation of

Equality Outcomes 1 and 3: Audit work reflects how public services meet the diverse needs of all citizens and communities, and in our audit work we will reflect, where appropriate, on how public bodies address human rights and socio-economic disadvantage. The steering group has representation from all business groups and its work includes:

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

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

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

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

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# Mainstreaming equality

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## How have we mainstreamed the equality duty?

### Public performance reporting

**21.** Through our equality outcomes we have made the equality duty integral to the work of Audit Scotland and the Accounts Commission. The [2018-21 Audit Scotland Corporate Plan](#) includes Diversity and Equality as one of three key organisational priorities. Meanwhile, the Accounts Commission's [2019-24 Engagement Plan](#) notes that Audit Scotland works, on its behalf, with the Equalities and Human Rights Commission and convenes an Equality and Human Rights Advisory Group to ensure consideration of equalities is embedded in its work.

**22.** We use our existing public performance reporting systems to publish equality impact assessments and our reports associated with mainstreaming the equality duty. All our final reports on annual audits, performance audits and best value audits can be found on our external website.

### Leadership

**23.** Management Team of Audit Scotland provide clear and consistent messages about the importance of the public sector equality duty, to ensure that it is given appropriate profile and emphasis. For example, Audit Scotland publishes a diversity report and a separate gender pay gap report annually, whereas the duties only require publication every two years. Management Team initiated the debate about consideration of human rights and socio-economic in equality by holding an Equality Summit in 2018 which was key to the development of the third outcome in April 2019.

**24.** This commitment has also influenced our approach to procurement. For example, our preferred supplier for catering is Social Bite, a social enterprise that supports and enables the employment of homeless people and addressing socio-economic disadvantage. We also continue to use Redrock as our supplier for archive storage. More than 80% of Redrock's workforce has a disability and its overall aim is to 'provide sustainable employment for disabled people and a quality service to our customers'.

**25.** Work commenced in 2019 for the procurement of audit services; an exercise which is conducted every five years. Consideration was given as to whether an equality impact would be required and it was concluded, in consultation with the corporate Lead for Equality and Diversity, that there was no differentiation in how the procurement exercise impacted on individuals with protected characteristics. However the consideration did highlight that there is a need for Audit Scotland to determine whether compliance with the Equalities Act is sufficient for those suppliers with whom it contracts, or whether there is an expectation that a supplier should conform to the Public Sector Equality Duty and the Scottish Specific Duties. At the time of writing this report, the Head of Finance intends to discuss this further with procurement advisors from the Scottish Government.

### Staff awareness and understanding

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

- On arrival new staff continue to undertake on-line training on diversity and equality as part of the overall induction.

- Our HR and OD team are reviewing the cycle of our suite of on-line training and as part of this review, the diversity and equality training will be rolled out as a refresher to all staff every three years.
- Members of the Accounts Commission have received diversity training.
- There is also an element of diversity and equality training, including unconscious bias, throughout our internal recruitment and CDG panel training. All managers involved in either process will have received this training and will also receive refresher recruitment training every 3 years.
- We published a blog on the role of EHRAG and publicised to colleagues the roll out of equality prompts in the refreshed Audit Management Framework (AMF): embedding equalities in our organisation and in our work.
- Mental health has been a key area of focus with published articles in our staff magazine Abacus, focused on different aspects of mental health including first person stories. We also supported and promoted Suicide Prevention Day in September and World Mental Health Day in October. In November, Kris Kelly from SAMH held a Knowledge Café focused on better understanding our mental health and wellbeing, as well as tips on managing mental health in the workplace. Looking ahead we're trialling lunchtime yoga sessions in our Edinburgh office and a focus on sleep for this year's mental health awareness week in May.  
<https://www.mentalhealth.org.uk/campaigns/mental-health-awareness-week>
- Members of the EHRSG have held training sessions at some superteam meetings to provide information on auditing equalities in public bodies. The training materials have been provided directly to audit teams to support them in their equalities work. This follows on from updated planning guidance which requires equalities to be considered once during an audit cycle.
- In January 2020 we began to use the Best Companies staff survey results to inform team level discussions including a focus on how to improve the team working experience for colleagues. This type of activity has been shown to have a positive impact on wellbeing.
- In 2019 a knowledge café was held on the topic of the Gender Pay Gap in Rural Scotland. Dr Jane Atterton and Dr Elliot Meador from the Rural Policy Centre, SRUC (Scotland's Rural College) were invited to present on their recent research funded by the Scottish Government. Findings echoed previous research which highlighted the larger extent of the gender pay gap in rural areas.
- Audit Scotland have continued to promote International Women's Day, and as part of the wider for World Menopause Awareness day, a Menopause Guide for Managers was shared by Human Resources.
- In 2020 Michael Wield from Stonewell was invited to present to the professional trainee group. He spoke on the barriers that different groups often face in the workplace and the promotion of equality. He also spoke about the Stonewall Diversity Champions programme; which Audit Scotland are now a part of.

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# Progress on equality outcomes

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

### We said we would:

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

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

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

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

**29.** The feedback from EHRAG has helped us build equality and human rights considerations more effectively into our audit work. For example

- Our engagement with EHRAG has led to the Scottish Human Rights Commission working with the Social Security audit team to ensure that implications of the UN Right to Social Security are appropriately reflected in our audit work in this area.
- EHRAG recommended that the new affordable housing audit should consider housing for people with special requirements and gypsy travellers. The audit team built housing for people with special requirements into the scope for the audit. The Affordable Housing Supply Programme (the delivery of which is the focus on the report) monies could not be used for traveller sites and so there is no coverage of this in the report. We will maintain a watching brief on the Scottish Government's Ministerial Working Group

(which includes representatives from the Gypsy/Traveller community and COSLA) established to drive forward cross government actions to improve the lives of Scottish Gypsy/Traveller communities through the Health Care and Communities cluster monitoring.

- EHRAG suggested that the Educational Attainment Outcomes audit consider the United Nations Convention of the Rights of the Child when scoping the audit. This policy covers a child's right to education from a human rights perspective in order to support equalities outcomes from a national and a local government perspective.

### Progress in Performance audit

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

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

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

#### **Superfast Broadband for Scotland: Further Progress Update (September 2018)**

Digital inclusion and exclusion were considered during the scoping of this audit. The team interviewed three community broadband projects to examine what impact issues with connectivity had on the community. The report featured case studies covering two of these projects.

#### **Health and Social Care Integration (November 2018)**

The advisory group for this audit included representation from the Health & Social Care Alliance to support the inclusion of voluntary and community sector perspectives. As the audit progressed, further interviews were carried out with a range of diverse stakeholders. These included representatives of services users and carers at each case study site, and service providers from the third and independent sectors. The team also met with Voluntary Action Scotland and Voluntary Health Scotland and held a round table event with representatives from the third and voluntary sectors.

The report identified six key areas that if addressed would lead to broader improvements and help Integration Authorities to take positive steps towards making a systematic impact on health and care outcomes across their communities. The audit looked at how well Integration Authorities were engaging with their communities in order to influence their priorities. The report found that more meaningful and sustained engagement was required to inform service planning and ensure impact can be measured.

#### **Social Security: Implementing the Devolved Powers (May 2019)**

The audit focused on the devolution of welfare powers to Scotland. It looked at how well the Scottish Government is creating a social security system based on

fairness, dignity and respect and reported on how the clients are being involving in the design of the service. The audit team sought feedback and input from EHRSG during the scoping of the audit. Social Security Scotland made a commitment to recruiting a workforce which is representative of wider communities and of its service users. In assessing its wider workforce activity, the audit considered progress on this commitment.

### ***Scotland's Colleges 2019 (June 2019)***

The audit team continued to look at college access and attainment for students with defined equality characteristics and at the gender balance across subject areas and on college boards. The final report includes key messages and several exhibits relating to these equality issues, highlighting more changes is needed to address the attainment gap and to achieve a gender balance.

### ***Enabling Digital Government (June 2019)***

Digital inclusion and exclusion were considered as part of the scoping of this audit work. This report highlighted the need to ensure that citizens are put at the heart of service design to deliver services that meet users' needs and deliver better outcomes. It referenced initiatives such as the use of user experience panels by the Scottish Government's Social Security programme and contained a case study on the Scottish Approach to Service Design.

### ***NHS Workforce Planning – Part 2 (August 2019)***

The audit considered progress with implementation of the new GP contract and how the impact of the contract was being monitored by the Scottish Government. The report noted concerns raised by rural GPs that the contract would have a disproportionate impact on funding, recruitment and retention, and out-of-hours service delivery in rural areas. It also highlighted that the Scottish Government carried out an EQIA on the GP contract, but that this does not fully consider the potential risks or set out how any negative impact will be mitigated.

### ***Finances of Scottish Universities (September 2019)***

The audit team considered equalities whilst scoping for the report. This included, for example, the consideration of university outcome agreements (which include commitments to widen access to higher education including care-experienced students, gender equality for staff and students). The audit review noted that the scope of the audit meant it was unlikely that the audit would touch on these issues in much detail.

### ***Scotland's City Region and Growth Deals (January 2020)***

The audit team reviewed equalities at the scoping stage and considered the anticipated benefits that were likely to be met through the city deal programme across all population groups. The team reviewed the decision-making processes and noted if equalities were reviewed at the project identification stage.

The audit team interviewed representatives from the Equality and Human Rights Commission (EHRC) to understand what support they were providing to individual deals for inclusive economic growth. The EHRC is working with deals to help them set equality outcomes for each deal. Certain characteristics are protected by the Equality Act and it is against the law to discriminate against someone because of a protected characteristic. The EHRC's focus has been on creating opportunities for three of these protected characteristic groups: women, disabled people and those from ethnic minority communities.

The audit reported that as the four signed deals have already agreed their projects there is a risk that some opportunities for them to contribute to equality outcomes may have been missed. Although as these deals develop there is still scope for them to show their impact. It is important that the impact of deals on all groups is considered. One of the challenges encountered with deals so far is a lack of

reliable data to measure the impact on disadvantaged groups or on equality outcomes, such as the number of new jobs created for people in these protected groups. The Equality and Human Rights Commission were represented on the advisory group.

### **In the pipeline - Educational Attainment Outcomes (May 2020)**

The audit will look at improving outcomes for young people through school education. The team sought feedback from the EHRAG during the scoping of the audit. The team engaged with pupils and parents across the four case study areas covering covers Shetland, Dundee, Fife and Renfrewshire, and spoke with youth groups through the Inform 100 group. The audit team asked councils about equalities issues in their field work and attempted to engage with equalities groups such as LGBT Youth Scotland and Intercultural Youth Scotland.

### **In the pipeline - Outcomes for Children with Additional Support Needs**

The audit team conducted some early appraisal work in relation to the forthcoming audit. Early engagement with the EHRAG and youth panel are planned, and team are scoping out the available data and its limitations prior to scoping the audit.

### **Progress in Best Value audit**

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

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

**33.** Guidance has been prepared to support all auditors and this was revised during 2019/20. The Best Value toolkit on [equality](#) helps auditors establish the extent to which public bodies' arrangements for equality are designed to achieve, and are delivering, Best Value. Organisations may download and use the toolkit for self-assessment. In the six months to end of December 2019, there were 591 downloads of the toolkit from the Audit Scotland website. New Best Value Guidance on [Fairness and Equality](#) has also been made available to staff.

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

**35.** Each Best Value Assurance Report now has a targeted communications promotion plan which focuses on specific messages for specific local audiences. For each report we produce a news release which is issued to both local and national media, a podcast, wide ranging engagement on social media, an animation highlighting the main messages and an e-newsletter. The e-newsletter gives a clear summary of the key messages and findings in each BVAR. This is published on our website, promoted on social media, as well as distributed to a large number of third sector and community organisations in each council area.

### **Progress in financial audit**

**36.** The Audit Planning Guidance for 2018/19 audits, published October 2018, stated that in addition to the coverage of equalities through Best Value audits of councils, auditors should confirm, for the other sectors, that there are organisational arrangements in place to secure Best Value when planning and reporting on the audit dimensions; the Scottish Public Finance Manual (SPFM) explains that accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. The audit planning guidance

states that the nature and extent of this work will be determined by the annual risk assessment but that the Best Value characteristic of equalities is to be covered at least once during the five-year appointment period. This requirement is repeated in the 2019/20 audit planning guidance.

**37.** Inverclyde Council's Annual Audit Report for 2018/19 concluded that clear progress has been made on Equality Outcomes. Training on Equality Impact Assessments is delivered to both Elected Members and employees. Equalities training is given during staff inductions and remains mandatory on an annual basis. In addition, all staff are given the opportunity to attend face-to-face training every three years. The gender pay gaps are reducing and the council is actively engaged with this. The gap has reduced year-on-year over the past three years, but Inverclyde still has the third highest gap of the Scottish councils. Two-thirds of the workforce have updated their equal opportunities status in 2018, which is double the previous rate. Recruitment and selection procedures are equally impact-assessed and are subject to rigorous re-evaluation at regular intervals. Equality Impact Assessments were prepared between November 2018 and January 2019 for each of the 2019/20 budget saving proposals. There has been increased and targeted engagement with Inverclyde's children, citizens and communities who have protected characteristics.

**38.** Argyll and Bute Council's Annual Audit Report for 2018/19 found that Council had a comprehensive process of carrying out impact assessments on how project or service changes affect those with protected characteristics e.g. decision not to process with budget saving plan of reducing customer service points on island to part-time after impact assessment was carried out. The Council actively sought ways to address socio-economic inequality, targeting areas affected most. For example, the decision to automate entitlement to free school meals and school clothing grant. The aim of this was to reduce stigma surrounding the grant and provide a level playing-field for children from socio-economic disadvantaged backgrounds. The Council sought new ways to engage with communities and tailored needs of protected groups. Drop in sessions on council services were provided to the Gypsy/Traveller community. Services for British Sign Language users, Sensory Impaired Service works with people of all ages who are deaf or hard of hearing, blind or partially sighted to identify care needs and help maintain or regain independence and a quality of life. There is also Browse aloud/Video Relay Service to help those who are sensory impaired to navigate the website.

**39.** Equalities were also considered as part of the 2018/19 audit of national collection bodies. Audit activity found that the National Museum of Scotland (NMS) has an equality and diversity steering group in place that develops the strategic approach and longer-term planning for equality and diversity. Equality Impact Assessments are required for all strategies, policies and plans being put in place. The NMS work with 'Accessible', a specialist advisory group that audits all public sites for accessibility and best practice, with information published on NMS website. They also carry out community engagement work with groups with protected characteristics such as events for children with autism, for people who are visually and/or hearing impaired and for people with dementia and their carers. The National Library of Scotland (NLS) was also found to exhibit good practice in its commitment to delivering and promoting equal opportunities. Training for staff includes dignity at work, cultural awareness, dementia in the workplace and age awareness. NLS aim to increase the number and diversity of people who know about or use their service, this included making changes to website pages and registration forms and engaging with a range of stakeholder and equalities groups to promote services to those in the community. National Galleries Scotland (NGS) also has an Equalities Working Group which has been set up to look at priorities for improving access. Staff undergo general disability awareness training as well as specialist training on specific conditions.

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

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

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

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

### Youth Advisory Panel

**41.** The Inform100 youth panel has been in place since September 2018. This panel of young advisers works with Audit Scotland to help ensure that the voice of young people is heard in our audit work. The panel is supported by Youth Scotland.

**42.** Over the last year, the young advisers have considered a range of issues relevant to our audit work including:

- Identifying areas of audit interest relating to topics in our work programme, to help shape the audits. This included work on skills planning and investment, digital services in local government, community engagement and outcomes for young people with additional support needs.
- Helping shape the wording for questions for young people that we spoke to as part of our audit on improving outcomes for young people through school education and co-facilitating focus groups with young people in two council areas as part of that audit.
- Advising on ways we can better get our messages out to young people for future reports. The young advisers will be working with us to produce their own output that we will be publishing alongside the report on improving outcomes for young people through school education, in June 2020.

**43.** We were delighted that two of the young advisers were able to come to the Accounts Commission meeting in August 2019. They talked directly to the Accounts Commission members about their experiences of being on the panel, why they were interested in joining and what they are getting out of it, and it was a very powerful session. We were also really pleased that one of the young advisers was able to join us at our staff conference in January 2019, talking about what the panel has been doing and how it feels to be part of it.

**44.** The panel was established to run for two years, until late 2020. Before that, we'll continue to work with the young advisers to think about the best way to build on the work we've done together and ensure we continue to reflect the voice of young people in our audit work.

**45.** Members of the Accounts Commission have offered to work with members of Audit Scotland's youth panel as mentors, in a two-way relationship where the Commission members also learn from the young advisers. Arrangements for this are currently progressing.

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

**46.** Audit Scotland has continued to engage with the Parliament's Equalities and Human Rights Committee and the Scottish Human Rights Commission (SHRC). This included taking part in a Parliament's Equalities and Human Rights Committee panel exploring the role of the third sector in delivering equalities outcomes. Our liaison with SHRC this year has included work on budgets and transparency, and we have attended a Scottish Government workshop looking at national performance indicators relating to the NPF outcome, "public services treat people with dignity and respect."

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

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

**49.** We have further integrated equalities and human rights into our audit guidance. We commissioned a secondee from the Blavatnik School of Government to review and update our approach. The findings and recommendations were then implemented through our internal audit approach framework, including clarifying guidance on how to document consideration, alongside practical questions for auditors to raise on audits.

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

### We said we would:

- ensure staff feel valued and are treated with equity and fairness
- embed staff feedback on how to support diversity and equality in how we do things
- ensure staff feel that their wellbeing is a priority for Audit Scotland
- ensure staff recognise that policies are written in plain language, adhere to current legislation and are accessible to all

- ensure there is a rigorous process for conducting EIAs when new policies are introduced, or existing policies are updated
- operate a flexible approach to working practices
- ensure that the reward system is fair, and the gender pay gap and equal pay review results confirm this
- improve information on workforce by encouraging staff to disclose personal information
- increase the number of job applications from people in under-represented groups
- improve recruitment and selection processes in response to feedback.

## Our Progress

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

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

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

**51.** Audit Scotland was successfully accredited with being an ['Engaged' Carer Positive Employer in Scotland](#) (Level 1) in November 2017. Carers are encouraged to identify themselves as carers and can access support within the organisation, such as our flexible working policy, to help them manage their work and caring responsibilities. Throughout 2020-2021, Audit Scotland's Health, Safety & Wellbeing committee will be working with carers across the organisation to work towards the next Carer Positive level of 'Established' (level 2).

**52.** Audit Scotland have Disability Confident Employer status (level 2) and we are working towards attaining Disability Confident Leader (level 3). Members of our workforce can access occupational health and we implement recommendations for reasonable adjustments to meet peoples' diverse needs such as work station and office lighting requirements. We now have a working group established, which includes some members of our staff with disabilities. The group plan to seek wider feedback across the organisation which will help them consider any improvements in this area.

**53.** Invisible Conditions Guidance was introduced in September 2019 and was co-created with colleagues. There are a range of health-related conditions or disabilities that are not easily visible but can hinder a person's abilities in the world of work. The guidance provides advice on how managers and team members can support individuals with invisible health conditions.

**54.** Stonewall accreditation was obtained by Audit Scotland in June 2019. There is an internal Stonewall group, who are currently working towards submitting information to the Workplace Equality index in September 2020, in order to learn how Audit Scotland, compare with other employers on LGBT equality. This will enable us to measure our progress and identify areas where we can improve.

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

**55.** Every year we ask all staff to complete the Best Companies staff survey. The overall results from November 2019 indicate that further progress continues to be made in making Audit Scotland a great place to work. The wellbeing data gathered from the previous year identified workload pressures as affecting wellbeing, this was reflected in other feedback from colleagues during 2019, i.e. that work demands, and resourcing has been a real challenge in some teams. We are committed to continuing to address our resourcing challenge and we expect that this will alleviate some of the pressure on colleagues' wellbeing during 2020. This includes a stronger focus on joint resource planning and streamlining projects. We also review information showing how we are performing on diversity and equality and we review our gender pay gap information. We will identify further actions to be taken and seek wider feedback from staff on relevant issues.

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

**56.** All members of staff have 3D discussions with their line manager every year about how their work is progressing and their development needs. The process is designed to encourage open, future focused conversations about development and ensure staff feel appropriately supported to carry out their work. We have introduced more explicit references to Wellbeing in our 3D documentation.

**57.** Managing Resilience is one of our Management Essentials and includes a Manager's Guide to Wellbeing as well as a one-day course for managers on managing their own and their direct reports resilience. Wellbeing is woven throughout the whole Management Development agenda, for example the Manager's Guide to 1:1s includes a section on Wellbeing and we offer managers a one-day Emotional Intelligence course. There are also a number of recommended TED talks which cover these areas. Although the courses are currently only available to managers, the guides and TED talks are available to all colleagues.

**58.** Audit Scotland has adopted the Healthy Working Lives framework and is using this to provide a series of activities and events focused on improving health and wellbeing at work. Our aim is to achieve the Silver Award by March 2020. Over the past two years, we have been raising awareness of our mental health and promoting activities to support this. This includes managing stress and mindfulness awareness sessions. Our Healthy Working Lives campaigns encourage staff to become more active through a step challenge, lunchtime walks, cycle to work schemes and marathon relay teams. All staff have the opportunity to attend an annual wellness check with healthcare practitioners. These checks provide a review of physical and information on mental health. Almost two thirds of colleagues (62 per cent) attended wellness checks in 2018/19 and feedback to date has been largely positive. We will continue to focus on mental health over the next year. For example, we are looking at how we can better support colleagues with long-term medical concerns.

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

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

**60.** Equality Impact Assessments (EIAs) are carried out to consider the impact that various policies, strategies, activities and approaches to audit work have on different groups, both within and outside the two organisations. EIAs are reviewed internally. All our EIAs are published on the Audit Scotland website. Examples of EIAs in prior years include: our new approach to Best Value auditing; the refurbishment of our Glasgow office; our pay policy; and our Career Development Gateway process.

**61.** One EIA has been carried out by our HR team during 2019. A new bespoke exercise was created for use in our Graduate recruitment campaigns. The exercise is accessible to all however can be adjusted where necessary for anyone with a disability. There were no further considerations necessary. It will be important to

ensure in the next 12 months that we are not overlooking those occasions when an EIA is necessary. The training that is currently being rolled out will make all staff more aware of when EIAs are required.

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

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

### Operate a flexible approach to working practices

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

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

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

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

**66.** While equal pay for work of equal value is achieved through the use of our job evaluation system, our gender pay gap changes with the changing composition of our workforce from year to year. We published our gender pay gap information as at 31 March 2019 in March 2020. Our median gender pay gap is 15.71%. This is an increase from last year when it was 7.96% (the median for the whole economy was 17.3% at that time). The movement is attributed to the fact that the increase in our total number of female trainees has continued. We are committed to further reducing the gender pay gap and a range of measures have been identified. Our Gender Pay Gap Report can be accessed [here](#).

**67.** We recruit new trainee auditors every year. After the 2018/19 intake, 68% of our professional trainees were female as at 31 March 2019. It is also noteworthy that 75% of Audit Scotland's current executive management team is female.

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

**68.** When recruiting new staff, all applicants must complete an equal opportunities monitoring questionnaire which includes age, gender, sexual orientation, disability, ethnic background, religion or belief, and marital or civil partnership status. The candidate can choose not to answer specific questions and any responses received are not part of the selection process. The information provided is confidential and only viewed by members of the Human Resources team. This information can help the organisation respond to the needs of minority groups and make any reasonable adjustments as necessary during the recruitment and onboarding process. Employees are encouraged to update the Cascade HR system at any time if they have any change in circumstance. This is voluntary and not all staff choose to disclose all of this information.

**69.** We have a statutory duty to publish a report on employee information every two years, but we publish this information every year. Our last [Annual Diversity Report](#) was published in June 2019. It provides detailed commentary about the diverse characteristics of employees and information on the recruitment, development and retention of employees. The report highlights progress we have made, and the impact new initiatives are having in supporting equality and diversity. The next report is scheduled for publication in June 2020.

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

**70.** We advertise our vacancies using both mainstream and specialised job boards, along with advertising generally in disability and lifestyle publications. We also regularly attend recruitment events, with several events offering protected quiet hours for any attendees with a disability.

**71.** We regularly ask for feedback following a recruitment campaign as part of an employee's 3-month review form. Most respondents confirm that it was a positive experience and they generally form a good impression of Audit Scotland from our initial contact onwards. Additionally, we encourage candidates regardless of whether their application is successful to supply feedback about the recruitment campaign, so we can continuously review and improve our processes.

**72.** Throughout 2018 and 2019, we refreshed our recruitment and selection training, with the most recent recruitment training held in November 2019. The training gives an overview of the full recruitment process including legislative and equality requirements across all stages of the process from the initial advert to appointment. To get the most from this training we also asked delegates to self-reflect on how confident they are in their ability to recruit the right people and how confident they are in challenging colleagues who hold views that differ from theirs. We also direct people carrying out recruitment to a range of videos, TED talks and on-line training covering topics such as unconscious bias prior to the training. We will continuously review the workforce and identify any further requirements for recruitment and selection training.

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

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

#### **We said we would:**

- review information on the profile of the Scottish population and the people who make use of public services considering how this informs our understanding of human rights and socio-economic disadvantage issues and how this influences our audit work programme
- review evidence about how public bodies are delivering services and consider the needs of different user groups when budgeting, planning and organising services

- take an outcome focussed view as to what budgets aim to and have achieved over the long term
- review the appropriateness of a [human rights-based approach](#) and its applicability to audit work
- encourage staff to adopt the PANEL principles employed by the Scottish Human Rights Commission: Participation, Accountability, Non-discrimination and equality, Empowerment of rights holders and Legality of rights
- train and provide support to colleagues through the EHRSG and internal communications
- consult with stakeholders such as those on the EHRAG.

### Background to the new outcome

**74.** The new outcome was introduced in 2019 in recognition of the changing public sector landscape, with an increasing focus on how public services support improved outcomes for Scottish citizens. A new National Performance Framework has been in place since June 2018, which includes eleven high-level outcomes for Scotland. Two of these outcomes relate to human rights and inequalities:

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

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

**76.** A number of activities contributed to the drafting of the new outcome:

- Audit Scotland's Management Team hosted an internal 'Equalities Summit' in January 2018 and agreed to include consideration of human rights and socio-economic inequality within the EHRSG remit;
- a workshop was held with representatives from throughout Audit Scotland, entitled "Putting people at the heart of audit";
- a workshop was co-hosted with the Scottish Human Rights Commissioner in January 2019 to discuss how we might embed human rights' considerations in our audit work, and
- two internal short life working parties considered: definitions as interpreted by the United Nations and the European Commission, respectively; the interaction of these topics by the Scottish Parliament; the introduction of the Fairer Scotland Duty, which came into force on April 2018; and the National Performance Framework.

### Our progress

**77.** The outputs from the two working parties have ultimately been reflected in the refreshed Fairness and Equality section of the Best Value guidance to auditors. The principles of human rights, such as participation and accountability, feature in the work of the Accounts Commission and Audit Scotland. Similarly, consideration of the presence and impact of socio-economic inequality featured in the Affordable Housing report (see case study below).

**78.** In July 2019, the Strategic Scrutiny Group, which brings together Scotland's main public-sector scrutiny bodies, published Principles for Community Empowerment. This output was the result of extensive engagement with experts in

the field of community empowerment. The report states that community empowerment is an important part of public service reform, focusing attention on reducing disadvantage and inequality and improving outcomes for communities. It is also central to a human rights-based approach to policy and decision-making. The paper outlines principles to promote a shared understanding of community empowerment across scrutiny bodies and public bodies are encouraged to use this document as a tool to support community empowerment approaches.

**79.** We have updated best value guidance for auditors to reflect the principles of the paper. We are continuing to work with our network of experts, and they are advising us on our audit approach. Several of the representatives work directly with disadvantaged communities. We are also working closely with other scrutiny bodies in this area.

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## Case study

### *Affordable Housing (Spring 2020)*

Housing can make a substantial contribution to economic growth, prosperity, education, health and wellbeing and social care. This audit set out to report on progress being made towards the Scottish Government's affordable housing target and to assess what impact it has had.

Stakeholders were asked about the impact of welfare reform on delivering affordable housing during fieldwork. The link between affordable rents and child poverty was made in the report and the child poverty action plan was referenced.

The audit team included-built housing for people with special requirements into the scope and analysed national data on housing that has been purpose built for people with particular housing needs, including older people, disabled people and wheelchair users.

Case study councils' local housing strategies were reviewed for evidence of council engagement with local communities. This included hard to reach communities/communities of interest, and specifically what was included about the requirement for wheelchair-accessible homes during the audit process. The report commented on the Scottish Government's requirement for councils to set evidence-based targets for wheelchair accessible homes. The report commented on the good engagement by our case study councils in this regard, including with older people and gypsy travellers. Dundee City Council's provision of housing for people with needs was included as a case study in the report.

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# Looking forward

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## Progressing our three equality outcomes

**80.** Outcomes one and two were published in 2017. Outcomes tend to be set for a four-year period in recognition that it takes time for them to be fulfilled. They were subject to review in 2019 and were considered appropriate to continue for a further two years. As described above Outcome 3 was developed in 2019 and first referred to in the Mainstreaming Report published in April 2019.

**81.** Overall there is a sense that the advancement of equality through the three types of audit, i.e. performance audit, best value audit and financial audit, is increasingly embedded. With equalities featuring in the scope of many 2019/20 financial audits there will be more audit findings to report by the time of publication of the next biennial Mainstreaming Equalities Report in spring 2021.

**82.** There will, however, need to be a more conscious effort to address the new third outcome, as we cannot readily demonstrate, at this stage, that we have covered all of the sub-objectives. We anticipate that this will be achieved through our increasing involvement in the audit of the new Social Security Agency and also through monitoring of the fulfilment of the National Performance Framework.

**83.** Over the next few years, our audit on the implementation of the Scottish Social Security system will adapt to reflect the Scottish Government's move further into the delivery of social security benefits, with an increased focus on people's experience of the system and its impact on outcomes. We will continue to assess if the Scottish Government is achieving its policy intention of delivering a service based on fairness, dignity and respect and to involving people who will use the service in its design.

**84.** The First Minister has recently launched a Human Rights Framework for Scotland and it is an area we intend to keep engaged with, along with scrutiny partners.

**85.** Recognition has to be given, however, to the national and global crisis due to the Covid-19 pandemic and the extent to which all public sector bodies have had to re-prioritise everything that they do. And at the heart of that response is the recognition of the human right to life.

# Appendix 1.

## Audit Scotland's three equality outcomes

**The vision for Audit Scotland: To be a world class organisation that improves the use of public money**

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

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

This will be done by:

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

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

This will be done by:

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

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

This will be done by:

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

# Appendix 2

## Equality and Human Rights Advisory Group members



Age Scotland



Council of Ethnic Minority Voluntary Sector Organisations (CEMVO) Scotland



Children 1st



Children & Young Peoples Commissioner Scotland



Coalition for Racial Equality and Rights



Enable Scotland

Other bodies that routinely receive agenda and papers for EHRAG

Close the Gap  
Egender  
Disability Equality Scotland  
Minority Ethnic Carers of People (MECOP)



Equality Network



Disability Equality Scotland



Interfaith Scotland and the Edinburgh Interfaith Association



Saheliya



Scottish Secular Society



Scottish Human Rights Commission

Scottish Trades Union Congress (STUC)  
Scottish Trans Alliance  
Seeme Scotland  
Stonewall

# Appendix 3

## Meeting the specific duties of the Equality Act

Duty	Equality Act reference	Summary of requirements	Frequency	Last published
Mainstreaming progress	Section 3	Publish a report on the progress made to make the equality duty integral to the exercise of functions	At least every 2 years	April 2019
Equality outcomes	Section 4(1) & (2)	Publish a set of equality outcomes having involved protected characteristic groups/ individuals and used available evidence	At least every 4 years	April 2017, supplemented with one new one in 2019
Progress against equality outcomes	Section 4 (1) & (2)	Publish a report on the progress made to achieve the equality outcomes	At least every 2 years	April 2019
Equality Impact Assessments	Section 5	Conduct EIAs for new/revised policies and publish these	Ongoing	Ongoing on our website
Gather and use employee information	Section 6 (1) & (2)	Gather information on staffing mix & recruitment, development & retention against protect characteristics	Annual	June 2019
Include employee information in mainstreaming report	Section 6 (3)	Include employee information and progress made in gathering & using this in mainstreaming report (if not published previously).	At least every 2 years	Diversity report June 2019
Gender pay gap information	Section 7	Publish percentage difference between hourly pay rates for men and women	At least every 2 years	Annually March 2019
Statement on equal pay policy and occupational segregation	Section 8	Publish equal pay policy and analysis of employment by grade/role for gender, disability & race	At least every 4 years	Equal Pay Review  February 2017 (new report planned for 2020)

# Mainstreaming Equality and Equality Outcomes

## Progress report 2019-20

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

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## **Purpose**

1. This report invites the Audit Scotland Board to approve the Policy on the provision of Non-Audit Services by Audit Scotland's external auditor.

## **Background**

2. The Audit Committee considered a report on the policy on the provision of Non-Audit Services by Audit Scotland's external auditor on 1 June 2020. After discussion the Audit Committee agreed to recommend the policy to the Board for approval.

## **Recommendations**

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

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# Policy on the provision of Non-Audit Services by Audit Scotland's external auditor

<b>Author:</b>	Associate Director – Audit Quality and Appointments
<b>Version:</b>	05
<b>Date:</b>	June 2020, next review June 2021

## Introduction

1. The Audit Committee is responsible for developing and monitoring a policy on engaging the external auditor to provide non-audit services, taking into account relevant guidance on the provision of non-audit services by the external audit firm.
2. The SCPA appoints Audit Scotland's external auditors and may impose contractual restrictions/prohibitions on the external auditor providing non-audit services. In the absence of contractual restrictions, the Audit Committee and Audit Scotland Board are responsible for determining in what circumstances Audit Scotland may engage the external auditor to provide non-audit services.
3. The Financial Reporting Council's Ethical Standard 2019 categorises non-audit services as "audit related services" (which includes work normally expected to be undertaken by an external auditor such as grant claim certification) and "other non-audit services" (which includes management consultancy and tax work).

## Scope

4. This policy applies to Audit Scotland.

## Policy

5. It is important that Audit Scotland's external auditors are independent and seen to be independent in the work that they undertake. It is therefore not appropriate for them to provide any non-audit work that might be perceived to create a conflict of interest with their role as external auditors.

## Implementation

6. Audit Scotland may engage the external auditors to provide work classified as "audit related services" by the Ethical Standard.
7. Audit Scotland shall notify the Chair of the Audit Committee before any such work is undertaken and notify the Audit Committee at their next available meeting.
8. Audit Scotland shall not engage the external auditors to provide work classified as "other non-audit services."

## Purpose

1. This report highlights to the Board potential strategic financial issues arising from Covid-19 in the current financial year and the longer term.
2. There are likely to be further financial consequences as the situation develops and we start to experience a phased easing of lockdown restrictions.

## Background

3. The detail of the 2020/21 budget submission was discussed and approved at the Audit Scotland Board meeting held on 27 November 2019 and was presented to the SCPA on 15 January 2020.
4. An updated operational budget was presented and approved by the Board on 24 March 2020 which made several adjustments within the overall funding limit approved by the SCPA.
5. In total the funding provided by Scottish Parliament for 2020/21 is £8.865m with £8.715m revenue and £0.150m capital funding.
6. The unprecedented economic and social position we now find ourselves in through the Covid-19 pandemic will have a significant impact on Audit Scotland's short and long-term financial plans.

## 2020/21 Cash Flow

7. The fee and funding model successfully operated by Audit Scotland is based on the receipt of approximately 2/3rds of income from fee paying public bodies with the balance of 1/3rd coming from the Scottish Consolidated Fund (SCF) following Scottish Parliament approval. Within the Budget Bill we have a cash drawdown limit from the SCF with the balance of our cash requirement received through the payment of invoices by fee paying bodies.
8. This process has worked relatively smoothly over the years, however, the position we now find ourselves in is that there is a higher risk than normal that we will experience cash flow issues if the bodies we invoice are not able to pay the audit invoices timeously. We have currently drawn down a large element of our full year cash limit from the SCF in case this issue arises but if this becomes a long-term problem, we could experience cash flow difficulties.
9. The current situation is that we will invoice the second instalment of invoicing in May, as planned, but fully expect to experience some delays in the receipt of that payment.
10. To mitigate any potential issue, we have been in correspondence with the Scottish Government Finance Directorate who have confirmed that should any cash flow issues occur we have the option of increasing our cash limit to meet any difficulties.

## 2020/21 Budget

11. The budget for 2020/21 was prepared based on continuing to audit financial statements to agreed timetables, deliver a performance audit work programme agreed by the Auditor General for Scotland and Accounts Commission, to meet further financial devolution demands with increased funding and to meet the running costs of Audit Scotland.
12. The situation we now find ourselves in raises several important questions which organisationally we will work together to resolve to ensure we achieve a balanced budget in 2020/21. These include:
  - Will there be a shortfall in the closing work in progress at 31 March 2021?
  - What additional costs will be incurred to deliver audit?

- How does this affect available resources?
- How does the situation impact on firms' costs?
- When is EAFA due to complete and is this achievable?
- Are there any savings and expenditure reduction opportunities that can be identified?

13. More detail to these questions is provided in paragraphs 13 to 19.

14. **Work in progress:** the work in progress position determines the amount of fee income recognised in the final accounts. The extension of completion dates for 2019/20 audits will put pressure on the completion percentage rates for the start of the 2020/21 audit cycle. The 2020/21 chargeable audit fees will be determined as part of the 2021/22 budget exercise, however, as an indication a 1% movement in completion equates to approximately £80k based on the figures included in the budget. A 15% reduction in completion rates would therefore total £1.2 million. This is not so much an issue for firms as the amount of income recognised is directly linked to the amount of cost recognised in the accounts.

15. **Additional audit cost:** conversations with audited bodies indicates that some are in a better position than others in completing their financial statements for audit. In-house appointed auditors can increase fees in negotiation with the audited bodies should additional work be required. However, if the main reason for us incurring additional cost is due to the impact of Covid-19 on the audited body we need to establish an agreed strategy for the implications of this. While cost of audit time may increase, we are likely to see a decrease in other costs, travel and subsistence for example. There is a potential risk that audited bodies will be expecting a fee reduction as most of the audit delivery will now be through remote working.

16. **Resources:** all staff are currently working from home with the offices closed. The priority has been to focus on staff wellbeing and safety. All onsite audits have been suspended and we will work with the audited bodies in line with Scottish Government guidance prior to any return to working in our offices or those of the bodies we audit. Audit work is currently being delivered remotely though we realise there are challenges for staff as they are also dealing with childcare and carer issues. Our financial audit work and the resources required to deliver it are carefully planned each year to ensure we can deliver a high-quality audit within the statutory deadlines. While deadlines are being extended there is likely to be significant resource implications that will need to be managed. This could potentially lead to additional unbudgeted costs. It is too early at this stage to quantify the impact, but we will be able to make more informed judgements following further discussion with key stakeholders and on receipt of audited bodies financial statements and working papers.

17. **Firms costs:** firms are continuing to receive payment from Audit Scotland as part of the contractual standing order arrangements we have in place. As yet we have not had any indication from the firms that additional costs will be incurred as part of the financial audit due to Covid-19. The current fee model enables appointed auditors to negotiate fee increases within set parameters above indicative fees for audited bodies. The increases will usually relate to increased complexity or the requirement for additional work to be undertaken. We will need to decide if it is appropriate for audited bodies to be charged additional fees if the main reason for any additional audit work is due to the impact of Covid-19.

18. **EAFA:** with the UK scheduled to conclude the EU exit transition on 31 December 2020 the situation in respect of the current EAFA audit remains uncertain and is a high-risk area for us. The budget assumes continuation of EAFA funding or its direct replacement. The 2020/21 budget assumes the receipt of £840k fee income together with a contribution to central costs. We have invoiced the NAO for the first instalment of 2020 audit work and the financial exposure in 2020/21 is a budgeted fee of £115k for the commencement of 2021 audit work, which is yet to be confirmed. In addition to this uncertainty we have the potential impact of Covid-19 on this audit work and our ability to deliver the audit to the required timescales taking in to account the field work staff are required to undertake.

19. **Savings:** while the current situation has significant financial implications there will also be some opportunities to identify savings and expenditure reductions, most notably in travel and subsistence. We are currently in the process of identifying potential amounts that will be able to contribute to funding any potential shortfall.

20. Legislation does not allow us to hold reserves and we therefore have no facility to finance the impact of any substantial unplanned expenditure or fee income shortfalls. The budget includes a management

contingency allocation of £300k. 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 with the SCPA if significant challenges arise. We will need to ensure that we are engaged in the next budget revision process that is considered by the Scottish Parliament.

## Longer term financial issues

21. Members of the Board received the Medium Term Financial Plan (MTFP) in March 2020 which was subject to further comment by correspondence in view of the present situation. The plan was based on a best case, worst case and expected position through to March 2025. The work and assumptions were developed prior to the outbreak of Covid-19 and the impact that this is likely to have on public finances for a number of years.
22. The MTFP is a live planning document that is to be updated on a regular basis with a view to communicating to the Audit Scotland Management Team and Board as more information becomes readily available.
23. There is no doubt that the situation we find ourselves in is going to have a huge economic impact for Scotland and the rest of the UK. At this stage it is too early to predict but there is the potential that public finances could again come under significant pressure with certain sectors experiencing funding reductions. Some areas that we will need to consider and develop financial strategies for include:
  - The future of the current fees and funding model.
  - The firms procurement exercise.
  - Resourcing.
  - Pension fund pressures.
  - The new normal.
  - EAFA replacement.
  - Pay awards.
24. **Fees and funding model:** the Covid-19 situation has highlighted issues in respect of the long-term effectiveness, efficiency and sustainability of the current fees and funding model for Audit Scotland. There would be added value in reviewing the current fees and funding model together with proposing the option to hold reserves. The Board will be updated on progress made at its meeting scheduled in September 2020.
25. **Firms procurement:** the current audit appointments contract is due to expire on completion of the 2020/21 audits. In view of the current position discussions have been held and there is an intention to extend the existing audit appointments as per the terms of the contract. The commencement of the invitation to tender could now take place in August 2021. There is a significant risk that the cost of the contract will significantly increase which under the current fees and funding model would lead to significant above inflationary increases being applied to audited bodies. In addition to potential increased contract costs there is the possibility that considering the pandemic situation some firms will withdraw from the public sector audit market completely leaving a gap in audit which will need to be addressed.
26. **Resourcing:** this is a variable influenced by multiple factors highlighted in numerous sections of this report. If the outcome of the audit appointments procurement is unaffordable or firms are not interested in public sector audit, we will need to increase resources in order to deliver financial audits for the public sector in Scotland. Will we be able to recruit the required numbers of high quality audit staff to ensure we can deliver? We operate a successful trainee programme, and will we continue to be able to attract high quality candidates in the future? Do we have enough resources and how long will it take to return to the expected closing work in progress position at the end of each financial year? It is too early to calculate financial consequences and provide solutions to these questions, but they will be considered together with numerous other scenarios as we progress through this emerging situation.

- 27. Pension funds:** the negative impact on the economy could also be significant for pension fund assets and liabilities. Most of our staff are members of the Local Government Pension Scheme run by Lothian Pension Fund. The Fund receives contribution payments from employers and employees. The scheme undertakes a triennial review to determine future contribution rates and while the actuary takes a very long-term view of the pension fund there is still the potential for a significant increase to employer contributions, which are currently 18.7% of pensionable pay and £77k for past service costs. Appendix 1 includes an analysis of pension service costs and the closing asset/liability position from 31 March 2005. This analysis highlights the volatile nature of funded pensions schemes and the impact the net discount rate has on the results.
- 28. New normal:** there are likely to be changes in the way we work going forward and where we work. In the longer term we need to ensure that staff have suitable health and safety compliant equipment to safely complete their work. Our current long-term property portfolio is based on office leases in Edinburgh, Glasgow and Inverness. The lease expiry dates are 31 March 2025 for Edinburgh, 25 October 2027 for Glasgow and 31 August 2026 for Inverness. We need to establish if we continue to require an office presence in these locations and if we do is the current size and location appropriate for our operational requirements. The new normal also applies to how and where we undertake audits. Do we need to be onsite at audited bodies as much and when onsite what assurances can the bodies provide to ensure the safety of our staff until a vaccine is found?
- 29. EAFA:** as highlighted in the the MTFP the continuation of EAFA audits is a significant risk that requires enough lead time to manage effectively within our overall agreed funding. In the plan the assumption is that we will continue to audit EAFA or its direct replacement though it will generate a fee reduction due to a lower audit specification.
- 30. Pay awards:** the approved cost of living pay award effective from 1 April 2020 is 3%. Future assumptions are based on a continuation of settlements of between 2% and 3%. The economic impact on public finances due to Covid-19 is likely to have an impact on future public sector pay settlements. As an indication a 1% movement in pay award based on current full employer costs is in the region of £175k.

## Recommendation

- 31.** The Board is invited to note and discuss the contents of this paper.

## Appendix 1 Pension assets and liabilities

1 June 2020

### Pension assets and liabilities

Appendix 1

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Salary increases	3.50%	4.20%	4.10%	4.40%	4.20%	4.30%	5.10%	5.10%	4.8%	5.1%	5.3%	4.6%	5.1%	4.7%	4.6%	4.4%
Pension increases	1.90%	2.50%	2.40%	2.40%	2.20%	2.40%	2.80%	2.80%	2.5%	2.8%	3.8%	3.1%	3.6%	3.2%	3.1%	2.9%
Discount rate	2.30%	2.40%	2.70%	2.60%	3.50%	3.20%	4.30%	4.50%	4.8%	5.5%	5.5%	6.9%	6.9%	5.4%	6.0%	5.4%
<b>Net Discount Rate</b>	<b>0.40%</b>	<b>-0.10%</b>	<b>0.30%</b>	<b>0.20%</b>	<b>1.30%</b>	<b>0.80%</b>	<b>1.50%</b>	<b>1.70%</b>	<b>2.30%</b>	<b>2.70%</b>	<b>1.70%</b>	<b>3.80%</b>	<b>3.30%</b>	<b>2.20%</b>	<b>2.90%</b>	<b>2.50%</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>							
Service Cost	7,199	4,298	3,865	2,645	2,935	2,725	2,373	1,667	1,859	(4,385)	1,011	1,065	1,747	1,455	1,920	2,212
Net interest	879	749	842	565	876	767	625	(64)	(387)	(64)	306	(372)	(650)	(631)	193	68
Recognised in P&L	<b>8,078</b>	<b>5,047</b>	<b>4,707</b>	<b>3,210</b>	<b>3,811</b>	<b>3,492</b>	<b>2,998</b>	<b>1,603</b>	<b>1,472</b>	<b>(4,449)</b>	<b>1,317</b>	<b>693</b>	<b>1,097</b>	<b>824</b>	<b>2,113</b>	<b>2,280</b>
Employer contributions	(2,261)	(2,100)	(1,938)	(2,017)	(1,816)	(2,057)	(1,802)	(1,705)	(1,837)	(1,666)	(1,624)	(1,442)	(1,348)	(1,783)	(2,824)	(1,673)
Other comprehensive income	(10,670)	5,641	(7,569)	14,434	(12,969)	7,849	2,725	4,011	2,885	(5,776)	16,153	7,285	(5,749)	5,826	(10,372)	(23)
Closing position at 31 March	<b>(30,400)</b>	<b>(35,253)</b>	<b>(26,665)</b>	<b>(31,465)</b>	<b>(15,838)</b>	<b>(26,812)</b>	<b>(17,528)</b>	<b>(13,607)</b>	<b>(9,698)</b>	<b>(7,178)</b>	<b>(19,069)</b>	<b>(3,223)</b>	<b>3,313</b>	<b>(2,687)</b>	<b>2,180</b>	<b>(8,903)</b>

### Service Cost Analysis

Current Service	5,051	4,298	3,851	2,556	2,935	2,598	2,279	1,594	1,444	1,842	737	1,065	1,747	1,776	1,749	1,611
Past Service	2,148	0	14	89	0	127	94	73	415	(6,227)	274	0	0	(321)	13	348
Curtailments and Settlements	0	0	0	0	0	0	0	0	0	0	0	0	0	0	158	253
	<b>7,199</b>	<b>4,298</b>	<b>3,865</b>	<b>2,645</b>	<b>2,935</b>	<b>2,725</b>	<b>2,373</b>	<b>1,667</b>	<b>1,859</b>	<b>(4,385)</b>	<b>1,011</b>	<b>1,065</b>	<b>1,747</b>	<b>1,455</b>	<b>1,920</b>	<b>2,212</b>

## Purpose

1. This report presents the un-audited financial results for the twelve months to 31 March 2020.

## Background and Summary

2. The finance performance report for the twelve months to 31 March 2020 is attached to this paper and was discussed by Management Team on Tuesday 28 April 2020.
3. The out-turn on core funding, excluding IAS 19 funded pension costs, was £129k better than budget.
4. IAS 19 funded pension costs were £4,138k less than budget.
5. In summary the combination of the favourable variances to core funding and pension funding leads to a combined favourable out-turn to budget of £4,267k.
6. Capital expenditure totalled £141k, £9k less than the agreed budget allocation.

## Discussion

7. In the twelve months to 31 March 2020, Audit Scotland's Net Operating Expenditure was £13,175k which was £4,267k less than budget.
8. In-house income was in total £126k better than plan with the 2018/19 audit year and prior year fees generating a surplus of £167k. Progress on 2019/20 audit work was on average 0.80% below plan leading to a negative volume variance of £64k, partially compensated by a positive price variance of £23k.
9. Fee income earned for audits carried out by external firms net of fees and expenses paid to the firms was £90k better than budget. Income was £450k higher than budget which is offset by the £360k increase in fees and expenses payable to the external firms. The 2018/19 audit year generated a surplus of £296k on fee income and is in recognition of additional work the firms have carried out. Progress on 2019/20 audit work is on average 2.85% ahead of plan leading to the recognition of positive volume (£139k) and price (£15k) variances.
10. Staff costs represent 66% of Audit Scotland's total expenditure budget. In 2019/20 the budgeted staff establishment was based on 297.1 whole time equivalents with the approved budget providing cover for a pay award of either 2% or 3%, dependent on their position in the pay scale.
11. Staff costs including agency and secondment expenditure and net of secondment income were £243k more than budget.
12. IAS 19 pension costs were £4,330k less than budget due to an increase in the net discount factor and the actuary estimate for past service costs in respect of McCloud and GMP indexation being less than the agreed funding allocation in the Spring Budget Revision. Included in this figure is a favourable out-turn of £192k on unfunded pensions and ombudsmen liabilities which is due to the increase in net discount rate.
13. From the management contingency budget of £306k a total of £256k has been allocated to meet increased IAS 19 employee benefit costs (£75k), essential agency spend (£131k), software licences (£30k) and legal services (£20k). The budget balance of £50k remains in other costs and is used to offset the expected depreciation overspend.

14. Other expenditure and income was £36k worse than budget. The main areas of variance were recorded in legal, professional and consultancy (-£144k), property (-£40k), depreciation (-£33k), training/recruitment (+£41k), travel/subsistence (+£32k) and other costs (+£83k).
15. More detailed variance analysis and explanation is provided in the attached report.

### **Virement**

16. There were no instances of budget virement in excess of £20k in the twelve months to 31 March 2020.

### **Recommendation**

17. The Board is invited to note the un-audited financial results for the 12 months to 31 March 2020.

## Headline Results

The summary financial position to 31 March 2020:

£000	Annual Budget	Actual	Budget	Var.	% Var.	Prior Year	Note
Fee Income - In House	7,777	7,903	7,777	126	1.6%	7,559	1
Fee Income - Audit Firms	4,673	5,123	4,673	450	9.6%	5,011	2
Central Charges	5,530	5,571	5,530	41	-0.7%	5,462	3
Rebate	0	0	0	0	-	0	
Interest	0	5	0	5	-	4	
Other Income	0	30	0	30	-	53	4
IAS 19 Income	(966)	(924)	(966)	42	4.3%	(798)	6
<b>TOTAL INCOME</b>	<b>17,014</b>	<b>17,708</b>	<b>17,014</b>	<b>694</b>	<b>4.1%</b>	<b>17,291</b>	
Approved auditors	4,189	4,549	4,189	(360)	-8.6%	4,475	2
Staff salaries and oncosts	16,726	16,684	16,726	42	0.3%	15,825	5
Payroll provisions incl. severance	0	0	0	0	-	0	
Agency and secondment costs	206	521	206	(315)	-152.9%	135	5
IAS 19 Pension costs	9,134	4,846	9,134	4,288	-46.9%	2,325	6
Property costs	904	944	904	(40)	-4.4%	917	
Travel and subsistence	867	835	867	32	3.7%	889	
Legal, professional and consultancy	597	741	597	(144)	-24.1%	740	7
Training	481	456	481	25	5.2%	464	8
Recruitment	130	114	130	16	12.3%	134	8
Printing and office costs	249	250	249	(1)	-0.4%	272	
Information technology	474	494	474	(20)	-4.2%	470	
Audit	60	60	60	0	0.0%	56	
Depreciation	323	356	323	(33)	-10.2%	369	9
Other costs	116	33	116	83	71.6%	45	10
<b>EXPENDITURE</b>	<b>34,456</b>	<b>30,883</b>	<b>34,456</b>	<b>3,573</b>	<b>10.4%</b>	<b>27,116</b>	
<b>NET OPERATING (EXPENDITURE)</b>	<b>(17,442)</b>	<b>(13,175)</b>	<b>(17,442)</b>	<b>4,267</b>	<b>24.5%</b>	<b>(9,825)</b>	

## Income and Expenditure Summary

### 1. Fee Income – In House

Variances arise in fee income as a result of volume and price differences. Volume variances occur when audit work is carried out at different times and/or durations than the previous year. Price variances reflect the difference in actual fees to expected 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 31 March 2020 for the in-house audits:

	2018/19 Audit Year			2019/20 Audit Year			Prior Years	Total
	Volume		Price	Volume		Price		
	WIP %	£	£	WIP %	£	£		
Local Government	-	-	+71	+1.56	+70	+10	+2	+153
Health	-	-	+18	-5.42	-80	+12	-	-50
FE	-	-	+4	+1.49	+1	-	-	+5
Central Government	-	-	+21	-0.59	-6	+1	-	+16
Non-statutory	-	-	+58	-6.13	-49	-	-7	+2
<b>Total – March 19</b>	-	-	<b>+172</b>	<b>-0.80</b>	<b>-64</b>	<b>+23</b>	<b>-5</b>	<b>+126</b>

#### Local Government

Local Government audits for 2018-19 are complete with a positive variance to budget of £71k. The positive price variance is due to the requirement for additional audit work with the most significant increases being applied to Aberdeenshire Council, Fife Council and Renfrewshire Council. The 2019-20 audits are ahead of plan leading to the recognition of positive volume and price variances.

#### Health

All 2018-19 health audits are complete and £18k better than budget due to increased fees for NHS Tayside. For 2019-20 audits we are behind plan with the accounts showing the negative volume being reduced by a positive price variance. The reduced completion percentage will be due to the ongoing situation in respect of COVID-19 with the lockdown occurring in mid-March where we would have planned for staff to be onsite for health boards. The price variance is due to an increase in the fee for NHS Tayside.

#### Further Education (FE)

ASG audit two FE bodies, Dundee & Angus College and Edinburgh College. The two 2018-19 audits are complete with the accounts recognising a positive price variance of £4k. Audit work for 2019-20 is slightly ahead of plan.

#### Central Government

2018-19 Central Government chargeable audits are complete leading to a positive price variance of £38k which is attributable to increased fees being applied to a number of audited bodies with the most significant increases allocated to the Scottish Police Authority and Forest Enterprise (Scotland). Progress on 2019-20 audits is 0.59% worse than budget leading to a volume variance of £6k.

#### Non-statutory

The European Agricultural Fund Account (EAFA) audit for 2018-19 is complete with the final fee being better than planned (£58k). Work has started on the 2019-20 audit which is 6.13% behind plan (£49k). The prior year adjustment is due the issue of a credit note for an invoice that had been issued to the Wales Audit Office in respect of a Forestry Commission audit which is no longer required.

## 2. Fee income and expenditure – Audit Firms

The positive income variance of £450k should be offset with the adverse expenditure variance of £360k for approved auditors. Effectively the position highlights a net favourable variance of £90k for 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 31 March 2020:

	2018/19 Audit Year			2019/20 Audit Year			Prior Year	Total
	Volume		Price	Volume		Price	Price	
	WIP %	£	£	WIP %	£	£	£	£
Local Government	-	-	+144	+3.31	+94	+11	-	+249
Health	-	-	+8	+2.50	+26	-	-	+34
Water	-	-	-	+1.60	+3	-	-	+3
FE	-	-	+114	-1.30	-6	-	-	+108
Central Government	-	-	+30	+5.00	+22	+4	-	+56
<b>Total – March 19</b>	<b>-</b>	<b>-</b>	<b>+296</b>	<b>+2.85</b>	<b>+139</b>	<b>+15</b>	<b>-</b>	<b>+450</b>

### Local Government

2018-19 audits in the local government sector are complete leading to a positive variance of £144k. The audit firms have agreed fees above expected fees with the most significant increases to fees agreed by Aberdeen City Council, City of Edinburgh Council, East Ayrshire Council, Midlothian Council and Shetland Islands Council. The 2019-20 audits are 3.31% ahead of plan leading to the recognition of a positive volume variance of £94k and price variance of £11k.

### Health

All 2018-19 audits are complete which has generated a positive variance of £8k and this is mainly due to agreed fees being higher than expected for NHS Highland and NHS 24. 2019-20 health audits are 2.50% ahead of plan leading to a positive volume variance of £26k.

### Water

The minor favourable volume variance for the 2019-20 audit is due to the firm being ahead of the planned trajectory which was based on prior year actual.

### Further Education (FE)

Progress on 2018-19 audits is complete leading to a £114k positive price variance. The main fee increases have been agreed with Inverness College, Moray College North Highland College and Perth College. For 2019-20 audits there is a minor adverse variance of £6k.

### Central Government

Central government 2018-19 audits are complete leading to a positive variance of £30k which is mainly due to the recognition of agreed fee increases for Bord na Gaidhlig and Crown Estates Scotland. 2019-20 audits are currently 5.00% ahead of plan leading to a £22k positive volume variance and the recognition of a £4k price variance.

### 3. Central Charges

Central charges income is the agreed process used to recover pooled costs, audit support costs and contributions to best value audits. The over recovery of £41k in 2019-20 is the adjustment required following the reconciliation of the 2018-19 audit fee balance and the proposed 2019-20 audit fee calculation.

### 4. Other Income

Other income was mainly due to the recovery of staff costs for the secondment of one member of staff to Deloitte.

### 5. Staff & Agency Costs

Business Group	Annual Budget £000	Actual £000	Budget £000	Variance £000	Actual Average w.t.e.	Budget w.t.e.	Note
ASG staff costs (incl NFP)	8,860	8,630	8,860	230	155.5	155.4	a)
ASG agency & secondments	75	456	75	(381)			
PABV (incl Professional Support) staff costs	3,887	4,046	3,887	(159)	67.5	65.1	b)
PABV agency & secondments	0	60	0	(60)			
CSG (incl Audit Quality & Appointments) staff costs	2,165	2,211	2,165	(46)	39.3	37.9	c)
CSG agency & secondments	0	3	0	(3)			
Business Support staff costs	684	671	684	13	18.7	18.7	d)
Business Support agency & secondments	0	2	0	(2)			
Governance & Other staff costs	1,130	1,126	1,130	4	19.9	20.0	e)
Governance & Other agency & secondments	131	0	131	131			
<b>Total staff costs</b>	<b>16,726</b>	<b>16,684</b>	<b>16,726</b>	<b>42</b>	<b>300.9</b>	<b>297.1</b>	
<b>Total agency &amp; secondments</b>	<b>206</b>	<b>521</b>	<b>206</b>	<b>(315)</b>			

- a) The average number of staff employed in ASG has been 0.1 w.t.e. more than the funded budget. The establishment is based on 158.0 w.t.e. with the application of a 2% vacancy/turnover factor reducing the funded w.t.e. to 155.4. Overall there is a minor additional cost of employing the increased staffing level (£6k) with the average actual salary costs per employee being less than budget (£236k). The significant expenditure on agency costs to meet resourcing demands was expected and previously reported. This additional cost has been funded by staff cost savings due to reduced average salary costs, management contingency and increased fee income.
- b) PABV is on average 2.4 w.t.e. above budget (£144k) and average actual salary costs are also above plan (£15k). The secondment costs of £60k relate to a Scottish Parliament member of staff seconded to assist with housing benefit audit work. Due to the joint resourcing model adopted by ASG and PABV the ASG staff underspend includes an allocation due to PABV for additional NFP staffing. This equates to £130k and covers additional trainees and new established posts within PABV.
- c) The average staff resource requirement in CSG has been higher than the funded w.t.e. (£79k) mainly due to the application of a 2% vacancy factor with the actual staff turnover in the business group being insufficient to meet this budget reduction. This overspend is partially funded by the positive variance on average actual salary costs (£33k). CSG has delivered savings in other budget headings to meet this overspend.
- d) Business support underspend is due to the phased start dates of the modern apprenticeships and there is a positive price variance due to staff turnover. Agency expenditure in April 2019 provided short term temporary cover for the vacant modern apprenticeship posts.
- e) There is a minor budget underspend in Governance & Other with the average w.t.e. being less than plan. The £131k budget allocation for agency is from management contingency to meet the increased resource requirements in ASG.

## **6. IAS 19 Pension Costs**

IAS 19 pension costs were £4,330k better than budget. Net interest was £42k better than budget with the current service cost £4,288k better than budget.

The service cost for unfunded benefits and ombudsmen was £192k better than budget due to an increase in the net discount rate of 0.5% from 2018-19 (discount rate less pension increase rate).

The service cost for the funded scheme was £4,096k lower than budget. The pension figures include the past service liability arising from the McCloud ruling and GMP indexation. Due to the high uncertainty associated with these pension figures the non-cash funding request of £10 million was based on ensuring there was sufficient headroom to meet a worst-case scenario.

To date there has been no formal resolution of the McCloud judgement and the figures included in the IAS 19 pension results are the best estimate by the actuary.

## **7. Legal, professional and consultancy**

The main reason for the overspend is due to work of the firms on 5 best value assurance reports in the financial year at a total cost of £174k. The majority of the budget overspend is being met from the favourable net position in respect of the firms' financial audit work.

## **8. Training and recruitment**

The main reason for the training underspend was due to the cancellation of a number of training events in March due to the impact of COVID-19. Some of the recruitment budget underspend can be attributed to the temporary postponement of the Audit Director recruitment campaign.

## **9. Depreciation**

In line with forecast and as reported in previous financial monitoring reports depreciation was £33k overspent due to the asset life of the equipment purchased at the end of financial year 2018-19. The 2019-20 budget assumption was based on the majority of expenditure on IT hardware having a 5-year asset life where the actual equipment that was purchased had a 3-year asset life. All asset depreciation is based on our agreed accounting policies, as documented within our Annual report and accounts.

## **10. Other costs**

The £83k underspend in other costs includes an unallocated management contingency budget of £50k. The main reason for the balance of the underspend is a claim for a VAT refund.

## **Management Contingency**

The 2019-20 budget included a contingency allocation of £306k controlled by the Management Team.

Budget allocations of £256k have been made from the Management Contingency as part of the year-end process. The allocations are detailed below:

- £75k to meet increased IAS 19 employee benefit costs
- £131k to meet essential agency spend within Audit Services
- £30k to cover the increase in Microsoft licence requirements
- £20k to meet increased demand for legal services.

The balance of £50k remains in the Other costs budget.

## **Capital Expenditure and Funding**

Capital investment for the twelve months to March 2020 was £141k, £9k less than the available budget of £150k.

The majority of investment was IT related and included HR software, printer software and laptops. All of the IT purchases complements our digital services strategy with the emphasis on enhanced security enabled equipment and software.

## **Actual position compared to November forecast**

The forecast out-turn prepared in November 2019 projected an underspend of £213k for 2019-20. The actual final outturn of £4,267k includes a favourable variance on IAS 19 pension costs of £4,138k.

Excluding IAS 19 – funded pensions variance the final position is an underspend of £129k, which is £84k worse than projection.

The reduction of the underspend is attributable to lower than planned chargeable fee income, increased agency costs and increased professional fees (firm BVAR costs).

These additional costs have been partially met by improvements to unfunded pension benefits, firms out-turn and reduced expenditure across a number of budget headings.

## **Statement of Financial Position and Cash flow statement**

For information, appendix 1 presents the statement of financial position as at 31 March 2020 and appendix 2 the cash flow statement for the year ended 31 March 2020.

**Stuart Dennis**

Corporate Finance Manager

28 April 2020

# Statement of Financial Position

## As at 31 March 2020

## Appendix 1

	31 March 2019 (Audited) £(000)'s	31 March 2020 £(000)'s
<b>Non-Current Assets</b>		
Property, Plant and Equipment	1,229	977
Intangible Assets	43	69
<b>Total non-current assets</b>	<b>1,272</b>	<b>1,046</b>
<b>Current Assets</b>		
Trade and other receivables	2,687	2,685
Cash and cash equivalents	1,206	1,208
<b>Total current assets</b>	<b>3,893</b>	<b>3,893</b>
<b>Total assets</b>	<b>5,165</b>	<b>4,939</b>
<b><u>Less: Current Liabilities</u></b>		
Trade and other payables < 1 year	3,361	3,433
Provision for early retirement < 1 year	102	101
Other provisions < 1 year	0	0
<b>Total current liabilities</b>	<b>3,463</b>	<b>3,534</b>
<b>Non-current assets plus/net current assets/liabilities</b>	<b>1,702</b>	<b>1,405</b>
<b>Non-current liabilities</b>		
Deferred liabilities	(826)	(692)
Provision for Early Retirement	(1,832)	(1,684)
Other provisions	(290)	(366)
Net Funded Pension Liabilities	(35,253)	(30,400)
<b>Total non-current liabilities</b>	<b>(38,201)</b>	<b>(33,142)</b>
<b>ASSETS LESS LIABILITIES</b>	<b>(36,499)</b>	<b>(31,737)</b>
<b><u>Represented by:</u></b>		
<b>Taxpayers' Equity</b>		
Net funded pension liabilities	35,253	30,400
General Fund	1,246	1,337
	<b>36,499</b>	<b>31,737</b>

# Cash Flow Statement to 31 March 2020

## Appendix 2

£(000)'s

### Cashflows from operating activities

Net Operating expenditure	(13,175)
<i>Adjustment for non cash items:</i>	
- Depreciation	356
- Other non-cash items	10
- Pension scheme - net revenue (debit)	5,817
(Increase)/Decrease in trade and other receivables	2
(Decrease)/Increase in trade/other payables/deferred liabilities	(64)
(Decrease)/Increase in provisions for early retirement	(149)
(Decrease)/Increase in other provisions	76
<b>Net cash outflow from operating activities</b>	<b>(7,127)</b>

### Cashflows from investing activities

Purchase of property, plant and equipment	(89)
Purchase of intangible assets	(51)
Less / ( add) movement in accrued expenditure	0
	<b>(140)</b>

### Cashflows from financing activities

From Consolidated Fund ( supply)	7,269
<b>Net increase / (decrease) in cash and cash equivalents in the period</b>	<b>2</b>

Cash and cash equivalents at the beginning of the period **1,206**

Cash and cash equivalents at the end of the period **1,208**

### Net cash requirement

Cashflows from financing activities	7,269
(Increase)/ decrease in cash	(2)
	<b>7,267</b>

## Purpose

1. To provide the Board with a review of organisational performance in quarter four (Q4) 2019/20 and a performance overview of 2019/20.

## Background

2. The quarter three 2019/2020 report was considered at the meetings of Management Team and the Board on 25 February and 24 March 2020 respectively.
3. The performance information is reported under the two strategic objectives of 'delivering world class audit' and 'being a world class organisation' in line with the Corporate plan.
  - Appendix 1 provides a summary of performance for each strategic objective.
  - Appendix 2 provides the detailed performance information.
4. The quarter four report was considered by Management Team at its meeting on 19 May 2020. It also includes a high-level summary of performance across 2019/20.
5. Overall performance in 2019/20 has been strong. The Covid-19 situation and the introduction of virus suppression measures in March 2020 has had only a limited impact in this reporting period. We expect the impact on performance to show in the quarterly reports for 2020/21.
6. Scotland's public services are under exceptional pressure due to COVID-19.
7. On 5 May 2020, Audit Scotland published '[COVID-19 What it means for public audit in Scotland](#)'. The briefing paper sets out the principles of Audit Scotland's approach in responding to the situation and on our financial and performance audit programmes. It also outlines our plans for assessing the impact of COVID-19 on public bodies and reviewing the Scottish public sector's response to the pandemic.
8. The briefing paper recognises that public bodies are under exceptional pressure as they manage the impact of the pandemic and that guidance and deadlines for financial reporting have been amended to reflect this. It also noted that it will be some time before we fully understand the impact on public services and finances. The key principles are:
  - Our approach to audit will be flexible, pragmatic and consistent, and the briefing paper states that.
  - Sound financial management and effective governance are more important than ever.
  - Audit has a key role in providing assurance and aiding scrutiny during these difficult circumstances, and we will prioritise quality and independence.
  - Our work needs to reflect the impact of COVID-19 on public services but also maintain a focus on the other key challenges facing Scotland's public sector.
  - We will safeguard the health and wellbeing of our colleagues at all times.

## Q4 performance summary

### Delivering World Class Audit

9. We are conducting relevant, timely and high-quality audits. Publications in Q4 included:
- 175 annual audit plans
  - 3 Performance audit reports
  - 1 Best Value Assurance report
  - 3 statutory reports
  - 2 Other reports
10. The Quality of Public audit in Scotland annual report 2019/20 provides positive assurance on the quality of the audit work across all auditors. 71% of annual audit files reviewed by ICAS, over the last three years were assessed as 'limited improvement required'. Positive assurance can also be gained from the Audit Scotland Transparency Report 2019. Both reports will be published in June 2020.
11. Audits were delivered at 3.93% above budget. This is within the five percent tolerance we have for this measure.
12. We continue to get our messages out effectively, as evidenced by the downloads, social media engagement, media mentions, stakeholder feedback and engagement with the parliaments and the Accounts Commission.

### Being a world class organisation

13. We continue to manage our resources, information and intelligence and support our colleagues.
- The outturn on core funding was £125k (1.7%) below budget.
  - The capital budget outturn was 9K (6%) below budget.
  - The IAS 19 funded pension costs were £4,138k less than budget, this contributed to the favourable out-turn to budget of £4,263k.
  - We had 291.1 whole time equivalent colleagues in place at the end of the quarter (establishment 286.4).
  - The absence rate remains low in Q4 at 1.32 days.
  - Digital services were maintained, and all colleagues have been able to access systems remotely and successfully in light of the Covid-19 situation.
  - Communications from the Incident Management Team have been successful and received positive feedback from colleagues and external stakeholders.

## 2019/20 Performance summary

14. Performance in 2019/20 has been strong with high quality audits having been delivered to time and budget.
15. The year presented a number of challenges including resourcing issues, a general election which impacted on the publication of reports, an extensive improvement programme and business continuity planning for EU withdrawal and more recently the Covid-19 pandemic. Throughout this we have delivered a broad range of high-quality audit work.

### Delivering World Class Audit

16. We produced 713 audit reports/outputs in 2019/20 which is consistent with the planned output.

	Planned	Delivered	Delivered %	Delivered on time%
Annual Audit Plans	220	220	100	87
• Audit Scotland	(121)	(116)	100	88
• Firms	(99)	(93)	100	86
Accounts certified	220	220	100	95.5
• Audit Scotland	(121)	(121)	100	95
• Firms	(99)	(99)	100	96
Annual Audit Reports	220	220	100	91.5
• Audit Scotland	(121)	(121)	100	88
• Firms	(99)	(99)	100	95
Performance Audits	7	7	100	60
BV Assurance & Follow-up Reports	7	7	100	83
Overview reports	3	3	100	100
Statutory Reports	12	14	117	100
Other	22	22	100	88
<b>Total</b>	<b>711</b>	<b>713</b>	<b>100%</b>	<b>91%</b>

17. The quality of audit work on audits is high and improving. Auditors are engaging with the Audit Quality Framework and addressing previous years' findings, leading to improvements in audit quality. We have robust audit quality arrangements in place which include systematic quality reviews across all aspects of our audit work. The results of internal and external quality reviews represent a substantial improvement in audit quality during a time of resourcing challenges and is testament to the professionalism of our staff.

18. We are getting our messages out effectively:

- Colleagues engaged with the Scottish Parliament and its committees, attending 58 meetings of the Scottish parliament including the Public Audit and Post Legislative Scrutiny Committee and eight other committees.
- Colleagues attended all Accounts Commission and committee meetings and supported the Commission's engagement activity with councils, the Strategic Scrutiny Group, COSLA and other local government sector forums.
- Our website received 117,000 visits, up 8% from last year and there were over 1 million report downloads (up 28% from last year).
- There were almost 26k social media engagements (down slightly from 26,118 in 2018/19).
- There is evidence over the year of impact at a national and local level and providing insight and increasing amounts of foresight.
- There were 136 new correspondence cases and 94% received a final response within the agreed time limit.

## Being a world class organisation

19. The Best Companies survey 2019 was completed by 83% of staff. We achieved our highest overall score to date and maintained our place in the top 100 not for profit organisations. There was an increase in four of the eight factors with the largest increases in 'my Team' and 'fair deal' groupings. We also achieved Silver accreditation in the Healthy Working Lives award.

20. During 2019/20 we have also been responding to colleagues concerns about resourcing our audit work. 89% of our staff feel encouraged to deliver high-quality audits and 63% say they receive sufficient training. However, only 27% felt they had sufficient time and staff resources to deliver high-quality audits. We have taken steps to address this by building capacity, through innovative approaches and by streamlining our work. However, the full impact of some of this work is not likely to take effect until 2020/21.

21. The average number of staff employed in the 12 months to March 2020 was 0.5 w.t.e lower than establishment figure and the staff absence rate was 4.97 days. This slightly higher than the 4.85 days in 2018/19 but compares favourably with the relevant benchmarks.
22. In the twelve months to 31 March 2020, Audit Scotland's Net Operating Expenditure was £13,175k which was £4,267k less than budget.
23. Digital service provision was good, we achieved over 99% IT up time and ISO27001 recertification.

## Recommendations

24. The Board is invited to:
  - review the performance in quarter four
  - review the performance in 2019/20
  - consider whether any additional management action is required.

## Appendix 1

1 June 2020

### 2019/20: Q4 performance summary

 Delivering world-class audit	Measure in Q4	Previous quarter	Same quarter last year
We conduct relevant and timely audits and report in public.			
Reports 2019/20 (YTD)	713(100%)	505 (71%)	707 
On time (YTD)	91%	95%	93.6% 
Audit Budget (YTD)	+4%	1.75%	+0.48% 
We get our messages out effectively			
Media mentions (Q4)	335	354	125 
Downloads (Q4)	320,410	367,005	193,033 
Social media engagements (Q4)	5,441	6,588	3,840 

### Key performance messages in Q4

- We have delivered 183 audits/reports.
- Audits were delivered at 3.93% above budget and within our 5% tolerance for this measure.
- Communications statistics show we are getting our messages out effectively.
- 320,410 downloads and 5,441 social media engagements.
- 335 media mention of Audit Scotland and/ or Accounts Commission.
- Stakeholder feedback shows an improved level of satisfaction with audit.
- 26 attendees at 11 parliamentary engagements.

### Key performance messages in 2019/20

- We have delivered 713 audits/reports. 25 annual audit plans were delivered late, though all have been completed in in Q1 2020/21.
- 91% of reports have been delivered on schedule and audit expenditure is 4% above budget.
- There were 117,000 visitors to our website (up from 108,000 last year) and over 1 million downloads.

### Key actions

The key actions for this strategic objective are covered by the projects and workstreams in the Strategic Improvement Programme which is also on today's agenda. They include development of the ASG audit methodology, the development of digital auditing and the implementation of the audit quality improvement action plan.

#### Key:

**Red** = Not progressing/significant additional management action required.

Amber = Progressing and management action planned.

Green = On target/no need for additional management action

 <b>Being a world-class organisation</b>	Measure in Q4	Previous quarter	Same quarter last year	
<b>We manage our resources effectively</b>				
Budget Variance (YTD)	+24.5%	-0.4%	+0.6%	↑
WTE establishment (YTD)	99.8%	101.2%	99.6%	→
<b>We maximise our efficiency</b>				
Staff costs (YTD)	16,684k	12,422k	15,825k	↑
Agency/secondment costs (YTD)	521k	412k	135k	↑
Average cost per audit day (Q4)	441	440	437	↑
Proportion of audit time (Q4)	68%	61%	66.5%	↑
<b>We empower and support our people to be engaged, highly skilled and perform well</b>				
Absence (YTD)	4.97 days	3.39 days	4.85 days	↑
Staff turnover (YTD)	6.32%	4.99%	11.26%	↓
Exams pass rate (YTD)	84%	83%	86%	↓
Training events (YTD)	98	79	103	↓
Training attendees (YTD)	1057	897	1352	↓
IT uptime	99.36%	99.98%	100%	↓

### Key performance messages in Q4:

- The outturn on core funding was £125k (1.7%) and 9K (6%) capital better than budget. The IAS 19 funded pension costs were £4,138k less than budget which contributed to the favourable outturn to budget of £4,263k.
- The average number of colleagues in the quarter were 99.8% of the establishment.
- Absence levels remain low and are consistent with previous years. We remain below the 2019 CIPD benchmark (5.9%).
- The proportion of Audit time was 68% up from 66.5% in the same quarter last year.

### Key actions

The key actions for this strategic objective are covered by the projects and workstreams in the Strategic Improvement Programme, which is also on today's agenda. They include; several workstreams on resourcing, learning and development and wellbeing and the performance management framework.

2019/20: Quarter 4



We conduct relevant and timely audits and report in public.

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

### Key messages

In 2019/20:

- 91% of audit/reports delivered on time (target 95%)
- audit expenditure is 3.93 per cent above budget (within the 5% tolerance target)
- In Q4 we published 183 audit/reports. These included 3 statutory reports, reports on Early learning and childcare, Scotland's City Region and Growth Deals, Non-profit distributing (NPD) and Hub models and a BV report on Highland Council.
- In Q4 Audit Scotland delivered 10 NHS (out of 10), 59 LG (out of 66) LG and 39 CG (out of 47) Annual Audit Plans on time.
- In Q4 the firms delivered 12 NHS (out of 13), 34 LG (out of 39) and 21 CG (out of 29) Annual Audit Plans on time.

A total of 29 annual audit plans were not completed to schedule in Q4. All have now been completed.

Of the 15 Audit Scotland plans which were late; six were due to the delays to Audit Committee meetings due to Covid-19, one is a new body and eight were completed to schedule but were submitted to AQA late.

Of the 14 Firms plans which were, 10 were due to committee/covid-19 delays and four were for other reasons.

### Issues/ risks

The Covid-19 pandemic presents a broad range of strategic risks, these are covered in more detail in the Risk Register. Ensuring relevant and timely audit delivery is also challenging in such and uncertain situation. Audits which were substantially complete have been finalised and published as appropriate.

Deadlines for the financial audits have been extended, there remains a risk however that resources and capacity pressures (both on audited bodies and Audit Scotland) will require careful prioritisation and it may not be possible to complete all of the audits to the planned deadlines. While timescales may change the quality of audit will not be compromised.

The five-year rolling work programme is currently being reviewed and a revised programme will be considered by the Auditor General and the Accounts Commission in September 2020.

The additional strain and pressure on public bodies may also give rise to issues meriting qualification or noting in bodies' annual accounts. This may in turn lead to an increased number of statutory reports. This would place additional capacity pressures on Audit Scotland resources.

## Audit/report schedule 2019/20.

	Q1	Q2	Q3	Q4
Annual Audit Plans Audit Scotland (121)	FE 2 ✓			LG 59, NHS 10, CG 38
Annual Audit Plans Firms (99)	FE 18 ✓	FE 1 ✓		LG 34, NHS 12, CG 21
Accounts certified Audit Scotland (121)	NHS 10 ✓ CG 6 ✓	CG 35 ✓ LG 62 ✓	FE2 ✓ (Q4) CG 4 ✓ LG 4 ✓	
Accounts certified Firms (99)	NHS 13 ✓ CG 3 ✓ LG 1 ✓	CG 13 ✓ LG 38 ✓	FE 17 ✓ (Q4) CG 12 ✓	
Annual Audit Reports Audit Scotland (121)	NHS 10 ✓ CG 6 ✓	CG 30 ✓ LG 58 ✓	FE2 ✓ (Q4) CG 6 ✓ LG 13 ✓	
Annual Audit Reports Firms (99)	NHS 13 ✓ CG 1 ✓ LG1 ✓	CG 14 ✓ LG 37 ✓	FE 12 ✓ (Q4) CG 13 ✓ LG 9 ✓	
Performance Audit (7)	<ul style="list-style-type: none"> <li>•Social security ✓</li> <li>•Enabling digital government ✓</li> </ul>	<ul style="list-style-type: none"> <li>•Revenue financing of assets: The Non-profit distributing (NPD) and Hub models X</li> <li>•NHS workforce planning 2: primary care clinical workforce ✓</li> <li>•Finances of Scottish universities ✓</li> </ul>	<ul style="list-style-type: none"> <li>•Scotland's City Region and Growth Deals X</li> </ul>	<ul style="list-style-type: none"> <li>•Early learning and childcare: follow up ✓</li> <li>•Scotland's City Region and Growth Deals (Q3) ✓</li> <li>•Revenue financing of assets: The Non-profit distributing (NPD) and Hub models (q2) ✓</li> </ul>
Best Value Assurance Report (7)	<ul style="list-style-type: none"> <li>•Stirling Council ✓</li> <li>•North Lanarkshire ✓</li> <li>•Clackmannanshire Council: follow-up ✓</li> </ul>	<ul style="list-style-type: none"> <li>•Midlothian Council ✓</li> <li>•Perth and Kinross Council ✓</li> </ul>	<ul style="list-style-type: none"> <li>•Scottish Borders Council ✓</li> <li>•Highland Council X</li> </ul>	Highland Council ✓
Overview Report (3)	<ul style="list-style-type: none"> <li>•Scotland's colleges 2019 ✓</li> </ul>		<ul style="list-style-type: none"> <li>•NHS in Scotland 2019 ✓</li> <li>•Local government in Scotland: Financial overview ✓</li> </ul>	

## Appendix 2 – Performance detail

Statutory (12)	<ul style="list-style-type: none"> <li>•Scottish Public Pensions Agency ✓</li> </ul>	<ul style="list-style-type: none"> <li>•Highlands and Islands Enterprise ✓</li> <li>•Scottish Prison Service ✓</li> <li>•Scottish Government consolidated accounts ✓</li> <li>•Social Security Scotland ✓</li> </ul>	<ul style="list-style-type: none"> <li>•NHS Highland ✓</li> <li>•NHS Lothian ✓</li> <li>•NHS Tayside ✓</li> <li>•S22 Bord na Gaidhlig ✓</li> <li>•S22 Scottish Police Authority ✓</li> <li>•S22 Disclosure Scotland ✓</li> </ul>	<ul style="list-style-type: none"> <li>S23: Highland and Islands Enterprise (Q1 20/21) X</li> <li>S102 Glasgow City Council ✓</li> <li>S102 Fife IJB ✓</li> <li>S102 Renfrewshire Council ✓</li> </ul>
Other (22)	<ul style="list-style-type: none"> <li>•HCW- Safeguarding public money: are you getting it right ✓</li> <li>•West Dunbartonshire Council Tendering And contracting practices ✓</li> <li>•Drugs and alcohol services: an update ✓</li> <li>•Briefing - Enterprise and skills review ✓</li> <li>•Briefing - Public health reform ✓</li> <li>•Guide to the General Medical Services contract ✓</li> <li>•Briefing - Planning for outcomes ✓</li> <li>•HB Annual report ✓</li> <li>•Transparency Report 2018 ✓</li> </ul>	<ul style="list-style-type: none"> <li>•Impact - NHS workforce planning ✓</li> <li>•Impact - Transport Scotland's ferry services ✓</li> <li>•Impact - Self-directed support: 2017 progress report X</li> <li>•Impact - Equal pay in Scottish councils X</li> <li>•Briefing - Student Loans briefing X</li> <li>•Principles for community empowerment ✓</li> <li>•National Scrutiny plan for local government ✓</li> <li>•Fraud and irregularity update 2018/19 ✓</li> </ul>	<ul style="list-style-type: none"> <li>•Briefing - Operation of the fiscal framework ✓</li> <li>•Equal Pay Impact Report (Q2) X</li> <li>•Briefing - Cyber Security X</li> <li>•Impact - Self-directed support: 2017 progress report (Q2) ✓</li> <li>•Briefing - Student Loans briefing (Q2) X</li> <li>•Briefing – EU Withdrawal ✓ (was Q4)</li> <li>•</li> </ul>	<ul style="list-style-type: none"> <li>•EAFA ✓</li> <li>•Refreshed rolling 5-year work programme</li> <li>•EU withdrawal: briefing (Q3)</li> <li>•Student Loans Briefing ✓</li> </ul>
Planned (711)	83	226	160	249
Published (711)	100	301	106	183

**On time**  
 We delivered 91 per cent of audit/reports are on time.

The Section 23 report on Highlands and Islands Enterprise management of the Cairngorm Funicular was provisionally scheduled for Q4 (March 2020) publication prior to audit scoping. Following scoping and discussion with HIE it was agreed to publish the report in May 2020 (Q1). This timescale is subject to review as a result of the Covid-19 situation.

Several audits and other outputs were delayed from November/December as a result of the publications moratorium for the UK Parliamentary election. These included reports on; the City Region and Growth Deals, Privately financed infrastructure investment (NPD) and the Highland Council Best Value Assurance Report.

On time YTD	Number delivered on time	Number delivered Late	% of planned delivered to date	% on time	Comment
Annual Audit Plans – AS (121)	106	15	100%	88%	
Annual Audit Plans – Firms (99)	85	14	100%	86%	
Accounts certified – Audit Scotland (121)	115	6	100%	95%	
Accounts certified – Firms (99)	95	4	100%	96%	
Annual Audit Reports – Audit Scotland (121)	108	13	100%	88%	
Annual Audit Reports – Firms (99)	94	5	100%	95%	
Performance Audit (7)	5	2	100%	60%	The HIE report will be completed (subject to Covid-19) in Q1. One performance audit delayed initially for internal reasons but then (along with City Deals) delayed due to election moratorium.
Best Value Assurance Report (7)	6	1	100%	83%	The Highland Council BVAR was delayed due to the election publication moratorium.
Overview Report (3)	3	0	100%	100%	
Statutory (12)	14	0	117%	100%	Includes additional three s102 local government reports during Q4.
Other (22)	20	2	100%	88%	
<b>Total (711)</b>	<b>651</b>	<b>62</b>	<b>100%</b>	<b>91%</b>	

**On budget:** In Q4 the expenditure on audit is 3.93 percent over budget and within our five percent budget tolerance.

	Budget	Actual	£ Variance	% Variance
ASG	3,854,735	4,072,486	217,751	5.65
PABV	£1,806,730	£1,811,270	£4540	0.25%
<b>Total</b>	<b>5,661,465</b>	<b>5,883,756</b>	<b>222,291</b>	<b>3.93</b>

The 5.65% ASG variance is due to the timing of the EAFA audit which has 2 audit years running rather than the one. EAFA's year end is (October) which is different to all other audits which impacts on when resources are heavily input into that area.

PABV audits completed to the end of 2019/2020 were completed collectively within 0.25% of budget.

**Forward look:**

Audit Scotland has published [‘COVID-19 What it means for public audit in Scotland’](#) principles.

Our approach to audit will be flexible, pragmatic and consistent.

- Sound financial management and effective governance are more important than ever.
- Audit has a key role in providing assurance and aiding scrutiny during these difficult circumstances, and we will prioritise quality and independence.
- Our work needs to reflect the impact of COVID-19 on public services but also maintain a focus on the other key challenges facing Scotland’s public sector.
- We will safeguard the health and wellbeing of our colleagues at all times.

Financial audit - To reflect the pressure on public bodies, the deadlines for preparing accounts for public bodies are being extended. These changes will impact on timings for audit work and reporting.

Performance audit - The majority of performance audit work has been paused as we review our work programme and our capacity. The new work programme will be considered by the Auditor General and the Accounts Commission in September 2020.

The forward schedule of reports in the work programme is now subject to disruption and revision as a result of Covid-19. The preparation of annual accounts and the delivery of annual audit reports the scheduling of reports is not is likely to look the same as in previous years. This will mean that reporting on performance during 2020/21 may mean that comparisons with previous quarters of years may not be the most reliable method. We will review this on a quarterly basis.



Audit work is of high quality and we are systematically improving the quality of our work

Key Performance Questions	2018-19				2019-20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Are we assured about the quality of our work?	G	G	G	G	G	G	G	G
Are we improving the quality of our work?	G	G	G	G	G	G	G	G

### Key messages

The quality of audit work on audits is high and improving.

Our audit quality arrangements have been evolving over the past few years and are having a positive impact. Auditors are engaging with the Audit Quality Framework and addressing previous years' findings, leading to improvements in audit quality.

The Impact of Covid-19 is expected to affect timing of some audits and may also impact on the timing of quality reviews. Our priorities are managing the impact of Covid-19 on our staff and on our audit work and its quality, ensuring that audit quality is maintained.

The **Quality of Public Audit in Scotland annual report 2019/20** (QPAiS) will be published in June 2020.

The report includes the findings of the Institute of Chartered Accountants of Scotland (ICAS) reviews which found:

- no concerns with audit opinions.
- 71 per cent of annual audit files reviewed over the last three years were assessed as 'limited improvement required'
- considerable improvements in the documentation of performance audits and Best Value assurance reports this year with all reviews assessed as limited improvement required.

The **Audit Scotland Transparency Report 2019** will also be published in June 2020. Key messages include:

- All eight internal quality reviews were classed as 'good' or 'limited improvements required'
- Eighty-nine per cent of our staff feel encouraged to deliver high-quality audits and 63 per cent say they receive sufficient training.
- However only 27 per cent felt they had sufficient time and staff resources to deliver high-quality audits, a decline on last year's result.
- We have taken steps to address this by building capacity, through innovative approaches and by streamlining our work.

**Technical guidance/ notes** published in Q4 included:

We published the following to support quality of audits:

- Technical guidance notes
  - for auditors on risks of misstatement in 2019/20 annual report and accounts of central government bodies with a module dedicated to health boards
  - on 2019/20 independent auditor's reports for health boards
  - on dealing with statutory objections to local government accounts
- A bulletin on technical developments and emerging risks in the quarter
- 28 briefing notes to provide auditors with a synopsis of new technical documents

- a Good Practice Note on Management Commentaries

We delivered 4 training sessions on professional scepticism, audit assertions, issues and investigations, a PABV introductory session. These received very positive feedback.

In addition:

- Professional Support replied to 120 technical enquiries from auditors this quarter which was more than the 114 in Q3. 100% were within target response times this quarter (98% in Q3)
- Revised and improved financial statements audit programmes, remuneration reports and considering statutory other information were issued to auditors for the 19/20 audits
- Two thematic reviews covering the application of Substantive Analytical Procedures (SAPs) and audit sampling was undertaken in bodies across all sectors. Following these reviews, further training and guidance will be developed as part of planned quality improvements. Consideration is being given to re-running the training course on analytical procedures. Auditors are also to be reminded of the guidance available on the application of SAPs.

### **Forward look:**

- The ICAS and Professional Support training event based on the quality review findings to be held in Glasgow on 30<sup>th</sup> April 2019 is to be rearranged
- The Quality of public audit in Scotland annual report will be reported to the Accounts Commission and Audit Scotland's Audit Committee and Board in May/ June and published in June.
- We started a programme of peer reviews with the other UK audit agencies and the Irish audit Office. We will report on the findings from these in quarter 2 2020. To date we have had seven performance audit reports reviewed and are in the process of reviewing a number of other audit agencies reports.
- Professional Support will revise all 2020/21 planning, controls and final accounts programmes to ensure that they are fully compliant with International Auditing Standards and incorporate findings from quality reviews where deemed appropriate.

	<b>We get our messages out effectively</b>
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Key Performance Questions	2018-19				2019-20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Are we getting messages getting out effectively?	G	G	G	G	G	G	G	G

**Key messages**

- The top three reports in Q4 were Student Loans briefing paper, City Deals, Early Learning and Childcare: follow up.
- Communication figures across all three categories are up on same quarter last year.
- Regular ongoing engagement with Parliament and the Accounts Commission in Q4.
- We responded to four consultations and received 25 new correspondence concerns.
- We completed a public consultation on the new Code of Audit Practice on 24 April, responses are being analysed by the New Audit Appointments Steering Group which will consider how to finalise the Code in light of COVID-19.

**Engagement**

In Q4 we attended:

- 11 Parliamentary Committees with 26 attendees.
- Five meetings of the Account Commission and it's committees

Month	Parliamentary questions mentioning Audit Scotland	Mentions of Audit Scotland's work across committees	Mentions of Audit Scotland during FMQs	Audit Scotland staff appearances at committees	Total
January	9	13	6	6	34
February	1	22	13	2	38
March	4	10	5	4	23
Quarter Total	14	45	24	12	95

We responded to four consultations:

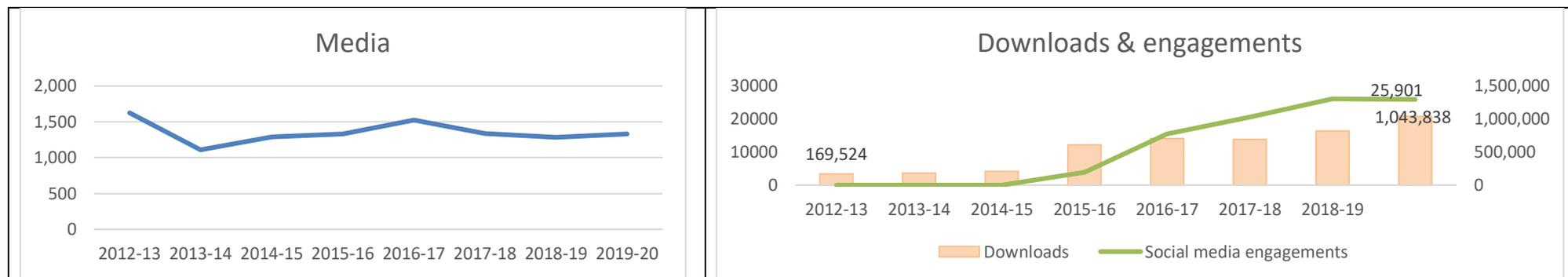
- An invitation to comment on 2019/20 accounting code
- On a proposed extension of the duration of a Part 2 order making powers in the Public Services Reform (Scotland) Act 2010.
- Data sharing for public service delivery, recovery of debt and counter fraud purposes
- The NFI fees and work programme- proposal to increase fees as well as introduce a mandatory match for Covid-19 business grants

**Communications**

- Media and engagements figures are higher than the same quarter last year (Q4 18/19 -Media 125, engagements 3,841, downloads 196,033)
- The media download and engagement trend data show the fluctuation over time but remains consistent overall.

	Q1	Q2	Q3	Q4	YTD	18/19
Media	304	340	354	335	1,333	1,283
Downloads	123,448	232,975	367,005	320,410	1,043,838	817,436
Engagements*	5,881	7,991	6,588	5,441	25,901	26,118

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



**Media**

The top 3 published reports by media coverage were: Student Loans briefing paper, City Deals, Early Learning and Childcare: follow up.

- The General Election of December 2019 and election moratorium period meant that some reports were rescheduled to January 2020, including City Deals, Revenue financing of assets, and a briefing paper on Student Loans.
- The student loans paper attracted the most coverage nationally and locally, reflecting the wide audience for the messages it contained. It had the most local reach of any report in the last year.
- Parliamentary committee evidence sessions on December’s Local Government Overview, s22 reports on the SPA, Bord na Gaidhlig and the Scottish Prison Service did much to add to the volume of coverage across Quarter 4.

**Downloads**

- The two most popular in Q4 were: The 2018 Children and Young People’s Mental Health report (around 3,000 downloads) and the 2019 NHS Overview (around 5,000 downloads).
- The City Deals report also attracted interest, with over 1,000 downloads in February and the Early Learning and Childcare report received around 760 downloads
- The NFI privacy notice 2018 remains the most popular download from the website.

**Social media activity**

- Report-related content generated most of our engagement on our social media channels. In Q4 news of a new Auditor General being appointed led to a notable spike in engagement on LinkedIn in March. Other human-interest success stories, such as the AGS ranking highly for leadership in the Best Companies awards, also boosted engagement rates.
- Video and animations/gifs remain our most popular forms of content. We used them to explain reports such as City Deals and our Early Learning and Childcare follow up, as well as what we do at Audit Scotland and why. There were over 5,000 views of this multimedia content (a separate stat from our other social media measures) across our different channels. Twitter and LinkedIn remain our strongest channels for engaging our audience with this content.

- Posts relating to the corona virus pandemic, namely our holding statement for stakeholders and a post thanking Scotland’s services public, were among the most engaged with across Quarter 4.

**Correspondence**

Audit Scotland handles a wide range of correspondence from members of the public, elected representatives and organisations. Figures for new and reopened cases are:

New correspondence cases	Q1	Q2	Q3	Q4	YTD	18/19
Number of cases	36	44	31	25	136	99
Acknowledgement within five working days	100%	95%	100%	100%	99%	99
Final response within 30 working days	94%	100%	100%	80%	94%	98

- Five final responses are pending (20%) and are still currently within our 30 working day deadline.
- No acknowledgements have been missed this quarter.
- One final response has been missed this quarter – the correspondent has received a holding response and phone call to update them on progress to date.
- For the same quarter last year, we reported 37 new cases with 100% acknowledgement and 95% final response targets achieved.
- In addition, we had 25 audit enquiries (compared to 24, Q4 17/18)– relating to queries about our work (e.g. figures within our reports, guidance and access to materials/reports)
- The annual report on correspondence was considered by the Audit Committee at its meeting on 6 May 2020

\*\*Note: change in what was reported in quarter 3. At the time of submitting data, we’d achieved 95% of responses within 30 days the remaining response was issued within the deadline, so this figure now shows as 100%.

**FOI/EIR/Complaints**

There were six FOI requests, no EIRs and no complaints in Q4. All FOIs were answered with the 20 Day deadline (three were answered within five working days)

**Covid-19 Statement**

**Forward look:**

- Covid-19 will be the main focus of media and other attention for some time to come. This is likely to impact on the communications and engagement measures.

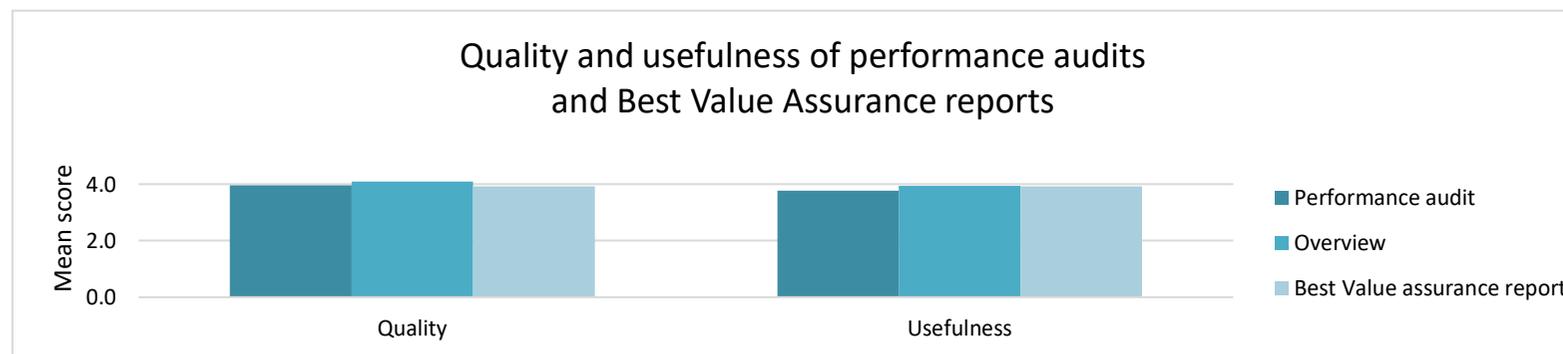
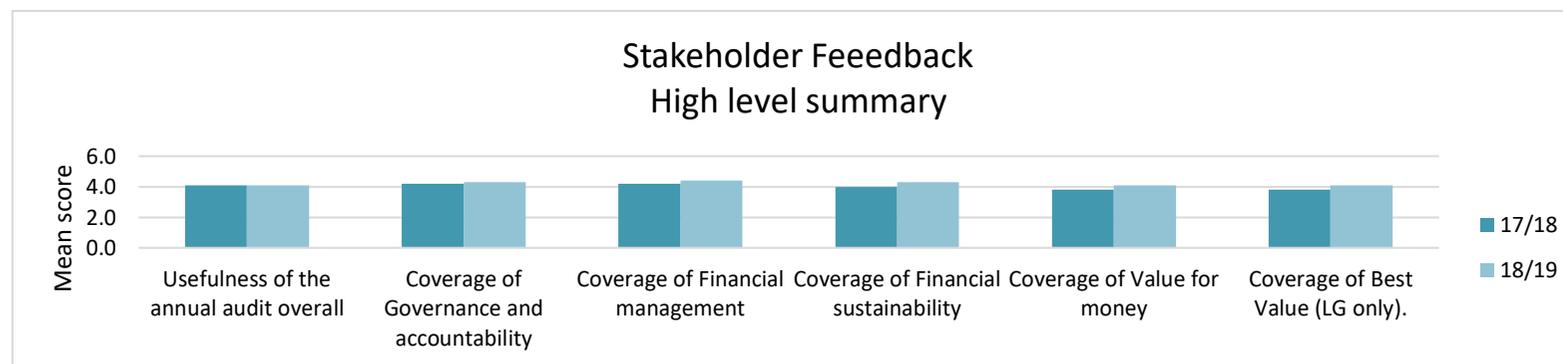
**Trend data:** [link](#)

 **We systematically deliver impact through our work**

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

**Key messages / Things to note:**  
 A further three statutory reports in local government were produced during quarter 4. These reports highlighted issues relating to councils and Integration Joint Boards.

Stakeholder feedback shows an improved level of satisfaction with audit and shows that audit work has had impact.



**Examples of where work has made a positive impact or feedback received include:***Central Government:*

- We queried the underlying assumptions used in a weighted average methodology for valuing the amount of stock and requested that management carry out a review to provide assurance that the assumptions were reasonable and appropriate. A new methodology will be applied in 2019/20, resulting in a more accurate inventories figure as at 31 March.
- The 2018/19 annual audit report recommended that the methodology for applying the valuation of biological assets be reviewed. The review resulted in the valuer applying a more up to date and appropriate methodology. This new valuation will provide a truer representation of the market value of these assets.

*Local Government:*

- In 2018/19 we completed an audit on the procurement and contracting practices at the council. Our audit found 10 additional weaknesses, not picked up by an earlier Internal Audit. All of our recommendations were accepted and are being progressed and the Audit Committee has noted the positive changes made.
- The 2018/19 AAR recommended improvements to financial reporting, including the impact of decisions on the reserves position of the IJB. In response a financial plan 2020/21 - 2029/30 has been prepared and will be presented at the next Performance, Finance and Audit Committee.
- The 2018/19 BVAR report recommended improvements to public performance reporting. The BV follow-up showed the council's public performance reporting now has much clearer links to the objectives laid out in the 5 year Business Plan.
- The BVAR report in 2018/19 recommended the council review and whether the structure of its ALEO's remained fit for purpose. BV follow-up work found that the council has undertaken a thorough review of the structure of its ALEOs.
- The 2018/19 BVAR report recommended that the Community Planning Partnership review its reporting structures and report performance against its local outcome indicators. The BV follow-up work concluded that the Council/CPP had reviewed the reporting structures and that these were now much clearer.
- After discussions with the local audit team, the council have been able to wind up another trust fund in 2019/20. Local food banks were asked to submit funding applications to spend the remaining funds, saving the council administration costs and benefiting the local community.

**Insight and foresight**

The [briefing paper on student loans](#) in Scotland published in January 2020 provided an overview of student loans in Scotland and highlighted some of the key data trends. Key points from the paper included:

- Total loan debt increasing from £2.5 billion in 2011 to £5.5 billion in 2018-19
- £590m of the 2018-19 total loan debt impaired by the Scottish Government, reflecting the planned increase in the loan repayment threshold to £25,000
- Over £533m of loans authorised in 2018-19 – an increase of 185% since 2008-09, with poorer students borrowing more
- And 505,800 individuals with loan debt still to repay as of April 2019.

Colleagues provided an informal briefing to the Health and Sport Committee about our [NHS in Scotland 2019 report](#) ahead of its inquiry into the supply and demand for medicines in Scotland.

Audit Scotland hosted CIPFA in early March, looking at key issues facing local government pensions. The event was attended by auditors and Local Government Pension Scheme officers covering governance, accounting, valuations and strategic issues.


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

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

**Key messages:**
**Examples of new improved processes, products and services include:**

The Scotland's Colleges 2020 overview team is working with the Communications Team to develop a more graphical interactive report than the traditionally text based output. This should make the detail (including financial data) more accessible to a wider audience. However, the publication date is likely to be affected by Covid-19.

The quality review findings will be reported to ASG/PABV from internal and external findings. Areas for improvement if they are found to be consistent across several audits will be used to inform future training.

**Are products and study programmes suitable and appropriate for emerging issues?**

The Auditor General and Accounts Commission rolling 5-year work programme was formally approved in March. The Performance Audit work programme is being reviewed in light of the impact of Covid-19.

On 17 March Audit Scotland advised all staff to work from home, due to the Covid-19 lockdown. This transition was implemented through the Business Continuity Plan and the Incident management procedures. Digital services were maintained successfully with an extended helpdesk support and the roll out of MS teams (ahead of planned).

**Forward look:**

We are developing new ways to carry out audit work and support colleagues as a result of Covid-19 and at what outputs may best be used to share messages.

A new digital case management approach to managing public correspondence is being developed by the Correspondence Team and Digital Services. The intention is for this to go live early in 2020/2021 (potentially Q1).


**We manage our resources effectively and maximise efficiency**

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

**Key messages**

- The core budget outturn was a £125k (1.7%) underspend.
- The capital budget outturn was a 9K (6%) underspend.
- The IAS 19 funded pension costs were £4,138k less than budget which contributed to the favourable out-turn to budget of £4,263k.

**Resource management**

In the 12 months to 31 March 2020 Audit Scotland's Net Operating Expenditure was £13,875 which was £4,263k less than budget

	Q1	Q2	Q3	Q4	18/19
Actual	(1,233)	(2,760)	(5,185)	(13,715)	(9,827)
Budget	(1,422)	(2,747)	(5,208)	(17,442)	(9,891)
Variance	(13.3%)	(0.5%)	0.4	24.5%	0.6%

**Staff** - The average number of staff in the quarter was 99.8% of the establishment.

	Q1	Q2	Q3	Q4	18/19
2019/20 establishment w.t.e	286.4	286.4	286.4	286.4	279.5
Average number of staff employed in 2018/19 w.t.e:	280.2	281.6	284.7	285.9	278.6
No. of staff at end of quarter w.t.e:	284.7	276.9	289.9	291.1	283.6

**Staff and Agency costs** – The total staff costs in the 12 months to 31 March 2020 243k more than budget.

	Annual Budget £000	Actual YTD	Budget YTD	Variance	Actual Average WTE	Budget WTE
Total Staff costs 2019-20	16,726	16,684,	16,726	42	300.9	297.1
Total agency & secondments 2019-20	206	521	206	(315)		
Q4 Staff costs 2018-19	15,832	15,825	15,832	7	293.1	285.5
Q4 agency & secondments 2018-19	125	135	125	(10)		

**Legal, professional and consultancy** spend is above budget for 2019/20. The increase in budget was due to the planned increase in consultancy for the next round of audit procurement. The main reason for the overspend is due to work of the firms on 5 best value assurance reports in the financial year (a total cost of £174k). The majority of the budget overspend is being met from the favourable net position in respect of the firms' financial audit work.

	Q1	Q2	Q3	Q4
Actual	87	221	382	741
Budget	83	230	341	597
Prior year spend	54	150	258	740

**Estate** - Estate costs in the 12 months to 31 March 2020 are the above budget and last year's expenditure.

	Q1	Q2	Q3	Q4
Actual	202	403	620	944
Budget	206	413	620	904
Prior year spend	209	392	618	917

**Costs of travel** - Travel costs in the 12 months to 31 March 2020 are lower than budget and last year's expenditure.

	Q1	Q2	Q3	Q4
Actual	207	433	627	835
Budget	217	433	650	867
Prior year spend	227	455	626	889

**Capital Expenditure and Funding** – Capital investment for the twelve months to March 2020 was £141k, £9k less than the available budget of £150k.

The majority of investment was IT related and included HR software, printer software and laptops. All of the IT purchases complements our digital services strategy with the emphasis on enhanced security enabled equipment and software.

#### IT network up time

	Q1	Q2	Q3	Q4	18/19
IT Network					
IT uptime (%)	99.36	99.43	99.98	99.36	99.6
Working hours lost	1517	1439	40.7	631.8	3758
Average time lost per person (minutes)	5.2hrs	4.55hrs	0.13	2hrs	660

The majority of the downtime this quarter was due to two major outages, an internet slow down affecting all staff for over an hour and an issue with the Citrix which meant people could not login for an hour. There were minor issues with the Glasgow connection which would have been significant but were caught early in the morning and resolved before most staff were affected.

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

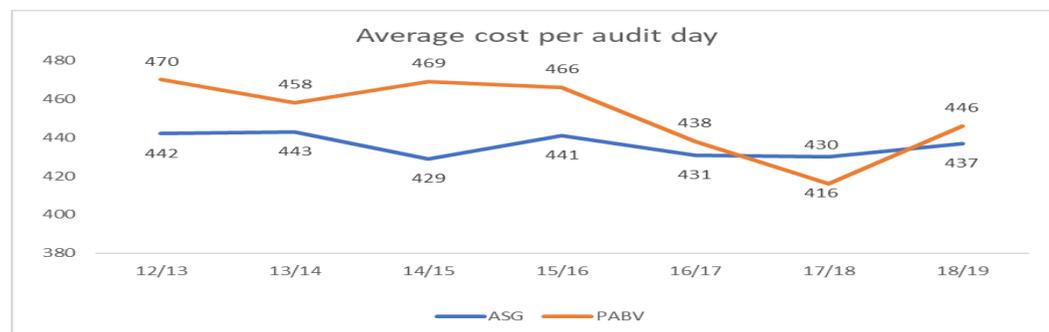
- 96.75% (864/893) of incidents were accepted within the response time SLA.
- 95.53% (853/893) of requests were closed within the fix time SLA.

- An average of 2.8 incidents were logged per user.

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

	19/20%				18/19%			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
ASG	57	71	57	63	60	73	60	64
PABV	72	74	64	73	70	70	65	69

**Average cost per audit day**



The main reasons for the increased PABV average cost per audit day compared to previous years can be attributed to:

- the increased number of central government and health statutory reports in Q2 and Q3. These reports are generally prepared by senior managers
- the relatively 'rich' grade mix within some performance audit teams. Each of the audits completed to the end of Q3 had teams comprising Audit Managers and Senior Auditors. This was a conscious resourcing decision due to the teams containing part-time Audit Managers and new Managers, both situations that merit the inclusion of a full-time Senior Auditor within the teams. We also completed an Audit Manager led How Councils Work report which has considerably higher 'per day' costs than a traditional audit (ie Manager, Auditor and Trainee for example)

**Forward look:**

- Covid-19 is expected to have an impact on many areas of resourcing in 2020/21. We are currently reviewing the budget to identify areas where an increase in expenditure is likely, where expenditure will be lower and where savings can be made. We also anticipate productivity of colleagues we be adversely affected.

Trend data: [link](#)



## We manage information and intelligence effectively (internal)

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

### Key messages:

During 2019 we implemented Office 365 and completed the transition to SharePoint online. This has been a significant contributing factor in colleagues quickly and effectively being able to work from home with effect from 17 March 2020. Support and guidance for some aspects of Office 365, most notably Teams, was rapidly rescheduled to support colleagues in new ways of working. We have used multiple platforms to communicate and engage with colleagues.

The Annual Conference 2020 due to be held in April 2020 in Edinburgh was cancelled due to Covid-19. This will now be a series of virtual interactive events throughout the May and June.

We maintained our ISO 27001 accreditation in March following a recertification audit. The next review will be in October 2020.

### Key projects update:

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

These include:

- ISO audit - re-certification against the ISO27001:2013 standard (completed remotely)
- Microsoft Teams - full organisation roll out of new communication tool
- Dealing with WFH requests - to facilitate staff requests for digital equipment for working from home in a compliant manner
- PMF dashboards - performance management and management information dashboards developed for all staff and user testing under way
- Time Recording app - ongoing development and improvements releases for internal time recording

### Issues/ risks/ actions:

- Covid-19 requires the prioritisation/ deprioritisation of some projects
- Projects do not run to schedule and delays in one project may impact on the others.

### Forward look:

- We are currently reviewing the Strategic Improvement Programme to prioritise developments in areas which support the immediate response to Covid-19 and projects and which support longer-term home working.


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

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

**Key messages**

- Audit Scotland featured in the 'Sunday Times Top 100 Not-for-profit company to work for' for the second successive year.
- Audit Scotland maintained the Healthy Working Lives Bronze award and achieved accreditation at Silver level in March 2020.

**Empowered and engaged:**
**Highly Skilled**

- Management Development – we delivered a Managing Performance clinic (open to all managers) in February and a workshop on Emotional Intelligence in March. The latter was primarily targeted at the current cohort working through the five Management Essentials. There were also a couple of training consolidation sessions for Emotional Intelligence (Jan) and Coaching Skills for Managers (Feb).
- Technical training included mandatory Audit Assertions (Jan), Professional Scepticism (Feb), Understanding the Scottish Economy with Prof Graeme Roy (Feb) and Making Audit Judgements (March).
- Applications for our School leaver programme 2020 closed in March.

**Wellbeing**

- Audit Scotland maintained the Healthy Working Lives Bronze award, confirmed on 3 March 2020 (held for the sixth year running). Accreditation at Silver level was subsequently confirmed following an external assessment on 24 March 2020. This process involved sharing a portfolio documenting policies, practices and activities across a range of criteria including healthy eating, physical exercise and mental health training.
- Other wellbeing-related events promoted on the L&D portal included the *Mentally Healthy Workplaces training for managers*. Two were scheduled; one at the end of January and one at the beginning of February. These are externally hosted by HWL and open to all colleagues.
- Further EU withdrawal drop-in sessions were delivered for staff.

**Career Paths -**

2 colleagues went through a Career Development Gateway in Q4.

**Absence levels** remain low and are consistent with previous years and we remain below the 2019 CIPD benchmark for absence levels is 5.9 days.

	Q1 days	Q2 days	Q3 days	Q4 days	ytd days
<b>Audit Scotland – 19/20</b>	1.6	0.46	1.33	1.32	4.97
Audit Scotland - 18/19	1.28	0.76	1.41	1.4	4.85
Audit Scotland - 17/18	0.69	1.16	1.07	1.12	4.40
Audit Scotland - 16/17	1.03	1.37	1.27	1.28	5.32

**Staff turnover** -. All leavers for 19/20 (6.32%) is significantly lower than the last 18/19 financial year (11.26%). The total amount of resignations is lower as most leavers are due to retirements and end of contracts. Both turnover measures are below the CIPD benchmark.

	Q1	Q2	Q3	Q4	YTD	18/19	CIPD benchmark
Resignations %	1.34	1.0	0.33	0.33	3.34	6.72	10.0
All Leavers %	1.68	1.33	1.98	0.99	6.32	11.26	16.5

**Career paths** In Q4 we promoted eight colleagues and welcomed seven new colleagues.

	19/20 YTD	18/19
Vacancies filled		
Internal	19	15
External	35	15
<b>Total</b>	<b>54</b>	<b>30</b>

**Exam results:** There were 8 exams taken and 7 passes. The percentage pass rate for the 19/20 year of 83.6 per cent is slightly below last years but the small numbers involved means the percentage rate can vary sharply. Exam sittings are now likely to be impacted by the COVID-19 outbreak.

	Q1	Q2	Q3	Q4	YTD	18/19
Exams taken	8	27	79	8	122	112
Exams passed	6	20	69	7	102	96
% pass rate	75	74	87	88	84	86

**Highly skilled** - Over the last three years we have run 80-100 events a year with 1300-1400 attendances. Q3 in 2019/20, as with previous years, was our busiest quarter for formal learning and development.

The final outturn shows that the number of events across a range of topics continued to be comprehensive. The final attendee numbers are than to 2018/19. This is mainly due to (1) the number of last minute training cancellations over the last year rose and (2) the January all staff conference (usually falling in Q4) was rescheduled to April. The conference usually has approx. 250 – 280 attendees.

	Q1		Q2		Q3		Q4		YTD		18/19	
	Events	Attendees	Events	Attendees								
Health & Safety	2	28	0	0	5	85	2	4	9	117	1	25
Knowledge Cafes	2	10	0	0	6	102	5	42	13	154	12	266
Learning & Development	2	17	3	35	6	106	2	26	13	184	8	64
Management Development	5	19	3	7	4	20	4	25	16	71	8	54
Organisational Development	8	38	4	30	6	25	1	1	19	94	26	496
Technical Training	7	151	3	39	13	185	5	62	28	437	31	469
<b>Total</b>	<b>26</b>	<b>263</b>	<b>13</b>	<b>111</b>	<b>40</b>	<b>523</b>	<b>19</b>	<b>160</b>	<b>98</b>	<b>1057</b>	<b>86</b>	<b>1,374</b>

**Forward look:**

- An L&D options paper was shared with MT on 2 April 2020. The L&D newsletter sharing what learning events are taking place over the next month or two will be sent to all colleagues on 21 April.
- A range of technical training workshops will be delivered by Professional Support over April and May, and they are also preparing some smaller bitesize learning videos which will be shared on Microsoft Stream.
- Management Development coaching clinics are continuing to take place virtually
- The third year Trainees are preparing to deliver this year's Peer to Peer training to our first year trainees at the end of April.
- We have made 10 job offers to Graduate Trainee candidates who will join us in Autumn 2020 following a successful recruitment campaign.
- Interviews for School Leaver candidates will take place virtually over w/c 27 April.
- The Audit Director recruitment campaign went live, with a closing date of 11 May. Virtual interviews are set up for week commencing 1 June 2020.

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

## Purpose

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

## Background

2. The strategic improvement programme is a key enabler for achieving our vision of being a world class audit organisation. The programme includes a broad range of improvement work which supports the delivery of the two main organisational objectives set out in [the 2019/20 Corporate Plan update](#):
  - Delivering world class audit.
  - Being a world class organisation.
3. The improvement work is delivered through a combination of improvement projects and development work lead by working groups, standing forums and professional leads.
4. The quarterly update reports provide updates on recent activity and the future plans in key areas of work. Management Team and the Board considered the Q3 update at their meetings on 25 February and 24 March 2020 respectively.
5. This report considers the progress made in delivering the strategic improvement programme in 2019/20 and provides an update on the programme going forward in the context of the Covid-19 situation.

## Review of 2019/20

6. Progress on the improvement programme in 2019/20 has been good.
7. Performance headlines under each of the strategic objectives are summarised below.

## Delivering world class audit

In 2019/20 we:

- Published the new Audit Quality Framework.
- Continued to make improvements based on the internal and external quality reviews.
- Progressed our audit methodologies in a range of areas, including:
  - financial audit methodology - including progress on wide range of areas including; audit planning and risk assessment; controls auditing; and audit sampling
  - performance audit methodology - including the adoption of INTOSAI standards and revision of the Audit Management Framework
  - devolved financial powers and social security
  - Best Value audit approach for councils and IJBs
  - Digital audit - developing our approach and building our capacity.
- Reviewed and updated the five-year rolling work programme.
- Developed a new Code of Audit Practice and an approach to support the procurement of the new audit appointments.



## Strategic improvement planning 2020/21

8. On 16 March the Incident Management Team initiated the Business continuity Plan in response to the Covid-19 pandemic.
9. The first phase of the response focussed on the health, safety and wellbeing of colleagues and core business continuity. This included closing the offices, the adoption of non-contact audit work, regular multi-channel communications (internally and externally) and supporting remote working for auditors and support services.
10. We are now focussing on the medium and longer term, to develop a new operating model in an uncertain and changing environment. This will require the prioritisation of development work which supports new ways of working, it also means that some planned development work may be put on hold or rescheduled.

### Delivering world class audit

11. We are developing a prioritisation framework to help ensure that the audit work meets statutory and regulatory requirements and is focussed where it can add the most value. Our ability to do the audit work depends on the ability of the audited body/subject area to be audited and our own capacity to deliver that audit work.
12. Audit deadlines for financial audit work have been extended through a combination of legislation and guidance from the Scottish Government, by professional bodies and regulatory bodies. Audited bodies are taking different approaches, with some intending to stay with the original timescales and others working to the new deadlines. This situation is very fluid, and some bodies have already changed their view on which approach to take.
13. The new five-year rolling work programme had been agreed by the Auditor General for Scotland and the Accounts Commission in March 2020. However, given the unprecedented changes created by Covid-19 pandemic a major review of the priorities and focus of the work programme is now taking place with the aim of having new programme proposals prepared for the Auditor General for Scotland and Commission in September 2020. We are also refocusing cluster activities to monitor the impact on and response from public bodies to Covid-19 to help inform our future work.
14. Preparations for the new audit appointments were well under way. The Steering Group is now proposing an extension of the current audit appointments for a year and the project workstreams are being re-scheduled to provide for this.
15. This rescheduling has a consequential impact on the timing of the development work for the new approach to best value auditing in councils and IJBs.
16. The development of a revised Audit Services audit methodology is currently progressing to schedule, though as with the other improvement projects, resourcing challenges may require changes to be made to the scope and timescales.
17. The development of a new Digital Audit Strategy is progressing. The current situation reframes the context for this, with auditing digitally likely to be an increasing feature under the social distancing requirements.

### Being a world class organisation

18. To date we have responded well to the very challenging circumstances. We have prioritised the health, safety and wellbeing of our colleagues, supported effective working from home and worked hard on regular, clear and consistent communications with colleagues. Feedback from colleagues on the communications has been very positive to date.
19. Several digital projects during 2019 and early 2020 (including hardware, cloud-based systems, office 365 and SharePoint on-line) have meant that colleagues have good access to systems. The roll out of MS Teams was accelerated to support effective communications.
20. Financial systems and services have been sustained well, including payroll, payments, the comptroller function, accounting and budgeting. We are now focussing on the financial planning for 2020/21 and the medium-term financial plan, including the fees and funding model.

**21.** We are currently implementing arrangements to support home working (IT kit and office furniture) and developing our thinking on what 'the new normal' will mean.

**22.** Our working assumption is that we will not fully return to our previous ways of working and this has implications for:

- Our people – where and how we work, how we have effective team working and communication and the development of a new working culture.
- Our approach to audit.
- Capacity, resourcing and deployment - where the dynamic situation needs an ever more agile and flexible approach to prioritising particular audit work and deploying people.
- Financing - the fees and funding model in the longer term.
- Our systems and processes - which will need to be re-thought and refined to support the new ways of working.
- Our infrastructure - reassessing and redefining our office estate and workplaces.
- Digital - prioritising systems and equipment which support the even more flexible working practice and dispersed workforce. The programme of digital projects has already been reviewed, with projects being re-prioritised and rephased as required.
- Communications and engagement, internally and externally.

**23.** These areas are likely to form the basis of the development work in 2020/21 .

## **Recommendations**

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

- The significant progress made on the strategic work programme to date.
- The ongoing review of improvement work to support new ways of working in the short, medium and longer term.

## Introduction

1. The United Kingdom left the European Union on 31 January 2020. A transition period exists until 31 December 2020 during which the United Kingdom and the European Union have to agree how their relationship will operate in the future. If the United Kingdom wants to extend the transition period, it must request this by 30 June 2020. The UK Government has stated that it does not wish to extend the transition period.
2. This paper updates the Board on the process of withdrawal from the European Union and Audit Scotland's response to it.

## Background

3. Negotiations between the United Kingdom and the European Union began in February 2020 but were interrupted by the Covid-19 pandemic. They started again in April 2020 but limited progress appears to have been made to date.
4. The Scottish Government is arguing that the United Kingdom should seek the maximum possible extension to the transition (two years), especially in the context of the ongoing pandemic and its likely aftermath. The Scottish Government is also seeking to influence the United Kingdom's negotiating position.
5. Recent discussions with the Scottish Government indicate that it has reactivated its systems for preparing for an abrupt, "no deal" at the end of the transition period. It has not yet re-established the ministerial group on EU exit or the senior management group that supports it but that is likely to happen over the next few months.

## Implications

6. There has been much commentary over the economic implications of EU withdrawal. In February 2020, the Office of Budget Responsibility predicted that EU withdrawal would result in a 4% loss of potential GDP growth over the next 15 years. In the short to medium-term, the economic impact of Covid-19 will likely dwarf that of EU withdrawal. However, the ongoing uncertainty associated with EU withdrawal is a compounding factor that may intensify the overall economic impact. This will, of course, have an impact on public finances.
7. One of the most significant implications of EU withdrawal has always been the effect on inward migration and the consequences for the workforce. The combination of the Covid-19 pandemic and EU withdrawal will inevitably exacerbate this situation. The Scottish Government has been consistent in arguing for a separate Scottish migration policy but this has been rejected by the UK Government.

## Monitoring

8. Following the United Kingdom's departure from the EU in January 2020, monitoring of its implications for the Scottish public sector has been mainstreamed into Audit Scotland's work. This reflects the fact that the implications of EU withdrawal are now part of the wider operating environment that public bodies and partners are working within. The professional lead for EU withdrawal is continuing engagement with the Scottish Government and COSLA but the majority of monitoring work is conducted by local audit teams and within clusters. High level updates will continue to be provided to colleagues via Yammer. Engagement with staff who may be directly, or through family members, affected will continue.

## European audit implications

9. 2020 will be the final year when the European Agricultural Guarantee Fund (EAGF) will be subject to audit under the European rules. Beyond this point, HM Treasury has indicated that some form of audit

will continue but it is not clear what the future audit requirements or funding will be. The audit of the European Agricultural Fund for Rural Development (EAFRD) is currently due to continue under European regulations until February 2024 but the longer term position is unclear.

10. Collectively in 2020/21, the two European audits will provide over £1.0 million to Audit Scotland budget. Audit Scotland's medium-term financial strategy presents three scenarios for the two European audits: best case, worst case and expected case. The expected case anticipates some form of continuity of audit requirements but at a significantly reduced (50 – 75 per cent) level. This presents a significant financial risk.

## Recommendations

11. The Board is invited to note this update.

Additional Board meeting

Wednesday 19 August 2020 at 10.00am

By Teams

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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

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## 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

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## 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	
<b>TOTAL INCOME</b>	<b>18,692</b>	<b>4,346</b>	<b>4,639</b>	<b>(293)</b>	<b>-6.3%</b>	<b>5,098</b>	
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	
<b>EXPENDITURE</b>	<b>27,407</b>	<b>6,395</b>	<b>6,486</b>	<b>91</b>	<b>1.4%</b>	<b>6,332</b>	
<b>NET OPERATING (EXPENDITURE)</b>	<b>(8,715)</b>	<b>(2,049)</b>	<b>(1,847)</b>	<b>(202)</b>	<b>-10.9%</b>	<b>(1,234)</b>	

## Income and Expenditure Summary

### 1. Fee Income – In House

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

The table below shows the performance by sector at 30 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
<b>Total – June 20</b>	<b>-2.40</b>	<b>-191</b>	<b>+31</b>	<b>-</b>	<b>-160</b>

#### 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
<b>Total – June 20</b>	<b>-3.22</b>	<b>-152</b>	<b>+18</b>	<b>-</b>	<b>-134</b>

### **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			
<b>Total staff costs</b>	<b>18,023</b>	<b>4,400</b>	<b>4,369</b>	<b>(31)</b>	<b>303.6</b>	<b>302.4</b>	
<b>Total agency &amp; secondments</b>	<b>75</b>	<b>78</b>	<b>19</b>	<b>(59)</b>			

- 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

Wednesday 30 September 2020 at 10.00am

## By Teams

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1. Private meeting of Board members
  2. Welcome and apologies
  3. Declarations of interests
- 

## Standing items

- |   |                 |
|---|-----------------|
| 4. Chair's report – verbal update                     | For information |
| 5. Accountable Officer's report – verbal update       | For information |
| 6. Accounts Commission Chair's report – verbal update | For information |
| 7. Review of minutes: Board meeting 19 August 2020    | For approval    |
| 8. Governance arrangements: Review of Standing Orders | For information |
| 9. Review of action tracker                           | For information |
- 

## Business planning and performance

- |  |                 |
|--|-----------------|
| 10. Covid-19 update  | For information |
| 11. 2020/21 Q1 Corporate performance update  | For information |
| 12. 2020/21 Q1 Strategic improvement programme update                                | For information |
| 13. Remuneration and Human Resources Committee performance and future priorities     | For approval    |
| 14. Scottish Commission for Public Audit: Official report of meeting on 22 June 2020 | For information |
- 

## Strategic priorities

- |   |                 |
|---|-----------------|
| 15. 2021/22 Draft budget submission                       | For approval    |
| 16. European Union withdrawal update                      | For information |
| 17. Financial devolution and constitutional change update | For information |
| 18. New audit appointments update                         | For information |
- 

## Governance

- |   |              |
|---|--------------|
| 19. Annual review of Corporate governance policies  | For approval |
| 20. Annual policy review of records management policies                                   | For approval |
| 21. Annual policy review of freedom of information and environmental information requests | For approval |
-

- |  |              |
|--|--------------|
| <b>22.</b> Complaints handling procedure   | For approval |
| <b>23.</b> Proposed meeting dates for 2021 | For approval |
- 

## **Conclusion**

- |   |              |
|---|--------------|
| <b>24.</b> Any other business                     |              |
| <b>25.</b> Publication of papers                  | For approval |
| <b>26.</b> Review of meeting                      |              |
| <b>27.</b> Date of next meeting: 25 November 2020 |              |

Wednesday 19 August 2020, 10.00am

Audit Scotland by Videoconference

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## Present:

Alan Alexander (Chair)  
Stephen Boyle  
Heather Logan  
Elma Murray  
Jackie Mann

## Apologies:

Martin Walker, Associate Director, Corporate Performance and Risk

## In attendance:

Diane McGiffen, Chief Operating Officer  
Gayle Fitzpatrick, Corporate Governance Manager  
David Blattman, HR&OD Manager  
Stuart Dennis, Corporate Finance Manager  
Brian Howarth, Audit Director, Audit Services  
Fiona Kordiak, Director, Audit Services  
Fraser McKinlay, Director, Performance Audit and Best Value  
Colin Crosby, Non-executive board member designate (Observing)

### 1. Welcome and apologies

The Chair welcomed Stephen Boyle, Auditor General for Scotland to his first Board meeting in his new role and Elma Murray in her new role as Interim Chair of the Accounts Commission. The Chair also welcomed Jackie Mann, new member of the Board from 10 July 2020, and Colin Crosby, new member of the Board from 1 October 2020, who had been invited to observe today's meeting.

The Chair advised of apologies received from Martin Walker, Associate Director, Corporate Performance and Risk, due to a family bereavement and members extended their condolences.

The Chair thanked members for accommodating today's additional meeting of the Board to consider Audit Scotland's response to the impact of Covid-19.

### 2. Declarations of interest

There were no declarations of interest.

### 3. Chair's report – verbal update

The Chair advised of meetings and discussions with the Scottish Commission for Public Audit (SCPA) in relation to the recruitment of Board members as well as initial induction meetings with both new members Jackie Mann and Colin Crosby. The Chair also advised the Board of the useful evidence session with the SCPA to consider Audit Scotland's Annual report and accounts on 22 June 2020.

Alan invited members to note regular meetings with Diane McGiffen, Chief Operating Officer in relation to the preparation for the session with the SCPA, member recruitment and induction and with David Blattman, HR & OD manager. He noted that the the annual report of Remco performance and priorities will come to the next meeting of the Board on 30 September 2020, and that Jackie Mann had agreed to chair the Remco.

Alan also advised members of his own Chair's induction programme which had involved meeting with members of Management Team, Stuart Dennis and the scheduling of ongoing monthly meetings with Stephen Boyle as Accountable Officer, and Diane McGiffen.

The Board welcomed the update.

#### **4. Accountable Officer's report – verbal update**

Stephen Boyle advised he was delighted to be attending his first Board meeting as Accountable Officer and Auditor General for Scotland, he extended a warm welcome to Elma Murray and Jackie Mann to their first formal Board meetings. Stephen advised of initial meetings with both and one planned shortly with Colin Crosby. Stephen advised of meetings with Elma Murray to discuss their shared roles and responsibilities, as recipients of services from Audit Scotland, and also to discuss how public audit responds to the challenges arising from the current operating environment.

Stephen recorded his thanks for the support for his own induction, particularly from Diane McGiffen, Fraser McKinlay and Fiona Kordiak as members of Management Team and advised of meetings with colleagues from across Audit Scotland since his appointment.

Stephen highlighted the impact of Covid-19 on the fundamental shape of work and personal lives and welcomed today's discussions on how Audit Scotland responds to the challenges for the future of public audit in Scotland.

Stephen advised of a range of external introductory meetings as Auditor General for Scotland: with the Cabinet Secretary for Finance, the Chair of the Scottish Government Audit and Assurance Committee and the Chief Executive of the Scottish Parliament. Stephen advised that he had attended the Public Audit and Post Legislative Scrutiny Committee (PAPLS) for the first time as Auditor General for Scotland. He invited members to note that this had been a private session with the Committee at which he had welcomed the opportunity to introduce himself as the new Auditor General and also to hear their areas of interest. Stephen advised that the PAPLS had restated its commitment to, support for and the value of the work received from Audit Scotland.

Stephen advised of initial considerations underway on the forward work programme for the Auditor General and Accounts Commission in advance of formal consultation to help shape the public audit response.

Stephen advised that Audit Scotland's Management Team had met with the Audit Partners on 17 August 2020 and discussed the experience of deliverability of public audit in light of the pandemic. He advised that the experience of the audit firms is similar to that of Audit Scotland: managing the wellbeing of colleagues, understanding the challenges of delivering audit work remotely and awareness of what this means for the current and longer term financial implications for public audit.

Stephen reported that annual audit work is progressing variably, with some audits in the NHS and Central Government completed but with others taking longer as audited bodies face challenges to meeting audit deadlines. He also drew attention to the potential impact on fee income and statutory reporting deadlines which may lead to a delay in the certification of the Scottish Government's consolidated accounts.

Stephen advised that Management Team and the Incident Management Team have rightly prioritised the wellbeing of our colleagues and that Audit Scotland offices have remained closed since March 2020, with colleagues working from home. He noted colleagues' experiences had been varied depending on their own circumstances, particularly those with caring responsibilities and those in shared housing. He went on to note that as progress on the Scottish Government's routemap is achieved, Audit Scotland is looking at how to provide some limited access to Covid-secure offices in exceptional circumstances.

Stephen advised of his appreciation and support from colleagues and teams from across the organisation in the past few weeks and paid tribute to their resilience in delivering quality audit work.

The Chair asked about the impact of remote auditing. Stephen advised that where bodies had been less able to invest in IT to support remote working there were challenges, but that this varied between

organisations. Stephen advised that auditors and audited bodies have responded well generally and audit teams are liaising as appropriate to track and monitor those risks.

Following discussion, the Board welcomed the update.

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

Elma Murray welcomed Jackie Mann and Colin Crosby to the Board.

Elma advised that the previous Chair of the Accounts Commission had retired at the end of July and that Scottish Ministers have now appointed Tim Mackay as the Interim Deputy Chair.

Elma advised that the Accounts Commission had published four reports since the last meeting, an Equal Pay in Councils Impact Report, the Local Government Overview: Performances and Challenges for 2020 Report, a Best Value Report on North Ayrshire Council and the Commission's Annual Report for 2020.

Elma advised that the Accounts Commission held its strategy session on 12 August 2020 with the Auditor General for Scotland as the keynote speaker. She advised that the session also considered the key messages from the Accounts Commission support review which will be taken to the Remuneration and Human Resources Committee meeting on 2 September 2020. She advised that the Commission is exploring its core purpose and focus over the coming months and reviewing its immediate work programme with further discussion at its meeting on 10 September 2020, together with consideration of the longer term work programme. Elma advised that the Commission is creating an Insight Programme to invite external stakeholders to share their experiences and challenges arising from the Covid-19 pandemic. Elma expressed appreciation for the work of Audit Scotland colleagues in supporting the strategy session.

Elma also advised members of recent meetings with the Auditor General for Scotland, Alan Alexander and Jackie Mann as part of her induction programme.

Elma invited members to note the work underway with Audit Scotland colleagues to explore the Accounts Commission's future approach to the Local Government Overview reports and advised she will be attending the Local Government and Communities Committee on 28 August 2020 to give evidence on the Local Government Overview Report published at the beginning of July 2020 and also to talk about emerging risks from Covid-19 for audit practice.

Elma advised she has also been working with the team taking forward the new audit appointments to consider how to develop the Code of Audit Practice further and that this was progressing very well.

In terms of external engagement, Elma advised of meetings with COSLA, the Improvement Service, SOLACE, The Carnegie Trust and SCVO, highlighting the importance of strong relationships with the Commission and opportunities for further engagement, including critical areas for local government and IJBs and partners as they emerge from the pandemic. She also advised of Best Value reports on North Ayrshire and Moray Councils and follow up discussions with Argyll and Bute Council.

Elma noted that the Commission is keen to return to meeting in person when that is possible.

Finally, Elma expressed her thanks to Audit Scotland colleagues for their support since her appointment.

The Board welcomed the update.

## **6. Review of minutes: Board meeting 1 June 2020**

The Board considered the minutes of the meeting of 1 June 2020, which had been previously circulated.

The Chair invited any comments and, there being none, the Board approved the minutes as an accurate record of the meeting.

## 7. Governance arrangements: Review of Standing Orders

Gayle Fitzpatrick introduced the Governance arrangements: Review of Standing Orders paper, copies of which were previously circulated.

Gayle invited the Board to confirm that its meetings will continue to take place via videoconference and that attendance is limited to members and those presenting reports and that the variations to the Standing Orders are kept under review and considered at each Board meeting until further notice. Gayle also invited the Board to note that the annual review of the corporate governance policies were scheduled to come to the Audit Committee on 2 September 2020 and the Board on 30 September 2020.

The Board discussed and agreed that the governance arrangements for virtual Board members remain in place and members agreed the ability to open up meetings to the public should be considered further as part of the annual review of the corporate governance policies to ensure inclusivity, openness and transparency. Diane McGiffen agreed to report back to the Board at its next meeting on the options available.

Following discussion, the Board approved the recommendations.

**Action ASB18: Diane McGiffen to report back on the options available to support public meetings of the Board. (September 2020)**

## 8. Review of action tracker

The Board noted the updates provided on the action tracker.

Gayle noted that the wider scope governance review was originally scheduled to come to the Board on 30 September 2020 (Action ASB114), but suggested that with new members joining the Board this be rescheduled to the Board meeting scheduled for 25 November 2020. The Board recognised the value of new members having the opportunity to complete their respective induction programmes and participate in meetings prior to the review and following discussion agreed that this would come to its meeting in November 2020.

Elma Murray requested sight of the Chair's letter to the Chair of the Scottish Commission for Public Audit referred to at Action ASB116 and the Chair agreed to share a copy of the letter with Board members.

**Action ASB19: The Chair to share a copy of the letter to the Chair of the Scottish Commission for Public Audit. (August 2020)**

## 9. Covid-19 update

*David Blattman, HR and OD Manager, Stuart Dennis, Corporate Finance Manager, Fraser McKinlay, Director, Performance Audit and Best Value, Brian Howarth, Audit Director and Fiona Kordiak, Director, Audit Services, joined the meeting.*

Diane McGiffen introduced the Covid-19 update report, copies of which had been previously circulated.

Diane welcomed the opportunity to discuss Audit Scotland's response to Covid-19 with the Board given the fast moving nature of the pandemic and provided a summary of the known operational issues for Audit Scotland. She invited the Board to consider some of the short term issues and future implications and risks highlighted.

The Chair welcomed the comprehensive report and invited members' questions and comments.

During a detailed and wide ranging discussion the Board considered the changing dynamics of the pandemic following the easing of restrictions for some, new local restrictions being put in place for others, increased flexibility for colleagues who have children returning to school alongside increased risks in other areas.

The Board welcomed Audit Scotland's primary focus on the health, safety and wellbeing of colleagues, the support provided for colleagues through the provision of technical support and equipment, the implementation of home workplace assessments and commended the engagement and communication from Audit Scotland's Management Team. Members also welcomed the work being undertaken by a working group to consider the logistics and limitations of reopening offices to ensure a Covid secure workspace for a small number of colleagues, subject to strict criteria and the appropriate risk assessments being undertaken. David Blattman agreed to provide a note on health and safety responsibilities of home working for information and also to share the link to the homeworking assessment tool. Diane McGiffen advised this work will help inform the considerations on new ways of working as an audit organisation and that further updates will come to the Board as the work progresses. The Board agreed this should be standing agenda item for future meetings of the Board and Remuneration and Human Resources Committee .

The Board noted that Audit Scotland recognises the challenges facing public bodies and the services they provide and the role of audit in scrutinising good financial management and sound decisions on the use of public money. Members also noted recent Covid-19 briefings published by Audit Scotland and considered the need to continue to consider the requirements of best practice in the longer term.

The Board discussed the impact of the pandemic on Audit Scotland's budget for 2020/21, the potential for a Spring Budget Revision being proposed and agreed a further early discussion on the longer term impact on funding was required in order to address issues for future budget years, given the small contingency budget Audit Scotland has together with no ability to hold reserves.

In terms of resourcing and the impact of the rescheduling of audit reporting deadlines, Diane McGiffen advised of work underway on the short and longer term workforce plan and advised that this would feed into the resourcing needs and budget requirements for 2021/22. Fiona Kordiak and Fraser McKinlay advised the respective resource leads in the audit business groups had been working together to redirect resource where required and colleagues had adapted well over all. The Board noted the consultation of the forward work programme was underway with the Auditor General for Scotland and Accounts Commission.

Turning to audit implications and the qualification of accounts, Fiona Kordiak provided an update on the current position and the Board noted that work was underway to consider where Section 22 and Section 102 reports may be required.

Elma Murray welcomed the comprehensive report and discussion by the Board and advised the Accounts Commission would value a session to understand some of the issues arising for Audit Scotland in the medium and longer term. The Chair proposed a consultation be scheduled between himself, Stephen Boyle, Elma Murray and Diane McGiffen in the first instance to consider how best to progress some of the issues discussed today and likely timescale. The Board agreed this was an important first step.

Following discussion, the Board noted the recommendations and actions taken and agreed next steps.

**Action ASB20: The Board agreed a standing item on Covid secure workplaces and new ways of working be scheduled for future meetings of the Board and Remco.**

**Action ASB21: David Blattman to circulate a link to the link to the workplace assessment tool. (September 2020)**

**Action ASB22: Diane McGiffen to schedule a meeting with the Chair, Stephen Boyle and Elma Murray. (September 2020)**

*David Blattman, HR and OD Manager, Fraser McKinlay, Director, Performance Audit and Best Value, Brian Howarth, Audit Director and Fiona Kordiak, Director, Audit Services, left the meeting.*

## 11. Q1 Financial performance report

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

Stuart invited the Board to note the complex issues considered in the previous report were reflected in the in-year financial position for Audit Scotland and the need for a Spring Budget Revision proposal. He advised that this mechanism has typically been used in relation to the non-cash pension adjustments each year to balance any shortfall, and that this year it would include any potential shortfall in income realisation.

Heather Logan sought clarification on the reprofiling of the budget columns and Stuart advised this had been done for health sector audits due to the extension of Health audits to September 2020.

Heather also sought assurance around agency costs and associated risks to budget in year and for 2021/22. Stuart advised the agency costs were expected and principally were to support the EAFA audit work which will be funded and through savings generated in year. Looking ahead to the budget for 2021/22, Stephen Boyle advised the EAFA audit remains a risk in light of the UK's withdrawal from the European Union. The Board noted the UK Government will determine any changes to the EAFA audit and Audit Scotland will have a decision to make at that stage. Stuart also advised of potential risks due to the on-site nature of work of this audit.

The Board noted costs around travel and subsistence and printing have reduced considerably.

In response to a query from Elma Murray, Stuart provided an overview of the process for billing and payment of fees, which are recognised in each audit year and how this differs from the financial performance reporting cycle.

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

## 12. Any other business

There was no other business for discussion.

## 13. Publication of papers

The Board considered and agreed the publication of all the papers considered at today's meeting.

## 14. Review of meeting

The members welcomed the quality, content and comprehensive nature of the reports which had supported a helpful and detailed discussion. The Chair thanked everyone for their contributions.

## 15. Date of next meeting: 30 September 2020

The members noted the next meeting of the Audit Scotland Board was scheduled for 30 September 2020.

## 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.
8. To support the future transparency of Board meetings we are exploring a number of options:
  - live meetings of the Audit Scotland Board using Microsoft Teams which members of the public or colleagues can request to join
  - recordings of meetings to be made available on the Audit Scotland YouTube account after each meeting, and promoted via social media
  - the use of podcasts by the Chair or a board member following each meeting which can be made available on Audit Scotland's website and can also be promoted through social media channels, for example Facebook, Twitter and YouTube.

### Future reviews of governance arrangements

9. The Board's standard annual review of key corporate government documents is on the agenda for today's meeting. These were reviewed by the Audit Committee at its meeting on 2 September 2020 and have been recommended to the Board.
10. 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.

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

## **Recommendations**

13. 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
  - note ongoing work to assess options for members of the public to view Board proceedings
  - agree that the variations to the Standing Orders are kept under review and considered at each Board meeting until further notice
  - note the review 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
AS888	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.
AS899	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)
AS8106	Board	3	Governance arrangements	The Standing Orders to be reviewed at each meeting.	24/03/2020	May-20	Martin Walker	Martin Walker	Complete	Yes	Two of the three varied orders reinstated on 13/05/20. Public meetings remains under review and is a standing item for each Board meeting.
AS8109	Board	12	2019/20 Q3 Performance report	Additional information on the composition of the cost per audit day in PABV to be circulated.	24/03/2020	May-20	Martin Walker	Martin Walker	Complete	Yes	Information shared by correspondence w/c 25/05/20.

## Purpose

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

## Background

2. The Board considered a detailed Covid-19 update at its last meeting on 19 August 2020 and a further update was provided for the Audit Committee on 2 September 2020.
3. All Audit Scotland offices have been closed since 16 March 2020, in line with Scottish Government guidance. As at 30 September 2020 we will have been operating as a virtual organisation for a period of 29 weeks. The Incident Management Team (IMT) has been meeting on a regular basis over that period and regular updates have been issued to all colleagues and Board members.
4. On 21 May 2020 the Scottish Government announced its four phase [route map](#) out of lockdown. Government advice and guidance on the re-opening of non-essential offices, advising that this would be reviewed towards the end of phase three and that working from home would remain the default for those that can.
5. On 17 September 2020 IMT confirmed that the offices would remain closed for the remainder of 2020. The all staff message from the Auditor General is attached as an appendix.
6. On 22 September 2020 statements in the UK and Scottish Parliaments confirmed increased restrictions in response to the increases in the R rate and prevalence of the virus. In Scotland this includes the ban on people from different households meeting indoors being extended across the country.

## Our response to Covid-19

7. On 19 March 2020 the Auditor General for Scotland advised the Public Audit and Post Legislative Scrutiny Committee (PAPLS) that Scotland's public services were 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, [Covid-19: how public audit in Scotland is responding](#) in June and [Covid-19 Financial Impact](#) in August 2020.
8. 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 that cannot guarantee all deadlines can be met. This is due to the disruption in audited bodies as well as to Audit Scotland. We have also been clear that, while timescales may change, audit quality remains an absolute priority and is even more important at times of significant disruption.
9. 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 this will be reflected in a Spring Budget revision to the Scottish Commission for Public Audit (SCPA). We are also reviewing the medium-term financial plan and the fees and funding strategy.

## Organisational implications and responses

### Our people

10. From the start of the pandemic we have adopted a safety-first approach, prioritising the health, safety and wellbeing of our colleagues. 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.

11. Colleagues across the organisation continue to respond incredibly well to the situation and continue to display a huge amount of flexibility and professionalism. 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.
12. We continue to monitor the situation very closely:
  - we currently have one colleague who is sharing a house with family members who have confirmed positive for Covid-19, has some symptoms and is self-isolating
  - fewer than five colleagues are currently shielding
  - the sickness absence rates for quarter 1 of 2019/20 and 2020/21 were almost identical at 1.60 days and 1.63 days per employee respectively.
  - an analysis of the time logged by colleagues to the C-19 business continuity time recording codes tells us that 1,742 days have been logged by 246 colleagues to date. (This equates to an average of 7.08 days per colleague who has used the code and 7.7 FTE over the period).
13. We continue to prioritise 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. Since the last update report, we have:
  - published a dedicated SharePoint page on [maintaining a positive mental health](#)
  - produced a [video update](#) on Yammer about wellbeing, carers and learning and development
  - run several pulse surveys – where the results have been consistent and broadly positive, but which have identified where some colleagues are experiencing difficulties
  - provided individual support for colleagues and managers.
14. We have prioritised 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. We are also introducing virtual drop-in sessions where colleagues from across the business can engage with members of Management Team outwith formal business meetings.
15. We have also continued to use more informal channels including the '[How we doing](#)' yammer channel, on-line quiz events and virtual tea breaks and check-ins via video conferencing. Most recently we introduced 'The Kitchen' this provides all colleagues with the opportunity to 'drop in' to have an informal video chat with colleagues, to emulate the informal conversations that might typically take place in the business lounges or tea points.

### Supporting our colleagues – digital and office services

16. 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 followed this up with a more formal requirement for all colleagues to carry out an on-line workstation assessment to help us support their longer-term needs. 97% of colleagues have completed the assessment.
17. To date we have:
  - issued 330 items of digital equipment to 131 colleagues. These items have mainly been screens, keyboards and mice. (The total cost to date has been £16,509.05, an average of £126 per colleague who has needed equipment)
  - issued 243 items of office equipment to 177 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 £11,796.12, an average of £66.64 per person who has needed equipment)

- surveyed colleagues on their home workspace set up and their digital technology set up, the responses were 7/10 and 8/10 respectively.

## Office accommodation and on-site work

18. The Audit Scotland offices have been closed with effect from 17 March 2020 and we expect this to be the default position for some time to come. On 17 September the IMT confirmed that the offices would remain closed for the remainder of 2020. This is consistent with the current government guidance and with the Scottish Government's own approach to its offices.
19. Our Covid Secure Workplaces working group is carrying out a detailed risk assessment and planning work on delivering Covid-19 secure workspaces. The working group includes colleagues from the business groups and the PCS Branch Chair, and the risk assessment work is supported by an external Health and Safety Adviser.
20. This may result in providing limited access to office space 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 and approval by a member of the IMT.
21. We are also running a survey to ascertain what colleagues' preferences might be around the balance of time spent working in the office / at home or in other locations.
22. As regards site visits and on-site working, our default position remains 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 is necessary for most audit work.

## Financial management

23. At its meeting on 19 August the Board considered the short- and medium-term financial position. 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 EAFA audit.
24. In the budget proposal to the SCPA we indicated that we aim to manage within our overall budget, however it will 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.
25. The Spring Budget Revision proposals will be prepared for discussion and approval by the Board at its meeting scheduled for 25 November. The proposals will request for the annual additional non-cash AME funding to meet IAS 19 pension costs and for an in-year DEL budget adjustment for the financial consequences of Covid-19.
26. We are currently scenario planning the main areas of financial risk and the likelihood of them crystallising in order to fully justify the additional budget requirement needed to meet the funding shortfall in 2020/21. The draft 2020/21 budget submission is on the agenda for today's meeting.
27. In the longer term there are financial issues that will be considered as part of the 2021/22 budget submission to the SCPA, and we plan to raise these with the SCPA at the Business Planning session on 26 October. These include:

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

## Audit implications and responses

### Covid-19 reporting

- 28.** We have worked closely with the Auditor General for Scotland and the Accounts Commission as the commissioners of the audit work to ensure that our audit work reflects their priorities and needs.
- 29.** 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.
- 30.** We have also set up a [Covid-19 hub](#), this includes further briefings and guidance including:
- a summary of the risks and issues
  - a fiscal events/Covid-19 timeline
  - blogs
  - [Covid-19: Emerging fraud risks](#)
  - [Covid-19: Financial impact](#)
  - [Covid-19: Guide for audit and risk committees](#).
- 31.** Planned future work includes:
- 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.

### Financial audit

- 32.** 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.

33. 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.
34. As at 16 September 2020 57 sets of accounts have been signed off, including 83% of the NHS accounts and 36% of the Central Government accounts. This is significantly fewer than we would have completed by this point in a normal year. Delays are expected on 15 sets of accounts, though the situation remains fluid.
35. The delays to the audits this year will delay the start of planning for 2020/21 audits. Over the next few months, we will identify options to mitigate impacts of this on the medium term. The flow of Best Value Assurance Report (BVAR) audits has been considered and will be staggered over 2021 into the additional year of the audit appointments in 2022.

### Best value audit work

36. A revised schedule for Best Value Assurance Reporting (BVAR) to the Commission in 2020 has been prepared which reflects the impact of Covid-19 on both auditors and councils. Best Value Assurance Reports (BVARs) on Argyll and Bute, North Ayrshire and Moray were published in May, June and August respectively. The commission considered the BVAR on Dundee City Council at its meeting on 10 September 2020.
37. 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.

### Audit appointments

38. The New Audit Appointments (NAA) Steering Group has proposed an extension of the current audit appointments. The proposal provides continuity at a time of significant disruption and recognises the challenges in running a significant procurement exercise in the current circumstances. The proposal will be considered by the Auditor General and the Accounts Commission in September / October.

### Work programme refresh in the context of Covid-19

39. Discussions about the reshaping of the short-term work programme (i.e. audit work that will take place in 2020/21) in response to the impact of Covid-19 took place with the Auditor General for Scotland and Interim Chair and Deputy Chair of the Commission on 11 August. The proposals discussed at that meeting were considered by the Commission at its strategy seminar on 12 August and approved on 10 September.
40. 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](#).
41. This refresh of the work programme is taking place in a volatile and uncertain context. It is very difficult to predict how the next few months and years will unfold, beyond Covid-19 uncertainties remain around the impact of EU departure in December 2020, the Scottish Parliament elections in May 2021, the implementation of the wider financial powers devolved to Scotland and the need to respond to the climate emergency.
42. In this context, we propose that the strategic aims of the work programme should be to ensure that:
  - public money is used as effectively and transparently as possible to support economic and social response, recovery and renewal following the pandemic
  - the public services that affect the lives of the people in Scotland are delivered as effectively as possible. In particular, this will focus on inequalities, climate change and the use of the financial powers devolved to the Scottish Parliament and to local authorities.

43. The work programme is a mix of different types of audit outputs, including overview reports, performance audits, Best Value Assurance reports, and statutory reports arising from annual audit reports (section 22 and section 102 reports). In addition, our programme development activity can often result in briefing papers, blogs, support for parliamentary committees, summaries of roundtable discussions, infographics, podcasts and videos, all of which need to be resourced and delivered to quality standards. We want to be able to respond using all these types of outputs which should allow us to be more agile and make timely contributions.
44. Within this broader context and based on the previously expressed views of the Auditor General for Scotland and the Commission and our wider monitoring and stakeholder engagement, we propose that there should be five themes to frame our future audit work.
- Economic recovery and growth - how public money is being used to support the economy and its response to, and recovery from, Covid-19
  - Policy priorities - progress on key policy commitments and public services' ability to deliver on long-term strategic priorities and outcomes
  - Inequalities - impact of Covid-19 on different groups in society, with a particular focus on the risk of exacerbation of existing inequalities
  - Innovation and transformation- how public bodies are learning lessons and innovating and transforming public services
  - Governance and accountability - how public bodies are ensuring proper and effective use of public money across the public sector and within individual bodies.
45. We have collated our work around these themes, to allow the detail of the exact audit topic, its scope and the nature of the output to be decided nearer the time of the work. This will allow us to respond more dynamically to changes in risks and priorities.
46. Once approved by the Auditor General for Scotland and the interim chair and deputy chair of the Commission, these key themes and proposed areas of audit focus will form the basis of:
- the Auditor General for Scotland's planned consultation with the Public Audit and Post-legislative Scrutiny Committee (PAPLS) in October on his draft work programme
  - engagement with the Scottish Government in November on the Auditor General for Scotland's draft work programme.
  - engagement with the Accounts Commission on how its future strategy and work programme will change to reflect the consequences of Covid-19
  - the Commission's consultation with stakeholders on its future work programme as part of its *Insight* programme.

## Next steps

47. 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.
48. 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.
49. Key stages in the development of the new strategic improvement programme include:
- 22 September 2020 – Management Team 'People Summit' – including representatives from across business groups – this will inform the new strategic improvement programme
  - 6 October 2020 – Management Team – discussions on the new strategic improvement programme

- ongoing prioritisation and streamlining of improvement work to support new ways of working in the short, medium and longer term.

## Recommendations

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

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

**All staff communication from Stephen Boyle, Auditor General and Accountable Officer:  
18/09/20**

Dear colleagues,

I would like to update you on the position regarding our offices. I would also like to give you some more information about support and planning work on this significant issue.

**Audit Scotland offices**

Incident Management Team has agreed that **Audit Scotland will remain working from home for the remainder of the 2020 calendar year.**

In coming to this decision, we have considered a number of factors. The key ones are: safety; developments in the pandemic; and the latest Scottish Government guidance.

We have been clear that our priority is safety and well-being. The situation with our offices is that they are occupied by other organisations as well as us, and have problematic features such as limited and confined entrances and exits. Our Covid-secure workplace working group is currently doing a detailed risk assessment and making arrangements for when we do allow access to the offices. However, we won't do that until it's safe and all necessary measures are in place and agreed with PCS.

As you will have seen over recent days and weeks, the pandemic remains volatile and unpredictable. There have been several local outbreaks and the re-imposition of some restrictions in Scotland, and the picture regarding potential vaccines is unclear. Alongside this, the Scottish Government has unequivocally stated that homeworking is the default and announced in recent days that its own premises will not reopen until next year.

I know this announcement may be disappointing news to some of us. But I do hope that it at least provides you with clarity about the situation over the coming months. As you will appreciate from the statement above about the pandemic, at this stage I'm unable to provide detail or predictions beyond the end of this year.

**Further support for colleagues**

Working from home under the current circumstances has been difficult for many of us. I can only repeat my thanks to you and my admiration for everything you have done over the past six months: the fast-moving changes and adaptations, the innovative approaches to ensuring we can do our work, and the support and kindness you have shown each other.

We know that for some colleagues this has been particularly hard, for reasons such as the impact on mental health, working conditions and pressures on domestic circumstances.

Given this, we will soon be providing additional support to address these issues. This includes:

- Additional support and coaching for line managers in providing mental health and emotional support
- Increase in the HR&OD's team's capacity for providing support for individuals if they have a preference to speak confidentially to a member of the team – see David Blattman's [Yammer post on this subject](#)
- The roll-out of a 'buddy' scheme across Audit Scotland to provide increased peer contact and support for those who would like to participate in this mutual support
- Additional tailored 1-1 support from Business Services Support and Digital Services to address problematic home workspaces and connectivity issues.

We are also currently assessing options for providing Covid-secure workspaces outside of the home for those colleagues who need to work elsewhere for wellbeing reasons. We will provide more detail on that shortly.

If you are struggling to cope, then please remember that you can turn to our confidential employee assistance and counselling service. You can call on: 0161 930 2477 or 0800 328 8829; or email [natalie.turner@wellness.international.co.uk](mailto:natalie.turner@wellness.international.co.uk). Audit Scotland meets the cost of this service. It is completely confidential and is providing support quickly.

## Planning and preparations

There is a lot of work both underway and about to start on all aspects of how we will operate in future, and shortly I will provide you with more detail on that and how you can participate.

As part of that, we are clear that our approach to working patterns and workplaces will be based on the principles of safety, flexibility and equality. When it is safe to reopen our offices, we will do so on a phased basis, and you will receive more detail about that next week.

In preparation for the longer-term, we want to understand your preferences on working patterns. In particular, we would like you all to complete a survey of preferences. This will go live next week, so please look out for the survey and more detail about our longer terms planning and preparations.

## Conclusion

I hope this information provides you all with some clarity about our position and the support that is available.

Lastly, I just want to thank you again for all you have done and are doing. As Diane frequently says in her IMT updates, you are amazing, and I don't think it can be said enough. Thank you.

Stephen

### Useful links in case you need them

Please continue monitor [Yammer](#) for further information. This includes updates on [COVID-19](#) and [Digital Services](#), support and conversations in '[How We Doing](#)' and [Home schooling support](#). You can also enter The Kitchen on Teams for chats with colleagues.

- If you develop symptoms of Covid-19, then please get tested quickly. NHS Inform has a [self-help guide for access to testing](#), and tests can be [booked through the NHS](#).
- If you need to self-isolate check the Scottish Government [guide to self-isolating](#) and have a look at the [sources of support](#) within Audit Scotland

For advice about COVID-19 symptoms and safety, check the [NHS Inform website](#).

Advice on managing your mental health and well-being are available on the [SAMH website](#), including [Coronavirus and your Mental Wellbeing](#) and [Seeking Support](#), and a [guide by Mind](#).

Resources and advice on health and alcohol use during lockdown is available at [Drinkaware](#).

Resources and support for anyone concerned about their domestic safety are available at [Scottish Women's Aid](#) and [Men's Aid](#).

For resources for children and young people worried or confused about COVID-19, resources are available on the [Young Scot coronavirus site](#).

Stephen Boyle

Auditor General for Scotland

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 AUDIT SCOTLAND



## Appendix 2: Performance detail

### 2020/21: Quarter 1

 <b>Delivering world-class audit</b>	<b>We conduct relevant and timely audits and report in public.</b>
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Key Performance Questions	2018-19				2019- 20				2020-21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Are relevant audits being delivered?	G	G	G	G	G	G	G	G	A			
Are audits delivered on time?	G	G	G	G	G	G	G	G	A			
Are audits delivered on budget?	G	G	G	G	G	G	G	G	R			

### Key messages

We have revised the overall performance assessment RAG status for this objective to red in light of the impact of the Covid-19 pandemic. Red is defined as '*Not progressing/significant additional management action required*'.

- Financial audits are taking longer than in previous years and audit capacity has been reduced across ASG and PABV due to the impact of the pandemic, including changes in personal/caring responsibilities and the impact of the pandemic response on public bodies ability to participate in the audit process.
- In Q1 we delivered 44 audit/reports compared to 108 in Q1 2019/20. (We also published 16 annual audit plans in which had been scheduled for Q4 but which were delayed due to Covid-19).
- Audit expenditure is 14.6 per cent above budget (and significantly outwith the 5% tolerance target).

The dates for delivery of financial audit and Annual reports have revised for 2020-21:

Sector	Total AS	Total Firms	New date	Delay	Scheduled Quarter
LG	66	39	30-Nov	2-month delay	Q3
CG	47	29	31-Oct	no change	Q3
NHS	10	13	30-Sep	3-month delay	Q2
FE	2	19	31-Dec	no change	Q3
Total	125	100			

The rolling audit work programme also faces unprecedented change and uncertainty because of Covid-19. Our initial May 2020 position statement on [the impact of Covid-19 on public audit in Scotland](#) made clear that this uncertainty and fast-paced changes created by Covid-19 means that our work programme will need to be more

dynamic than in the past. This includes changes to existing audits (paused, delayed and rescheduled, scope changes or ultimately audits stopped altogether), but also the use of a wider range of different audit outputs such as blogs, roundtables and briefing papers on key audit themes and issues in future.

#### **Covid-19 update:**

In June 2020 we published [Covid-19: how public audit in Scotland is responding](#). This set out the current Covid-19 related audit work and potential themes and areas of focus for future work.

It is clear that the dynamic nature of Covid-19 and the significant uncertainties about its long-term impact, means we will need to keep our work under constant review and adapt the audit work programmes to reflect changing circumstances. The pandemic has significantly impacted the Auditor General and Accounts Commission's rolling work programme, with several audit subject to delays and rescheduling/lengthy pauses/cancellation. The next steps for these audits are being decided during the refresh of the work programme in August/September 2020.

Auditors are being flexible and in a small number of cases will agree to deliver audit beyond the original planned dates to accommodate revised schedules and committee dates in public bodies.

#### **Performance in Q1**

We published 44 reports/ outputs including:

- 17 Annual Audit plans
- 8 Annual Accounts
- 7 Annual reports
- 2 Performance
- 2 Best Value Assurance Reports (BVARs) - Argyll and Bute Council and North Ayrshire Council
- 1 Overview
- 1 Statutory Report – S22 City of Glasgow College
- 6 Other – including the annual report and accounts, the Quality of public audit in Scotland.

During Q1 we also published 16 Annual Audit plans that were due to be published by 30 April 2020 but were delayed due to Covid-19.

#### **Delayed publications**

In Q4 we advised that number of reports had been delayed.

- The three outstanding LG AAP's (Dundee City Council, East Renfrewshire IJB and Mugdock Country Park) were issued in Q1.
- Four of the five CG AAPs (Architecture & Design, Non-Domestic Rate Account, Scottish Consolidation Fund and Scottish Government) were issued in Q1 (The Scottish Commission on Social Security is a new audit and the AAP is expected to be complete in Q2).
- The performance audit report on The Highlands and Islands: Management of Cairngorms Mountain and funicular railway (originally planned for Q4) was published in June 2020.
- The Moray Council BVAR was due for completion in May 2020 but has been rescheduled to Q2.

#### **Annual Audit Reports**

Six Annual Audit Reports were signed off during Q1 (2 NHS and 4 CG), these were NHS Western Isles, NHS Orkney, Skills Development Scotland, QLTR, Education Scotland and Quality Meat Scotland.

**Issues/ risks**

- There are significant risks around our ability to deliver the financial audits to time and budget. This is a red risk in the risk register.
- There is continued uncertainty about the impact of the pandemic on public bodies and Audit Scotland.
- This impacts on the focus of the work programme and our ability to deliver audits/reports.
- Audit Scotland is working closely with audited bodies to determine their readiness for audit.
- Ongoing uncertainty around workforce capacity (and constraints such as childcare, remote working etc) is affecting auditor availability to undertake core audit work.

**Audit/report schedule 2020/21**

	Q1	Q2	Q3	Q4
Annual Audit Plans Audit Scotland (125)	<b>2020/21</b> 2 FE ✓  <u>Late from 19-20 Q4 return</u> 7 LG ✓ 6 CG ✓	1 CG		66LG 47CG 10 NHS
Annual Audit Plans Firms (100)	<b>2020/21</b> FE 15 ✓  <u>Late from 19-20 Q4 return</u> LG 1 ✓ CG 2 ✓	FE 4		39 LG 29 CG 13 NHS
Accounts certified Audit Scotland (125)	NHS 3 ✓ CG 1 ✓	NHS10	66 LG 47 CG 2 FE	
Accounts certified Firms (100)	NHS 2 ✓ CG 1 ✓	NHS13	39 LG 29 CG 19 FE	
Annual Audit Reports Audit Scotland (125)	NHS 1 ✓ CG 4 ✓	NHS10	66LG 42CG 2FE	
Annual Audit Reports Firms (100)	NHS 2 ✓ CG 1 ✓	NHS13	39 LG 29 CG 19 FE	
Performance Audit (3)	Affordable Housing ✓ Highlands and Islands Enterprise: Cairngorm Mountain ✓ Education outcomes X (audit paused - now Q1 2021)  Social Security X (audit paused, date TBC)		Skills planning and investment X (audit paused – 2021)	Digital in Local Government
Best Value Assurance Report (6)	Argyll and Bute Council ✓ North Ayrshire Council ✓ Moray Council X (now Q2)	Dundee City Council Moray Council (was Q1) City of Edinburgh Council X (now Q3)	Aberdeenshire Council City of Edinburgh Council (was Q2)	

			Falkirk Council X (now 2021 date TBC)	
Overview Report (3)	Local government in Scotland ✓ Scotland's Colleges X (not publishing)			Local government: financial NHS in Scotland
Statutory (1) Numbers to be confirmed during year	S22 City of Glasgow College ✓		Health and central government S22s (as required)	Health and central government S22s (as required)  Local government s102s (as required)  Scottish Government Consolidated Accounts
Other (10) Numbers to be confirmed during year	Fraud and irregularity report 2019/20 ✓ Quality of Public Audit in Scotland annual report 2019/20 (QPAiS) ✓ Transparency report 2019 ✓ Equal Pay in councils Impact Report ✓ Covid-19: Impact on public audit in Scotland ✓ Covid-19: How public audit in Scotland is responding ✓	National Fraud Initiative Covid-19 Emerging fraud risks Covid-19 Financial impact	Housing Benefit Annual Report  Teacher workforce planning briefing X (paused – decision pending on future)	
Published	44			

**On time:** During Q1:

- 22 committees scheduled to take annual audit plans to had been delayed until after March 2020. 16 of these have now taken place and the AAPs are now complete.
- The Local Government in Scotland: challenges and performance overview was due to publish in April 2020. The Accounts Commission agreed to move publication to June 2020 to enable the audit team to consider Covid-19 related issues affecting local government within the report's findings and messages.
- The Affordable Housing performance audit was sufficiently far advanced to be completed as planned at the start of April 2020. It was decided to publish the report on the website but with less promotion than would normally accompany a major performance audit report.
- The Highlands and Islands Enterprise: Cairngorm Mountain report was subject to several weeks delay but despite this the report was published as planned during Q1.
- The Best Value Assurance Reports on Argyll and Bute and North Ayrshire were published as planned during the quarter. The BVAR on Moray Council BVAR, originally due to be published in May 2020, has been rescheduled to August 2020. The City of Edinburgh BVAR has in turn been moved from Q2 to Q3.
- The Scotland's Colleges overview was initially paused and then put on hold – this was largely due to significant pressures affecting the Scottish Government and Scottish Funding Council that made it impossible to carry on with the audit as planned at this time. The team is exploring options to make use of the work undertaken to the point of stopping the audit, including briefings, additional commentary within Annual Audit Reports and internal programme development audit intelligence sharing.
- The Social Security performance audit has been paused, due to pressures on Social Security Scotland and forthcoming changes to the timetable for further roll-out of social security arrangements in Scotland. The future of this audit is being considered through the work programme refresh.
- We successfully completed all year- end and annual assurance processes to schedule, published the annual report and accounts and gave evidence to the SCPA as planned in June 2020.

On time YTD	Number delivered on time	Number delivered Late	% of planned delivered to date	% on time	Comment
Annual Audit Plans – AS	2	0	2%	100%	Both Annual Audit plans were published on time. All other Annual audit plans are due to be published in Q4. This assessment excludes the 13 plans that were expected in 2019/20 Q4 which were delayed because audit committees were rescheduled as a result of Covid-19.
Annual Audit Plans – Firms	15	4	15%	79%	4 Audit plans were published late because audit committees were rescheduled as a result of Covid-19. All other Annual audit plans are due to be published in Q4. This assessment excludes the 3 plans that were expected in 2019/20 Q4 which were delayed because audit committees were rescheduled as a result of Covid-19.
Accounts certified – Audit Scotland	4	0	3%	100%	The NHS certification deadline has been moved from 30 June (Q1) to 30 September (Q2).
Accounts certified – Firms	3	0	3%	100%	The NHS certification deadline has been moved from 30 June (Q1) to 30 September (Q2).
Annual Audit Reports – Audit Scotland	5	0	4%	100%	The NHS certification deadline has been moved from 30 June (Q1) to 30 September (Q2).
Annual Audit Reports – Firms	3	0	3%	100%	The NHS certification deadline has been moved from 30 June (Q1) to 30 September (Q2).
Performance Audit	2	0	40%	100%	
Best Value Assurance Report	2	0	28.6%	100%	
Overview Report	1	0	25%	100%	
Statutory Reports	1	0		100%	Number varies depending on issues identified.
Other Outputs	6	0		100%	
Total	44				

**On budget:** In Q1 the expenditure on audit is 14.6 percent over budget and outwith our five percent budget tolerance. The variance is due to it taking considerably longer to complete an audit remotely compared to that of an onsite audit. Response times from the client are also impacted. This is reflected in both the time, cost and productivity. Some staff are working 'out of grade' which is increasing the costs of financial audits - e.g. there are currently some senior managers in ASG picking up files which would normally be completed by senior auditors or auditors.

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 help cover some of the financial pressures we are likely to experience as a result of Covid-19.

	Budget £	Actual £	£ Variance	% Variance
ASG	8,612,470	9,972,959	1,360,489	16%
PABV	637,896	624,058	-13,838	-2.17%
Total	9,250,366	10,597,017	1,346,651	14.56

**Forward look:**

In Q2 we publish two additional outputs covering Covid-19 fraud risks, and the finances of the Covid-19 response to date.

**Annual Audit Plans 2020/21 audits**

Annual Audit Plans for 2020-21 audits would normally all be expected in Q4, however with the change in audit deadlines due to ongoing impact of Covid-19 it is likely these will be rescheduled later in the year.

Key Performance Questions	2018-19				2019-20				2020-21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Are we assured about the quality of our work?	G	G	G	G	G	G	G	G	A			
Are we improving the quality of our work?	G	G	G	G	G	G	G	G	A			

### Key messages

- The Quality of public audit in Scotland annual report 2019/20 and the Transparency report 2019 were published in June 2020 and provided positive assurance on the quality of audit.
- We have stressed the importance of audit quality in external and internal communications.
- The impact of Covid-19 means that we are currently operating in unique circumstances, with all audit work being carried out remotely. This increase the risks to the quality of audit work, and we have changed the performance status RAG from green to amber.
- The refresh of the audit methodology has been impacted in terms of capacity and timescales.

The [Quality of Public Audit in Scotland annual report 2019/20](#) (QPAiS) was published in June 2020. Its key messages were:

- The Audit Quality Framework is driving improvement in audit quality.
- The quality of audit work on audits is high and improving.
- Auditors are engaging with the Audit Quality Framework and addressing previous years' findings, leading to improvements in audit quality.

[The Transparency report 2019](#) key messages include eight internal quality reviews were classed as 'good' or 'limited improvements required'. Of the seven external reviews, five were classed as 'limited improvement required' and two were classed as 'improvement required'. This represents a substantial improvement in audit quality during a time of resourcing challenges and is testament to the professionalism of our staff.

### Actions

ICAS provided feedback from their inspections as a video which made available to all staff on Yammer and to the Firms. The video focuses on financial audits and includes matters arising from ICAS review of performance audits and Best Value audits. We are taking account of the findings and updating the relevant audit guidance accordingly. ICAS covered some of the financial audit related matters at the spring technical updates for ASG Superteams. The Annual Audit Report Templates and the ISA 580 templates were revised and rolled out to ASG for use in Q1.

Mandatory interactive training on the Audit Management Framework was rolled out to PABV colleagues in Q1.

### Covid-19

Professional Support has released 1 SAM and 2 SA's to ASG from 1 July 2020 to complete final accounts audit work until around October/November time. As a result, the refresh of the audit approach which was scheduled to rolled out across ASG for 2020-21 audits will be delayed and delivered in two parts. The B20 controls approach will be rolled out for 2020-21 audit year with training expected early 2021. The A03 Audit Planning Tool will be piloted across a few audit teams in 2020-21 audit year and rolled out for all audits in 2021-22 audit year.

Professional Support, ASG and PABV have developed a suite of guidance, training and on-going support for colleagues involved in this years' annual financial statements final accounts work. The support is for colleagues primarily from PABV who have been assigned to assist Audit Services during this busy and challenging 'peak' period in the audit year.

**Quality assurance and improvement during Q1 included:**

- a bulletin on technical developments and emerging risks in the quarter
- technical guidance notes on; statutory objections to the 2019/20 local government annual accounts, other statutory information included in central government annual accounts, other statutory information included in local government annual accounts, Independent Auditor's Reports in local government, central government Independent Auditor's Reports and guidance on five grant claim certifications for 2019/20.
- a report to provide auditors with assurances on the Clinical Negligence and Other Risks Indemnity Scheme.
- two revisions to the audit management framework in respect to risk management and records management.
- six frequently asked questions outputs on health audits.
- 20 briefing notes to provide auditors with a synopsis of new technical documents.
- Updated Annual Audit Report templates.
- revised the audit programmes on MKI to reflect recent quality review findings.
- seven training sessions on risks of misstatement in liabilities; performance reports analytical procedures, an introduction to financial statements and professional scepticism.

Key Performance Questions	2018-19				2019-20				2020-21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Are we getting messages out effectively?	G	G	G	G	G	G	G	G	G			

**Key messages**

- We scaled back the amount of promotion of the reports we have delivered during Q1.
- We continue to engage with key stakeholders including the Scottish Parliament and the Accounts Commission.
- There were significant number of downloads (262,497) in Q1 and analysis show interests in into Mental Health services for young people, NHS reports and our Covid-19 Impact on Audit briefing.

**Covid-19 update:**

The Auditor General has briefed the Parliament's Public Audit and Post-legislative Scrutiny Committee on 5 May and on 11 June about the impact of Covid-19 on the work programme and public audit more generally. Similar briefings were provided to the Accounts Commission by the Controller of Audit and the Director of Audit Services.

Audit Scotland joined the Scottish Parliament's Finance and Constitution Committee to discuss the impact of Covid-19 on the public finances and the Fiscal Framework. Representatives from the Institute for Fiscal Studies, Chartered Institution of Taxation, and academia also participated in the discussion.

There is ongoing engagement with audited bodies and key stakeholders (including the firms, scrutiny partners and UK and Ireland audit agencies) about respective experiences of and response to the pandemic. This includes the impact on staff, public bodies and audit programmes.

**Engagement:** In Q1 we attended:

- Seven Parliamentary Committees.
- Four meetings of the Account Commission and it's committees.
- 31 external working group meetings to ensure Audit Scotland is engaging with relevant standard setters as they prepare and review relevant codes. Manuals, standards and guidance.

**Consultations:** We responded to four consultations on:

- the National Fraud Initiative work programme and fees.
- the Digital Economy Act.
- the impact this may have on the audit of Accounts (Scottish Government).
- the impact of COVID-19 on the public finances and the Fiscal Framework. (Finance and Constitution Committee - in advance of the SBR being published)

**Parliamentary engagement**

Month	Parliamentary questions mentioning Audit Scotland	Mentions of Audit Scotland's work across committees	Mentions of Audit Scotland during FMQs	Audit Scotland staff appearances at committees	Total
April	0	4	0	0	4
May	0	9	0	1	10
June	0	7	0	6	13
Quarter Total	0	20	0	7	27

**Communications**

	Q1	Q2	Q3	Q4	YTD	19/20
Media	101					1,333
Downloads	262,497					1,043,838
Engagements*	2,178					25,901

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

Our media and social media engagements figures are down on last year (Q1 19/20 -Media 304, Downloads 123,448 and engagements 5,881).

The number of downloads is however 112 percent up on the same quarter last year.

**Media**

The decision to scale back promotion of our reports in this quarter – mostly just publishing them on the Audit Scotland website with one or two accompanying posts on twitter – meant the levels of media coverage were unusually low. It is also likely the levels of coverage were further reduced by media attention understandably being elsewhere.

The top published report by media coverage in Q1 were the Cairngorm Mountain and BVAR: North Ayrshire Council.

The Covid-19 pandemic meant that only the BVAR reports on Argyll & Bute Council and North Ayrshire Council, plus the performance audit on the management of Cairngorm Mountain, were promoted with press releases during the quarter. This decision was taken because of the pressures the Scottish Government, COSLA and public bodies were under due to the pandemic. The audited bodies in the promoted reports were considered able to respond to the findings.

**Downloads**

The most popular reports during the quarter were the 2019 NHS Overview (around 4,000 downloads) followed by the 2018 report into Mental Health services for young people (around 2,500). This chimes with the pandemic's impact on the health service and concerns about children's mental health during lockdown. The other notable download figure was for the Covid-19 Impact on Audit paper, which received over 900 downloads in May alone.

**Social media activity**

We decided that it would be inappropriate to post too much content on our channels while frontline public services were engaged in immediate response to Covid-19. This naturally had a big effect on engagement with our posts. As the quarter progressed, we gradually began to post more content and referenced reports.

Popular posts from the quarter included content on our report on the Impact of Covid-19 on public audit; a goodbye to the outgoing Auditor General and our support for PRIDE 2020 in our role as a Stonewall Scotland Diversity Champion.

### Correspondence

Audit Scotland handles a wide range of correspondence from members of the public, elected representatives and organisations. Figures for new and reopened cases are:

<b>New correspondence cases</b>	Q1	Q2	Q3	Q4	YTD	19/20
Number of cases	31					136
Acknowledgement within five working days	100%					99%
Final response within 30 working days	96%					94%

The number of correspondence cases is slightly down from the same quarter last year (36) and the percentage of responses within 30 days is up two percent from 94 per cent last year. One final response was missed because we were waiting for the second Coronavirus Bill to be published.

In addition, we had 10 audit enquiries (compared to 17, Q1 19/20) – relating to queries about our work (e.g. figures within our reports, guidance and access to materials/reports).

### FOI/EIR/Complaints

There were five FOI requests, no EIRs and no complaints received in Q1. All FOIs were answered with the 20 Day deadline.

Key Performance Questions	2018-19				2019-20				2020-21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Is our work delivering impact?	G	G	G	G	G	G	G	G	G			
Are our recommendations leading to improvements?	G	G	G	G	G	G	G	G	G			
Are we offering insight and foresight and making information and intelligence available to others?	Y	G	G	G	G	G	G	G	G			

**Examples of where work has made a positive impact or positive feedback received include:**
**Local Government**

- The BVAR report in 2018/19 recommended that the Community Planning Partnership review its reporting structures and report performance against its local outcome's indicators. The BV follow-up work showed the Council/CPP had taken to follow up this recommendation. A review of the reporting structures is complete and there are much more defined reporting lines in place. The CPP has implemented a new structure for reporting performance going forward, ensuring that quarterly updates are provided to the Community Planning & Regeneration Committee prior to the publication of the year end Annual Report.
- We completed an audit on the procurement and contracting practices at the council in 2018/19. The audit identified 10 additional weaknesses, not picked up by Internal Audit and received significant local media attention. All recommendations were accepted and are being addressed.
- In December 2019, the Chief Internal Auditor retired and the post of Internal Audit Manager is now shared between two Councils. The new Internal Audit Manager has met with us to discuss the findings of our reports and implemented several immediate changes. The Audit Committee has noted the positive changes made.

**Central government**

- A weighted average methodology had been applied for several years when valuing the amount of stock classified as work in progress at the year end. The audit queried the underlying assumptions in this methodology and requested that management carry out a review. Management identified that they had sufficient information within other systems value the stock more accurately. The new methodology will be applied in 2019/20, resulting in a more accurate inventories figures.
- The 2018/19 annual audit report had recommended that a review of the methodology for applying the valuation of biological assets should be carried out upon transition to the new body on 1 April 2019. We recommended that management work with the professional valuer to ensure the process remained appropriate in supporting the valuation of the asset base. This review was undertaken during 2019/20 and resulted in the valuer applying a more up to date and appropriate methodology in valuing the biological assets and a truer representation of the market value of these assets.
- We received positive feedback from the ARC and client staff on our working relationships and our communication. The chair was particularly appreciative of the AD role as the engagement lead of the other related agencies and noted the broader added value to the business.
- The chair of the Audit and Risk Committee (ARC) wrote to the Auditor General to highlight effort and the work involved of the Audit Scotland team. He provided feedback that the maturity of the relationship and the hard work put in from both the executive and the auditors was paying dividends and that this year's achievement was amazing given that the audit work was done during lockdown. He also asked that we share the best practices and real-life challenges that were overcome to facilitate the speed of sign off and efficiency in the audit.

**Covid-19 update:**

- We have published two additional outputs covering Covid-19 fraud risks, and the finances of the Covid-19 response to date in Q2.

Key Performance Questions	2018-19				2019-20				2020-21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Are new processes, products and services being developed?	G	G	G	G	G	G	G	G	G			
Are products and study programmes suitable and appropriate for emerging issues?	G	G	G	G	G	G	G	G	G			

**Key messages:**

All Audit Scotland staff have worked from home from 17 March 2020 and we have been operating as a virtual organisation since then.

The joint Auditor General and Accounts Commission Work programme is being refreshed again in light of the circumstances with an initial focus on the immediate 12-month audit priorities and a more comprehensive review of the longer-term work programme following thereafter. Proposals for the work programme will include increased use of 'other' products and outputs such as blogs, briefings, round tables and data briefings. These will support more 'real-time reporting' on issues arising during this period of ongoing uncertainty.

The Accounts Commission held its first online meeting during May. This allowed Commission business to continue despite the impact of lockdown restrictions.

We have delivered a significant amount of training and guidance using a variety of media including virtual sessions, video and Yammer.

We have introduced a secure electronic signatures package which allows all parties to sign accounts remotely.

Performance dashboards have been rolled out in PABV. The adoption of the Time Recording system in Audit Services has been pushed back to 2021.

**Actions**

The strategic improvement programme is being refreshed to ensure its focus is on supporting health, safety and wellbeing and effective remote working.

Key Performance Questions	2018-19				2019-20				2020-21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Are we managing our resources effectively	G	G	G	G	A	A	A	A	R			
Are we maximising efficiency?	G	G	G	G	A	A	A	A	R			

**Key messages**

We are experiencing resourcing and financial pressures 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.

**Action**

The Audit Scotland Board is reviewing the financial position and identifying short and medium term responses and options.

**Resource management**

In the three months to 30 June 2020 Audit Scotland's Net Operating Expenditure was £202k more than budget.

	Q1	Q2	Q3	Q4	19/20
Actual	(2,049)				(13,715)
Budget	(1,847)				(17,442)
Variance K	(202)				(426)

**Staff** - 'The average number of staff in the quarter was 288.5 (99.4%) of establishment'

	Q1	Q2	Q3	Q4	19/20
2020/21 establishment w.t.e	290.2				286.4
Average number of staff employed in 2020/21 w.t.e:	288.5				285.9
No. of staff at end of quarter w.t.e:	286.4				291.1

**Staff and Agency costs** – The total staff costs in the 12 months to 31 March 2020 are 30k below budget.

	Annual Budget £000	Actual YTD	Budget YTD	Variance	Actual Average WTE	Budget WTE
Total Staff costs 2020-21	18,023	4,400	4,369	(31)		
Total agency & secondments 2020-21	75	78	19	(59)		
Q1 Staff costs 2019-20	16,751	12,422	12,484	62	299.8	297.1
Q1 agency & secondments 2019-20	75	412	75	(337)		

**Legal, professional and consultancy:** the budget this year has increased due to the ongoing Audit appointments process and the NFI which runs every other year.

	Q1	Q2	Q3	Q4
Actual	81			
Budget	101			
Prior year spend	87			

**Estate** - Estate costs in the three months to 30 June 2020 are the same as budget and slightly above last year's expenditure.

	Q1	Q2	Q3	Q4
Actual	215			
Budget	205			
Prior year spend	202			

**Costs of travel** - Travel costs in the three months to 30 June 2020 are lower than budget. There is very little personal travel claimed in Q1, the spend is due to the Car lease scheme.

	Q1	Q2	Q3	Q4
Actual	87			
Budget	110			
Prior year spend	207			

**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.

#### Digital Services

	Q1	Q2	Q3	Q4	19/20
IT Network					
IT uptime (%)	99.91				99.36
Working hours lost	0.09				631.8

Average time lost per person (minutes)	0.67				2hrs
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The majority of the downtime this quarter was due two major outages affected access to Citrix during the quarter. This equates to 631.8 working hours lost. An average of 2 hours per person over the quarter.

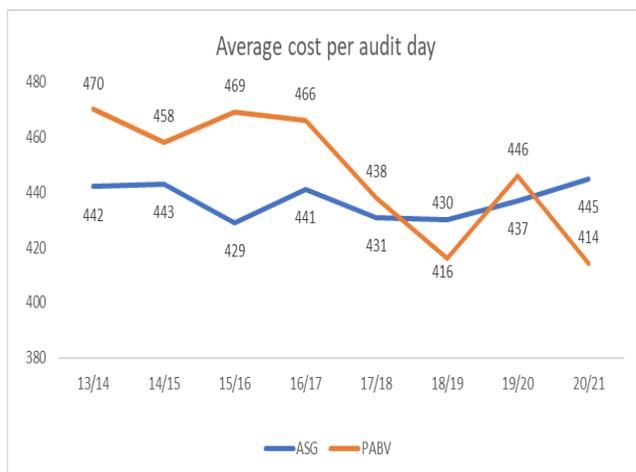
**IT Incident management summary** (incident targets are expected to achieve 97%)

- 98.84% (854/864) of incidents were accepted within the response time SLA.
- 93.29% (853/893) of requests were closed within the fix time SLA.
- An average of 2.7 incidents were logged per user.

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

	20/21%				19/20%			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
ASG	62				67	71	57	63
PABV	58				72	74	64	73

The reduction in productivity from the same quarter last year is due to the impact of Covid 19 and auditing remotely. The impact of the pandemic on staff working arrangements, capacity, and the pausing of some audit work within the work programme.



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

Key Performance Questions	2018-19				2019-20				2020-21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Are we managing information and intelligence effectively (Internal)	Y	Y	G	G	G	G	G	G	G			

**Key messages**

Effective communication has been a top priority in response to the Covid-19 pandemic.

The Audit Scotland Incident Management Team (IMT) has been in operation since March 2020 in accordance with the Business continuity Plan. The IMT is maintaining oversight of information and intelligence, the impact on financial and performance audit programmes and ensuring the health of colleagues and stakeholders is at the core of its thinking.

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. We 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.

We have been running regular 'pulse surveys since June. These are to help check in with colleagues and provide them with an opportunity to share how they are and how their experiences 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 over all 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).

The Annual conference due to be held in April 2020 was reformatted and delivered as a virtual conference with video's/sessions on various subjects and an interactive live event with members of Management Team.

Other projects continue to make progress, including the launch of performance dashboards in PABV.

Key performance questions	2018-19				2019-20				2020-21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Are our people empowered and engaged?	G	G	G	G	G	G	G	G	G			
Are our people highly skilled?	G	G	G	G	G	G	G	G	G			
Are people performing well?	G	G	G	G	G	G	G	G	G			
How effective is communication and collaboration across the organisation?	G	G	G	G	G	G	G	G	G			
Are career paths offered across the organisation?	G	G	G	G	G	G	G	G	G			
Do we understand and support diversity within the workforce?	G	G	G	G	G	G	G	G	G			

### Key messages

- The move to SharePoint online and roll-out of Microsoft Teams has meant audit teams have been able to move quickly to remote working. Teams can access files remotely using secure systems, with modern digital communication tools available.
- Absence levels are the same as quarter 1 2019/20.
- Yammer channels for 'How we doing', 'Carers' and 'Home schooling support' are helping to support colleagues.
- The Covid-19 yammer channel assists with keeping colleagues up to date with the pandemic situation and how Audit Scotland is responding to this and the implications for the organisation.
- We are running regular 'Pulse' surveys (so called as they are designed to 'take the pulse' of an organisation). It is quick and simple, only takes 5-10 minutes to complete and consist of no more than 6-8 questions. The regular 'surveys provide an opportunity to provide feedback or raise issues and these issues are considered by the Management Team/Incident Management Team and inform communications and planning. The feedback is positive over all but also tells us that some colleagues are finding the situation difficult.

### Covid-19 update

All staff are working remotely from home, with the annual financial statements audit being undertaken 'off-site'. This is a challenging and significantly different approach for auditors and audited bodies, with audit work taking longer than would be the case in a standard audit. In addition to the standard flow of auditor resource from PABV to ASG to support final accounts work, additional colleagues have been assigned to financial audit this Summer. A package of training and support has been developed jointly by Professional Support, ASG and PABV to ensure colleagues are equipped to undertake this role.

### Empowered and engaged:

#### Highly Skilled

- On 2 April Management Team considered a report outlining our revised approach to L&D in light of the lockdown. This was followed by an L&D newsletter to colleagues on 23 April outlining what virtual and online training was available and the launch of GDPR e-learning. A further L&D newsletter was shared on 30 June signposting online learning material for PABV colleagues undertaking financial audit work, links to bite size learning videos and a feature on the new Data Analytics hub.
- Professional Support has delivered a wide range of technical training workshops virtually over April and May 2020 as well as a number of Superteam Spring technical updates.
- Management Development coaching clinics continued to take place virtually. Topics included engagement, delegation, managing upwards and feedback.
- The third year Trainees delivered a training session on Final Accounts to our first-year trainees on 29 April 2020 and feedback has been very positive.

## Wellbeing

Resources have been developed for colleagues to provide support, advice and guidance on managing mental and health and wellbeing during the pandemic. Audit Scotland also participated in Mental Health Awareness Week (18-24 May), with activities for staff including online sessions on topics such as mental wellbeing and mindfulness.

- A SharePoint page dedicated to [maintaining a positive mental health](#) was created.
- The [Wellbeing Infographic](#) was shared with colleagues on 18 May in Staying Connected, alongside a [video update](#) on Yammer about wellbeing, carers and learning and development.
- The Annual HSW Report was shared with colleagues on 25 June.
- All staff were invited to complete a 'Disability Confident' survey. The results of the survey will help Audit Scotland to support colleagues with disabilities or long-term health conditions.

**Career Paths** – One vacancy was filled by an internal candidate and two colleagues went through a Career Development Gateway in Q1.

Vacancies filled	20/21 YTD	19/20
Internal	1	19
External	0	35
Total	1	54

**Absence levels** remain low and similar to Q1 last year.

	Q1 days	Q2 days	Q3 days	Q4 days	ytd days
<b>Audit Scotland – 20/21</b>	1.63				
Audit Scotland – 19/20	1.6	0.46	1.33	1.32	4.97
Audit Scotland - 18/19	1.28	0.76	1.41	1.4	4.85
Audit Scotland - 17/18	0.69	1.16	1.07	1.12	4.40

**Staff turnover** - All leavers for 2020/21 (2.43%) - are slightly higher than the same quarter last year (1.68).

	Q1	Q2	Q3	Q4	YTD	19/20	CIPD benchmark
Resignations %	1.39					3.34	
All Leavers %	2.43					6.32	

**Exam results:** There were 27 exams with a pass rate of 78 percent. The percentage pass rate is below last years, however the small numbers involved means the percentage rate varies sharply. ICAS have also announced that due to Covid-19 those failing exams in Q1 will not count as an attempt.

	Q1	Q2	Q3	Q4	YTD	19/20
Exams taken	27					122
Exams passed	21					102
% pass rate	78					84

**Highly skilled** - Due to the higher number of technical training events the total number of events in Q1 is higher than last year (26 events) and the number of Q1 attendees also higher than Q1 last year (263).

	Q1		Q2		Q3		Q4		YTD		19/20	
	Events	Attendees	Events	Attendees	Events	Attendees	Events	Attendees	Events	Attendees	Events	Attendees
Health & Safety	0	0									9	117
Knowledge Cafes	0	0									13	154
Learning & Development	0	0									13	184
Management Development	6	30									16	71
Organisational Development	5	20									19	94
Technical Training	17	355									28	437
<b>Total</b>	<b>28</b>	<b>405</b>									<b>98</b>	<b>1057</b>

## Purpose

1. This report provides the Board with a review of organisational performance in quarter one (Q1) 2020/21.

## Background

2. The performance information is reported under the two strategic objectives of 'delivering world class audit' and 'being a world class organisation' in line with the Corporate plan.
  - Appendix 1 provides a summary of performance for each strategic objective.
  - Appendix 2 provides the detailed performance information.
3. On 5 May 2020, Audit Scotland published '[Covid-19 What it means for public audit in Scotland](#)'. The key principles are:
  - Our approach to audit will be flexible, pragmatic and consistent, and the briefing paper states that.
  - Sound financial management and effective governance are more important than ever.
  - Audit has a key role in providing assurance and aiding scrutiny during these difficult circumstances, and we will prioritise quality and independence.
  - Our work needs to reflect the impact of Covid-19 on public services but also maintain a focus on the other key challenges facing Scotland's public sector.
  - We will safeguard the health and wellbeing of our colleagues at all times.

## Q1 performance summary

4. All Audit Scotland office locations have been closed since 16 March 2020, in line with Scottish Government guidance. Since then we have operated as a virtual organisation. Colleagues across the organisation have responded well to the situation, they have displayed a huge amount of flexibility and professionalism throughout.
5. The Covid-19 pandemic impacts both Audit Scotland and the bodies we audit. The pandemic is affecting on our ability to deliver audits and our financial position. This can be seen most clearly in our RAG assessment on three of our performance objectives.
6. The following objectives are now 'red', this is defined as 'Not progressing/significant additional management action required':
  - We conduct relevant and timely audits and report in public (where the main impact is on delivery dates and budgets).
  - We manage our resources effectively (where the main impact is on audit costs and income).
  - We maximise our efficiency (where the main impact is on colleague productivity).
7. We expect a negative impact on performance to continue to show in the quarterly reports for 2020/21.

## Delivering World Class Audit

8. Local Government and NHS audit deadlines have been rescheduled and at this moment Central Government and Further Education dates remain the same as previous years. We have advised audited bodies and stakeholders that it may not be possible to meet the deadlines in all cases.
9. We have reviewed the rolling work programme and have made proposals to the Auditor General and the Accounts Commission.
10. Audits were delivered at 14.56% above budget in Q1. 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 to reflect these. 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. Discussions are under way on other options to meet the short-term budget pressures and the longer-term funding model.
11. There were 44 publications in Q1 including; 17 Annual Audit plans, seven annual accounts, eight annual reports, two Performance, two Best Value Assurance Reports, one Overview report, one statutory report and six other publications.
12. The Quality of Public Audit in Scotland annual report 2019/20 2020 provided positive assurance on the quality of the audit work across all auditors. 71% of annual audit files reviewed by ICAS over the last three years were assessed as requiring 'limited improvement'. Positive assurance can also be gained from the Audit Scotland Transparency Report, 2019. Both reports were published in June 2020.
13. We continue to get our messages out although the promotion of reports has been scaled back. Despite this, the number of downloads has increased significantly compared to Q1 last year. The focus of downloads was on NHS and Children's mental health reports as well as Audit Scotland's impact of Covid-19 on public audit report.

## Being a world class organisation

14. We have prioritised communication and engagement with colleagues across the organisation using a broad range of channels. This includes more formal business messaging, through the regular Incident Management Team (IMT) updates, the Covid-19 yammer channel, the weekly Staying Connected communications and video posts and blogs from members of Management Team. We have also introduced more informal channels including the 'How we doing' yammer channel, on-line quiz events, virtual tea breaks and check-ins via video conferencing.
15. Since June 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 experiences of working in the current environment. The responses overall are positive however some colleagues are finding the situation difficult; and are concerned about the impact that caring/home schooling responsibilities have on their productivity. Some have also expressed concerns about impending work pressures as deadlines approach.
16. We continue to monitor and manage our resources closely:
  - The outturn on core funding was £202k (10.9%) above budget in Q1.
  - We had 286.4 whole time equivalent colleagues in place at the end of the quarter (against an establishment 290.2).
  - The absence rate remained low at 1.63 days.
17. We maintained strong corporate governance during Q1, including the facilitation of virtual meetings of the Board and the Accounts Commission and their respective committees, the management team, business group management teams and other corporate forums. We successfully completed all 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.

## Recommendations

18. The Board is invited to:

- review the performance in quarter one
- consider whether any additional management action is required.

## Appendix 1

30 September 2020

### 2020/21: Q1 performance summary

 <b>Delivering world-class audit</b>	Measure in Q1	Previous quarter	Same quarter last year	Direction of travel in Q1 this year compared to Q1 last year
<b>We conduct relevant and timely audits and report in public.</b>				
Reports 2021(YTD)	44	713	108	↓
On time (YTD)	100%	91%	100%	→
Audit Budget (YTD)	+14.56%	+4%	-5.95%	↑
We get our messages out effectively				
Media mentions (Q1)	101	335	304	↓
Downloads (Q1)	262,497	320,410	123,448	↑
Social media engagements (Q1)	2,178	5,441	5,881	↓

### Key performance messages in Q1

- We have changed the RAG for the 'relevant and timeliness' objective to red. This reflects the impact of Covid-19 on both Audit Scotland and the bodies we audit. This is having an impact on the timeliness compared to previous years. The significant increase in cost in Q1 and the potential impact of delaying audits are also reason for the RAG change.
- We delivered 44 audits/reports. This is less than Q1 in previous years as all NHS reports have been rescheduled to Q2 and in previous years some Central and local government reports were published ahead of schedule.
- The reports delivered were on time, however audits are taking longer, and this may impact on timeliness of the remaining audits.
- Audits were delivered at 14.56% above budget and out with our 5% tolerance for this measure.
- Communications statistics show we are getting our messages out, but we have scaled back the promotion of reports and this is reflected in media mentions and social media figures. Nonetheless, downloads (262,497) are significantly up on last year.
- There were 101 media mentions of Audit Scotland and/or Accounts Commission.
- We continue to engage with the Scottish Parliament with seven parliamentary engagements and 20 mentions in the Scottish Parliament. We supported four meetings of the Accounts Commission.
- We continue to respond to correspondence and Freedom of Information (FOI) requests on time, with 31 correspondence cases and five FOIs and responded to four consultations.

## Key actions

The key actions for this strategic objective are covered by the projects and workstreams in the Strategic Improvement Programme. This programme is currently being refocussed to prioritise improvements and projects which best respond to the current situation and support remote/ virtual working.

### Key:

**Red** = Not progressing/significant additional management action required.

**Amber** = Progressing and management action planned.

**Green** = On target/no need for additional management action

## 2020/21: Q1 performance summary

 <b>Being a world-class organisation</b>	Measure in Q1	Previous quarter	Same quarter last year	Direction of travel in Q1 this year compared to Q1 last year
<b>We manage our resources effectively</b>				
Budget Variance (YTD)	+10.9%	+24.5%	-13.3%	
WTE establishment (YTD)	98.6%	99.8%	99.4%	
<b>We maximise our efficiency</b>				
Staff costs (YTD)	4,400k	16,684k	4,124k	
Agency/secondment costs (YTD)	78k	521k	20k	
Average cost per audit day (Q1)	429.8	441	441	
Proportion of audit time (Q1)	60%	68%	64.5%	
<b>We empower and support our people to be engaged, highly skilled and perform well</b>				
Absence (YTD)	1.63 days	4.97 days	1.6 days	
Staff turnover (YTD)	2.43%	6.32%	1.68%	
Exams pass rate (YTD)	78%	84%	75%	
Training events (YTD)	28	98	26	
Training attendees (YTD)	405	1057	257	
IT uptime	99.91%	99.36%	99.36%	

## Key performance messages in Q1:

- The outturn on core funding was £202k (10.9%) above budget. There was no capital spend in Q1.
- The average number of colleagues employed in the quarter were 98.6% of the establishment which is slightly lower than the same quarter last year.
- Absence levels remain low and are consistent with previous years. We remain below the 2019 CIPD benchmark (5.9%).
- The proportion of audit time was 60%, which is down from 64.5% in the same quarter last year.
- There have been 28 training events and 405 attendees, which is up on the same quarter last year.

- IT up time remains consistently high considering all staff are working at home.

### **Key actions**

The key actions for this strategic objective are covered by the projects and workstreams in the Strategic Improvement Programme. They include; several workstreams on resourcing, learning and development and wellbeing and the performance management framework.

## Purpose

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

## Background

2. The strategic improvement programme is a key enabler for achieving our vision of being a world class audit organisation. The programme includes a broad range of improvement work which supports the delivery of the two main organisational objectives: Delivering world class audit and Being a world class organisation.
3. The quarterly update reports provide updates on recent activity and the future plans in key areas of work. Management Team and the Board considered the Q4 update at their meetings on 17 May and 1 June 2020 respectively. This report considers the progress made in delivering the strategic improvement programme in 2020/21 and provides an update on the programme going forward in the context of the Covid-19 pandemic.

## Strategic improvement planning 2020/21

4. On 16 March 2020 the Incident Management Team initiated the Business continuity Plan in response to the Covid-19 pandemic. On 19 March 2020, at the meeting of the Public Audit and Post Legislative Scrutiny Committee (PAPLS), the Auditor General 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.
5. Our response to the pandemic and maintaining business continuity has been the main priority for our improvement work in recent months. The first phase of our response focussed on the health, safety and wellbeing of colleagues and core business continuity. This included closing the offices, the adoption of non-contact audit work, regular multi-channel communications (internally and externally) and supporting remote working for auditors and support services.
6. We are now focussing on the medium and longer term, to develop a new operating model in an uncertain and changing environment. This will require the prioritisation of development work which supports new ways of working. This will result in a new streamlined strategic improvement programme. As the shape and focus of the new priorities and developments are confirmed the focus, format and content of these quarterly update reports will be adjusted accordingly.

## Delivering world class audit

7. We developed a prioritisation framework to help ensure that the audit work meets statutory and regulatory requirements and is focused where it can add the most value. Our ability to do the audit work depends on the ability of the audited body/subject area to be audited and our own capacity to deliver that audit work.
8. Audit deadlines for financial audit work have been extended through a combination of legislation and guidance from the Scottish Government, by professional bodies and regulatory bodies. Audited bodies are taking different approaches, with some intending to stay with the original timescales and others working to the new deadlines. This situation is very fluid, and some bodies have changed their view on which approach to take.
9. The new five-year rolling work programme had been agreed by the Auditor General for Scotland and the Accounts Commission in March 2020. However, given the unprecedented changes created by Covid-19 pandemic a major review of the priorities and focus of the work programme has taken place and proposals are being considered by the Auditor General and the Accounts Commission during September and October 2020. The Accounts Commission agreed its short-term work programme at its meeting on

10 September 2020. The Auditor General for Scotland will engage with PAPLS on the programme in October/early November 2020 and the new long-term work programme will be finalised by March 2021.

10. We are also refocusing cluster activities to monitor the impact on and response from public bodies to Covid-19 to help inform our future work.
11. The new audit appointments Steering Group has proposed an extension of the current audit appointments. This will be considered by the Auditor General for Scotland and the Accounts Commission in September/October 2020. The project workstreams are being re-scheduled to provide for this. This rescheduling has a consequential impact on the timing of the development work for the new approach to best value auditing in councils and Integration Joint Boards (IJBs).
12. The development of a revised Audit Services audit methodology is currently on hold as resources are being deployed to support the delivery of the financial audit work.
13. The development of a new Digital Audit Strategy is progressing. The current situation reframes the context for this, with auditing digitally likely to be an increasing feature under the social distancing requirements. The strategy will be considered by the Management Team in November 2020.

## Being a world class organisation

14. We continue to prioritise the health, safety and wellbeing of our colleagues and supporting effective working from home. We continue to issue regular and clear communications, support and guidance and have facilitated a broad range of engagement activity.
15. We have a working group under way developing the options and arrangements for Covid secure workplaces.
16. Financial systems and services have been sustained well, including payroll, payments, the comptroller function, accounting and budgeting. We are currently focussing on the budget management for 2020/21 and the medium-term financial plan, including the fees and funding model.
17. Digital systems and services have also been effective, and we continue to supply equipment and support to colleagues. Digital improvement projects are focussing on digital security and flexible working and the new Digital Services Strategy will be finalised in October/ November 2020.
18. The appendix provides more detailed information on key projects in the improvement programme.

## Next steps

19. Key stages in the development of the new strategic improvement programme are:
  - 22 September 2020 – Management Team ‘People Summit’ – including representative from across business groups – this will inform the new strategic improvement programme
  - 6 October 2020 – Management Team – discussions on the new programme
  - ongoing review of improvement work to support new ways of working in the short, medium and longer term.

## Recommendations

20. The Board is invited to note:
  - the 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.

## Appendix

22 September 2020



### Delivering world-class audit



Project/ initiative/ workstream	Status update	Next steps
Audit Quality Framework	<p><a href="#">The Audit Scotland Transparency report 2019</a> and the <a href="#">2019/20 Quality of Public Audit in Scotland</a> reports were published on 12 June 2020.</p> <p>There are ongoing refinements to parts of the AQF including; KPIs, stakeholder surveys and the revised audit quality complaints procedure.</p>	<ul style="list-style-type: none"> <li>Interim audit quality report to Management Team 29 September 2020</li> </ul>
New Code of Audit Practice and procurement strategy for the next round of audit appointments	<p>In September/ October the Auditor General and the Accounts Commission for Scotland will consider proposals that the current audit appointments should be extended as permitted in the contracts.</p> <p>The Steering Group meets on 23 September and will consider an interim project review, the project risk register, updated project timelines and plans for further engagement on the draft Code of Audit Practice.</p>	<ul style="list-style-type: none"> <li>The Steering Group meets on 23 September 2020 and will consider an interim project review, the project risk register, updated project timelines and plans for further engagement on the draft Code of Audit Practice.</li> </ul>
ASG Audit approach	<p>Refresh of ASG financial audit approach based on audit quality findings and developments in the auditing profession, including; audit planning and risk assessment, controls auditing and audit sampling. The Audit Quality Committee considered the improvement plan update report at its meeting on 22 July 2020.</p> <p>The project has been on hold as resources are being deployed to support the delivery of the financial audit work.</p>	<ul style="list-style-type: none"> <li>This is a priority for discussion at the Audit Services Group Management Team away day October 2020.</li> </ul>
Auditing Best Value	<p>The revised Accounts Commission's BV Working Group (BVWG) agreed its terms of reference and initial priorities in August 2020.</p>	<ul style="list-style-type: none"> <li>BVWG will consider an update on the development of BV in IJBs – October/November 2020.</li> </ul>

Project/ initiative/ workstream	Status update	Next steps
Digital auditing	<ul style="list-style-type: none"> <li>The Digital audit team are working on ensuring the underlying infrastructure is sustainable and fit for growth and the team is working with new software to test and showcase possible outputs.</li> <li>GovTech – we are working with the NAO and AW on bid assessments, with assessments in September for a prototype in March 2021.</li> </ul>	<ul style="list-style-type: none"> <li>Draft Digital audit strategy to be considered by the Management Team in November 2020.</li> </ul>
Electronic working papers (EWP)	<ul style="list-style-type: none"> <li>This project is currently on hold as a result of the Covid-19 pandemic and resources being deployed on other priorities. Updating to the new release of the existing software being considered in the short term.</li> </ul>	<ul style="list-style-type: none"> <li>This is a priority for discussion at the Audit Services Group Management Team away day October 2020.</li> </ul>
Communications and engagement	<ul style="list-style-type: none"> <li>The Board agreed the new <a href="#">Communications and Engagement Strategy</a> at its meeting in January 2020.</li> <li>A broad range of alternative outputs are being developed including report summaries, briefings, updates, round table discussions to provide more timely and flexible channels for audit messages.</li> </ul>	<ul style="list-style-type: none"> <li>Implementation of the strategy activation plan (six strands of implementation: planning and scoping; engagement; outputs and products; dissemination; measuring effectiveness; and learning and development).</li> </ul>
Diversity and equality	<ul style="list-style-type: none"> <li><a href="#">Gender pay gap</a> report – published August 2020</li> <li><a href="#">Equality Impact Assessment</a>: Covid-19 working at home published August 2020</li> <li><a href="#">Equal Pay Review</a> 2020 – published September 2020</li> </ul>	<ul style="list-style-type: none"> <li>Implementation of actions in report including developments to audit approach, organisational arrangements and approach to human rights and socio-economic equality.</li> </ul>



**Being a world-class organisation**



Wellbeing



Resourcing



Learning and development



Harnessing digital technology



Leadership and managerial development



Sustainability

Project/ initiative/ workstream	Status update	Next steps
Wellbeing	<ul style="list-style-type: none"> <li>We participated in Mental Health Awareness Week (18-24 May), with activities for staff including online sessions on topics such as mental wellbeing and mindfulness.</li> <li>The Annual HSW Report was shared with colleagues on 25 June.</li> <li>Major focus on wellbeing in the context of Covid-19 and remote working. In addition to issuing IT equipment and workstation equipment we developed a dedicated SharePoint page on <a href="#">maintaining a positive mental health</a>, a <a href="#">Wellbeing Infographic</a> and a</li> </ul>	<ul style="list-style-type: none"> <li>Our approach to wellness will be embedded in the integrated People Strategy and Workforce Plan – Management Team October 2020.</li> </ul>

Project/ initiative/ workstream	Status update	Next steps
	<a href="#">video update</a> on Yammer about wellbeing, carers and learning and development and we have run several pulse surveys.	
Learning and development	<ul style="list-style-type: none"> <li>Promotion of L&amp;D opportunities through regular newsletters</li> <li>Delivered on-line/ video-based training sessions</li> <li>28 training events with 405 attendees delivered virtually</li> </ul>	<ul style="list-style-type: none"> <li>L&amp;D strategy and strategy – September 2020.</li> </ul>
Covid secure workspaces	<ul style="list-style-type: none"> <li>Working group established and detailed options appraisal, risk analysis and planning under-way</li> </ul>	<ul style="list-style-type: none"> <li>Options to Management Team on 6 October 2020.</li> </ul>
Resourcing and finance	<ul style="list-style-type: none"> <li>Flexible deployment of colleagues to support priority audit work</li> <li>Ongoing focussed 2020/21 budget management including development of budget revision for the SCPA</li> <li>Ongoing development of the medium-term financial strategy and fees and funding model</li> </ul>	<ul style="list-style-type: none"> <li>Board meeting 30 September 2020.</li> <li>SCPA business planning day.</li> </ul>
Harnessing digital technology - Digitally enabled projects	<ul style="list-style-type: none"> <li>Ongoing support for remote working inc. MS Teams, DocuSign and roll out of other O365 etc productivity tools.</li> <li>PMF project – performance dashboards for PABV rolled out in August</li> <li>Security enhancements and replacement lap top roll out ongoing</li> </ul>	<ul style="list-style-type: none"> <li>Digital Services Strategy – Management Team October/November 2020.</li> <li>New TR system - ASG users rescheduled to go live April 2021.</li> </ul>
Sustainability	<p>Management Team considered the draft Environmental, Sustainability and Biodiversity annual report (2019/20) at its meeting on 15 September 2020.</p>	<p>The report will be considered by the Board at its meeting on 25 November 2020 and is scheduled for publication by 30 November 2020.</p>

## Purpose

1. This paper informs the Audit Scotland Board that the Remuneration and Human Resources Committee (Remco) has completed the review of the past twelve months performance of Remco and identified the future priority areas for 2019/20.
2. The report is provided to the Board for approval.

## Background

3. The Remco Terms of Reference state that a review of Remco past performance and the identification of future priorities is an annual item of business scheduled to occur at the Remuneration and Human Resources Committee (Remco) meeting in May each year. It was delayed this year to the meeting of Remco on 2 September 2020 due to the impact of Covid-19 suppression measures.

## Progress update

4. The Remco Terms of Reference contain the core schedule of activities and states that the Committee should meet three times each year. During 2019/20, Audit Scotland's Remco met on two occasions, the third meeting for March 2020 being delayed through to May 2020. This was due to the impact of Covid-19. Key items of business considered by Remco are shown below:
  - talent management and succession planning
  - consideration of Audit Scotland's gender pay gap report and annual diversity reporting
  - consideration and approval of the parameters relating to the 2020 pay award and negotiations with the Public and Commercial Services (PCS), including the latest public sector pay policy in Scotland and the implications of this upon our own pay settlement and budget
  - progress updates from the Chair of the Accounts Commission for Scotland in relation to the support arrangements for the Commission
  - review of employment policies
  - approval of Audit Scotland's proposal to introduce a salary sacrifice, additional voluntary contribution retirement plan as permitted by the Local Government Pension Scheme in Scotland (LGSPS), and
  - review of the operation, impact and savings achieved from earlier years' Voluntary Early Release Arrangement (VERA) and redundancy schemes.
5. All this work has been achieved in accordance with good employment practice and is consistent with public sector policy guidance affecting organisations such as Audit Scotland.

## Future priority areas

6. Remco has proposed that the following list of potential items will be considered as priority items for future discussion:
  - diversity, equality and inclusion, building upon the forward plan contained in the HR&OD Manager's report to Remco on 2 September 2020;

- Audit Scotland's future pay and reward strategy, and
- future ways of working, including the mental, emotional health, wellbeing and resourcing arrangements across Audit Scotland's workforce in light of Covid-19 and its impact upon ways of working and productivity.

## **Conclusion**

7. The operation of the Remco during 2019/20 has been effective and in accordance with the terms of reference. Good governance exists and the Committee has continued to challenge and support the effective and efficient operation of Audit Scotland.

## **Recommendation**

8. Board members are invited to:
  - take note and comment upon the work of the Committee during 2019/20, and
  - approve the areas which Remco is planning to take forward as priority areas for 2020/21.

## **Next steps**

9. The Chair of the Human Resources and Remuneration Committee will facilitate the next review of Remco performance at the meeting scheduled in May 2021. A report will then be submitted to the Audit Scotland Board and Accountable Officer in June 2021.



**OFFICIAL REPORT**  
AITHISG OIFIGEIL

# Scottish Commission for Public Audit

**Monday 22 June 2020**

**Session 5**

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**Monday 22 June 2020**

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**SCOTTISH COMMISSION FOR PUBLIC AUDIT**

**2<sup>nd</sup> Meeting 2020, Session 5**

**COMMISSION MEMBERS**

- \*Colin Beattie (Midlothian North and Musselburgh) (SNP) (Chair)
- \*Bill Bowman (North East Scotland) (Con) (Deputy Chair)
- Alison Johnstone (Lothian) (Green)
- \*Rona Mackay (Strathkelvin and Bearsden) (SNP)
- \*Anas Sarwar (Glasgow) (Lab)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

- Alan Alexander (Audit Scotland)
- Steven Cunningham (Alexander Sloan)
- Stuart Dennis (Audit Scotland)
- Caroline Gardner (Auditor General for Scotland)
- Diane McGiffen (Audit Scotland)

**LOCATION**

Virtual Meeting



# Scottish Commission for Public Audit

## Meeting of the Commission

*Monday 22 June 2020*

*[The Chair opened the meeting at 13:30]*

### Interests

**The Chair (Colin Beattie):** Good afternoon, and welcome to the second meeting in 2020 of the Scottish Commission for Public Audit. I ask members and witnesses to be concise and to the point.

We have received apologies from Alison Johnstone MSP.

Agenda item 1 is a declaration of interests. I welcome Anas Sarwar, who joins us in his capacity as acting convener of the Public Audit and Post-legislative Scrutiny Committee. Anas, do you have any interests relevant to the remit of the commission to declare?

**Anas Sarwar (Glasgow) (Lab):** Good afternoon, chair. It is good to be part of the commission. I have no interests to declare.

**The Chair:** Thank you.

### Decision on Taking Business in Private

13:31

**The Chair:** Agenda item 2 is a decision on taking business in private. The commission is invited to take in private item 4, which is consideration of evidence heard. Is the commission agreed?

I will take silence as agreement, so that is agreed.

# Audit Scotland Annual Report and Accounts for the Year to 31 March 2020

13:31

**The Chair:** Agenda item 3 is Audit Scotland's annual report and accounts for 2019-20. Members have copies of those, as well as a management letter from Alexander Sloan, in their meeting papers. I welcome to the meeting Alan Alexander, chair of the board of Audit Scotland. I think that this is his first meeting of the SCPA as chair of the board. Alan is accompanied by Caroline Gardner, Auditor General for Scotland; Diane McGiffen, chief operating officer, Audit Scotland; and Stuart Dennis, corporate finance manager, Audit Scotland.

Today is Caroline Gardner's last appearance in front of the commission before she demits office. I put on record the commission's thanks to you, Caroline, and our appreciation for your work as Auditor General over the past eight years, for which period I have been in the chair and dealing with you. Thank you for your excellent participation and engagement with the SCPA, which is greatly appreciated. Thank you for your engagement with the Parliament in general, with the Public Audit and Post-legislative Scrutiny Committee and, more widely, your involvement in the work of the Scottish Parliament's budget review group.

Before we move to questions, I remind everyone that, because of the challenges of managing a virtual meeting, we will take questions in a prearranged order. If any member has a supplementary question, please type an R in the chat box, and I will bring you in as soon as I can. As always, I will be grateful for succinct questions and answers. Please give broadcasting staff a few seconds to operate your microphones before beginning to speak.

I ask Alan Alexander and the Auditor General to make some short introductory remarks.

**Alan Alexander (Audit Scotland):** Thank you, chair. As we are acutely aware, in the past few months of 2020, the world has changed profoundly. Due to the Covid-19 pandemic, public bodies and public services have been operating, and continue to operate, under tremendous pressure. Like others, I am immensely grateful for the work across the public sector to help us through the crisis.

For Audit Scotland, Covid-19 and the measures taken to contain it have meant rapid and massive changes to the way that we work and the way that our colleagues live. In the course of 24 hours in mid-March, we changed from an office-based

operation to a virtual one. I place on record my thanks to and respect for the staff of Audit Scotland for their agility, professionalism, dedication and good humour during the most significant upheaval that we have seen in our lifetimes. Our priority has been the safety and wellbeing of our colleagues. The board has focused on ensuring good governance and oversight in those new ways of working, and that will continue to evolve.

As a board, our role is to oversee the exercise of all functions of Audit Scotland. Audit Scotland supports the Accounts Commission and the Auditor General. We provide independent assurance to the people of Scotland that public money is spent properly and provides value for money. To do that, we must do three things: safeguard our independence; uphold the quality of the audit; and ensure that we focus on the issues that really matter and which will improve the services that people across Scotland use and rely upon daily.

In a moment, I will hand over to the Auditor General, who is, as you know, also Audit Scotland's accountable officer, to make her opening remarks. Before that, it is important to highlight that this is a time of transition for Audit Scotland's board and the organisation. As you mentioned at the beginning, chair, this is my first meeting with the commission since coming into post as chair of the board of Audit Scotland in April. I would like to thank my predecessor, Iain Leitch, for his stewardship over the past five years.

Two other board members will finish their terms in the coming months. Graham Sharp is stepping down as chair of the Accounts Commission, with Elma Murray coming on to the board as the interim Accounts Commission chair. Non-executive member Heather Logan, who is chair of the Audit Scotland audit committee, will end her term in September. I thank Graham and Heather for their contributions and wish them the best for the future. I should also say that we look forward to welcoming the two new independent board members as soon as their names can be given to us.

Turning briefly to Audit Scotland and the Auditor General, Caroline Gardner's eight-year term comes to an end this month. Caroline has been an exceptional Auditor General. Anyone who has worked with her or encountered her can attest to her professionalism, expertise and insight, as well as to the fact that she has that crucial quality of empathy. As accountable officer for Audit Scotland, she has been a superb and well-respected leader. Caroline, thank you for all that you have done. I am sure that we will continue to see you make a significant contribution to

Scotland and its public life in years to come, whatever you decide to do next.

With that, I hand over to Caroline to make her opening statement.

**Caroline Gardner (Auditor General for Scotland):** Thank you, Alan, and to the chair, for your kind words, which are much appreciated.

I would normally use this opportunity to look back at the performance and achievements of the past 12 months. Instead, I start by paying tribute to Scotland's public services and all the people working to save lives, support communities and protect jobs. Covid-19 has put our society under tremendous strain, and it will be some time before we understand the full impact.

In those circumstances, good governance and financial management are more important than ever, and we are acutely aware of the pressures and limitations under which public bodies are working. Our response is and will be to ensure that audit is flexible, pragmatic and consistent. We are working through our priorities and our work programme to ensure that we can deliver a strong audit service to the Parliament and focus on the issues that matter.

However, it is important to remember that the pandemic comes when public services are already facing a good deal of pressure and uncertainty. Demands and expectations continue to rise, alongside static or reducing budgets, and the public sector has had to prepare for the prospect of the United Kingdom's withdrawal from the European Union and the associated uncertainty. At Audit Scotland, we have sought to ensure that we have the capacity to meet our growing responsibilities and to continue to deliver high-quality audit work. Covid-19 means that we have also had to change how we operate, and that will continue to evolve.

Finally, as I end my term as Auditor General, I would like to say thank you to my Audit Scotland colleagues. Over the past eight years, I have been proud every day of their professionalism, their commitment to improving public services and their resilience, and never more so than in recent months. I thank them all for their support and friendship. I also thank the Scottish Commission for Public Audit for the important role that it plays in supporting a public audit regime in Scotland of which we can all be proud.

As always, chair, we are happy to answer your questions.

**The Chair:** Thank you. On page 9 of the annual report, Audit Scotland states that it has started to implement its digital audit strategy, including introducing data analytics and employing the first dedicated digital auditor. How will data analytics

enhance audit techniques, and will that result in a more efficient and cost-effective audit process?

**Caroline Gardner:** I will start, before I hand over to Diane McGiffen. As the commission knows, we have been investing in our digital capability for a number of years, with your support. That investment has been critical in enabling us to pivot to remote and virtual working, as of mid-March this year. The data analytics strategy predates the pandemic, and aims to look at what we audit—the investment that is being made in digital technology by the public bodies that we audit—and how we do it, to ensure that we can use digital technology to look in a more wide-ranging and less sample-focused way at the records and approaches that are taken by audited bodies. Diane—could you amplify that for the commission, please?

**Diane McGiffen (Audit Scotland):** Thank you, and good afternoon, members.

As the Auditor General said, we have been investing in digital technology for some time, with a twin-track approach. Our digital capacity—our infrastructure—has enabled us to move overnight, as the chair of the board said, to work entirely virtually. Our digital auditing strategy has been developed and progressed through our performance audit work programme, the outputs of which the Public Audit and Post-legislative Scrutiny Committee has considered several times, and through our audit methodologies.

We are now taking stock of a range of improvement projects, given the disruption that Covid has brought to all our work. We intend to bring even more closely together our digital services capacity and our digital auditing capacity, so that our auditors can work online first if they need to, and so that we can advance some of the audit methodology and audit technology projects that we had started, whose delivery has perhaps become more urgent.

We have strengthened our staffing, and we have employed a key specialist. We have enhanced our data analytics training for all colleagues, which was a feature of our learning and development programme last year. Within the organisation, we have also been building our networks of digital interest and expertise, led by some other teams that are skilled in the area. We have also developed an extensive programme of speaking to public bodies about our work. We are well connected in the digital arena, and we see it as an area of work that we will continue to grow. I hope that that is helpful. I am happy to answer any questions.

**The Chair:** Thank you. You say that you have your first dedicated digital auditor. What other dedicated staff do you have on the digital side? As

you said, you have been investing in this area over the years, quite rightly. In previous years, you assured us that your ability to audit information technology and digital services was being enhanced year on year and was at a reasonable level. What is Audit Scotland's overall capability? How many dedicated staff do you have?

13:45

**Caroline Gardner:** We have a team of computer auditors, who have worked in a traditional way, auditing the IT systems and the risks that are associated with those in all the bodies that we audit.

However, as Diane said, over the past couple of years, our digital strategy has been focused on ensuring that all our audit staff have greater digital awareness and skills, because so many of the public services that we audit now rely on digital technology. We are following closely developments in use of data analytics to carry out audit work, and we are building up our capacity and skills in that area. As the annual report says, our digital audit team is moving to being much more focused on how public services are provided through digital platforms rather than on IT systems, in the way that they would have been provided in the past.

We are building the data analytics capacity to ensure that staff who already have an interest and skills in that area have a professional grouping and a professional home within the organisation. We are trying to ensure that we can resource our work in flexible ways in order to make best use of those skills to reflect the particular circumstances and risks that we see in each of the audited bodies.

The number of staff involved as specialists is relatively small—there are fewer than 10. However, we are looking to get the most leverage from those staff to ensure that they are working directly on the audits with the most significant risks and opportunities, and that their skills are available to all our staff who are involved in audit work, because we now deal with few things that do not have a digital dimension at least, even if they are not fully digital. That has ramped up significantly over the past three months.

**The Chair:** Thank you. As Rona Mackay will have to leave the meeting early for parliamentary business, I invite her to ask her questions now.

**Rona Mackay (Strathkelvin and Bearsden) (SNP):** Thank you, chair. Good afternoon, panel. Professor Alexander, you said in your opening statement that one of the key responsibilities of Audit Scotland is to uphold the quality of audits. According to the paper, "Quality of public audit in Scotland: Annual report 2019/20", which was

published earlier this month, only 25 per cent of Audit Scotland staff feel that they have had the time and resources that are required to deliver a high-quality audit. That is a significant decline, from over 60 per cent in 2016-17, when the information was first recorded and reported. What measures is Audit Scotland taking to address the concerns of the majority of the staff of its in-house teams?

**Alan Alexander:** Thank you for the question. Let me answer it from the point of view of the board's oversight, and I will then hand over to Diane McGiffen to provide you with the detail that you have asked for. The board monitors such issues closely, as does the remuneration committee, which I chaired until recently, and the Audit Scotland audit committee. When there has been an apparent drop of that sort, we assure ourselves that management action is being taken in a targeted and effective way to ensure that we deal with any problems that that produces for the audit. I hope that it is acceptable for me to hand over to Diane to provide the commission with some detail.

**Diane McGiffen:** Thank you for the question. Please be assured that we considered the results carefully, and that we take them seriously.

It was disappointing, but sadly not unexpected, that people felt under pressure last year to deliver audit work. We knew that there was pressure in the system, and we had taken action to resolve that. What the survey shows is that the action did not have an impact in time for the peak in audits, for which we are very sorry. However, we are also very grateful to our colleagues for their work under difficult circumstances.

I will give you a flavour of those actions. We have been working to keep establishment levels high and to fill vacancies quickly. One of the pressures last year was driven by our expansion. On the positive side for colleagues, many opportunities arose because of the new financial powers work, and many colleagues were promoted and took up new roles. That left some vacancies and gaps. We filled those, but that took us longer than expected. However, we have increased recruitment to maintain establishment at a high level.

Peak auditing times represent a particular pressure for colleagues. We have taken into account all the factors that cause pressures, including through consideration of the timing of recruitment and appointment to professional trainee schemes; engagement of student placements; on-going work on creating a pool of colleagues who can work with us on a seasonal basis, rather than our using agency staff; and consideration of opportunities for former colleagues to work with us on a restricted basis.

However, those measures, which we have been working on diligently for this summer's peak, might not be the measures that will help us through the peaks of work that might result from the disruption to our work planning that is caused by Covid. We are keeping that under review.

We recognise that we need more agile movement between teams. An issue last year was that some small teams were hit by difficult sets of circumstances, and we were unable to find adequate resourcing solutions quickly. We are now geared up to move more quickly on that.

We have been working closely with our health and safety committee and with the Public and Commercial Services Union to address resourcing issues throughout the year. We had a small team that led a project to examine all the possible options to improve resourcing this year, and many good actions came out of that. However, as I said, because of the disruption that has been caused by Covid, we are not sure that we will take all of those actions over the expected peaks of work this year.

**Rona Mackay:** Thank you. When you refer to "resourcing issues", are you talking about staffing issues? Are you satisfied that those issues have been resolved, to an extent? I hear you say that things might not be ready for this summer, but can you clarify exactly what you mean by "resourcing issues"?

**Diane McGiffen:** Thank you. We are talking about the people we have and the demands upon us—the two parts of the equation. We have looked at both parts and tried to eliminate or pause work that is not currently necessary. We are going through a huge reprioritisation process anyway to enable us to deliver accounts for the year, but we had already started to look quite critically at the demands on us and how we could better meet those or pause some of them, and we had also started to consider all the resourcing and people we have, what they are doing and how we are phasing and managing all that.

**The Chair:** Bill Bowman has a quick supplementary question.

**Bill Bowman (North East Scotland) (Con):** In a similar vein, Audit Scotland has recorded an underspend of £24,000 against its training budget this year, and the actual figure reduced marginally on the previous year. The previously mentioned report, "Quality of public audit in Scotland", stated that 60 per cent of the staff of Audit Scotland's in-house teams felt that they had enough training and development to enable them to deliver a high-quality audit. Apparently, that is the lowest rate of all public audit providers included in the survey. Therefore, does the 2019-20 underspend on training contribute to the responses of staff, in respect of their personal and professional training

and development? What measures are in place or being planned to address the feedback from your in-house teams?

**Caroline Gardner:** I ask Diane McGiffen to answer that question.

**Diane McGiffen:** One factor that reduced the number of training days last year was that we moved our all-staff conference to this financial year. That represents one day of training for every member of staff, because it covers technical and other matters. Last year, because of the resource pressures that we were experiencing in some areas, which I referred to in my earlier answer, we also rescheduled some training and paused some training so that people were not having to choose between making their audit contribution and delivering training courses. We are catching up with all that. We moved several training events online at the end of last year. There are some differences in how we and all the firms record training, but we take the trend very seriously and we are looking at that.

We have a strong programme of professional development and support. This week, the Institute of Chartered Accountants of Scotland delivered an online training session for all staff on the basis of the reviews that it has done of audits. That is under review. We are keen to explore the opportunities that operating virtually can give us to enhance training, but we are confident that we are meeting most of the training needs that have been identified through our performance development programme and 3D conversations. We are trying to balance that with resource demands.

**Bill Bowman:** Page 42 of your report states:

“Over the year, staff received an average of 7.7 days formal learning and development per person.”

If you take a five-day week, I suppose that that represents 1.5 weeks. Does that include all your students? They would seem to get more training.

**Diane McGiffen:** I do not think that that includes the students. I think that that is calculated separately, but I can come back to you with details of that.

**Bill Bowman:** The report does not make that clear, and it does not give any comparisons. If that is an average, the worry is that some people get more training than that and some people get very little training. Is that the case?

**Diane McGiffen:** There will be variance, as you would expect, but we have a comprehensive training programme covering professional development, career development and other items. We delivered a lot of learning and development last year. There have been a lot of changes in the professional requirements, and we have been following that up. We consider the

training needs of teams, and we have been having discussions with teams about their views on training and so on. Therefore, we are engaging strongly with the issue and looking to offer a comprehensive mix of training for colleagues, balancing that with the pressures.

**Bill Bowman:** More information on the figure of 7.7 days would be helpful. I have delivered training in the past, and it is not just about delivering training; it is about the feedback you get, how well it is taken on and the uptake by trainees.

Moving on to a couple of other issues, on page 2, under the heading “About us”, you say:

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

You use the term “world-class” quite often in the report. What is a world-class audit organisation, and are you one?

14:00

**Caroline Gardner:** I will start on that question. That has been our vision as an organisation for, I think, at least five years now. It has two dimensions, which we monitor carefully. The first is ensuring that our audit quality framework is absolutely compliant with international standards on auditing and with the International Organization of Supreme Audit Institutions’ standards of supreme audit institutions for performance audit work. We are unique among the UK public audit agencies in having a comprehensive audit quality framework that covers all our audit work—financial, performance and best-value audit work—whether that is carried out by Audit Scotland teams or by firms that the Accounts Commission and I appoint to carry out audit work. We report the results of that annually. You will see from our annual report that our results are good and improving. We have a solid assurance that we are meeting those standards and learning from the feedback from the independent reviews that are carried out by ICAS each year.

The second dimension of our vision is our international strategy, where we are looking to learn from—and share our own—good practice and expertise with other public audit agencies around the world. You will see from our international report that we have a good deal of interest from overseas audit agencies in what we do and the ways that we work, and we greatly value our global networks that allow us to learn from others and to compare our performance but also to share our good practice. Those are the two primary indicators of our being a world-class audit organisation.

We then report our impact in a number of ways, through our annual report and accounts and also through impact reports on pieces of audit work,

which are in the public domain once they are published.

**Bill Bowman:** I know that this has been discussed for some time, but, after five years, are you now a world-class organisation?

**Caroline Gardner:** It is probably not a thing that you ever achieve. We continue to improve, and standards around the world continue to improve. We all know the challenge that the audit profession in general has faced over the past couple of years. The important thing is our commitment to continue to achieve and exceed those international auditing standards—the ISA and the INTOSAI standards—and to keep learning from our peers globally. I am not sure that we will ever be in a position where we can tick the box and say, “That’s done”, but we are confident that our performance is up there in a world-class context and that we continue to improve year on year.

**Bill Bowman:** If you have a vision, it might be useful to show some progress or achievement against that, rather than just stating it as a vision.

**Caroline Gardner:** Clearly, this is the overall annual report and accounts. Our corporate plan and our corporate performance reporting, which go to the board quarterly, set out a range of performance measures, our progress against them and our next steps. Again, all of that is in the public domain from the board papers, which we publish on our website each time. I am very happy to talk you through that, if that would be useful, but we summarise our performance in the annual report and accounts.

**Bill Bowman:** It is just that that is mentioned on page 2 and seemed to be important.

The question that I was going to ask is a simpler one. Page 66 sets out the value of your intangible assets. We were talking about a digital auditor, which I thought might be some sort of robot with artificial intelligence, but perhaps not. You have retired or disposed of £344,000-worth of intangible assets and added in £51,000-worth of intangible assets. How does that tie in with what we were speaking about in terms of spending more time on digital work?

**Caroline Gardner:** The intangible assets are software licenses, which we need for our work. I will ask Stuart Dennis to talk you through the detail, but, broadly, we are spending more on software and less on hardware to support our digital working, in line with the general move to operating through cloud computing rather than through software that is held and operated on our servers. Stuart, can you talk Mr Bowman through the—

**Bill Bowman:** I was just going to say that it seemed that you had taken out a big number and not added very much in.

**Caroline Gardner:** Stuart can talk you through the detail.

**Stuart Dennis (Audit Scotland):** On the disposals for the year, we moved on to a new fixed asset system. We had a tidying-up exercise, in which we wrote off old licences that, in most cases, had fully depreciated. The main addition for the year was an upgrade to the human resources system. It was really a tidying-up exercise of the gross book values and the depreciation that had been accumulated.

**Bill Bowman:** You were tidying up old stuff that had depreciated and added an HR system. Where are the costs for the digital auditor and the additional time spent on digital working?

**Stuart Dennis:** The digital auditor is an individual post. It is not a system, as things stand. We are developing our own system in-house, so that would not be an additional increase in intangible assets.

**Bill Bowman:** It is something that you are developing yourselves. Is that correct?

**Stuart Dennis:** Yes, that is correct.

**Anas Sarwar:** The report shows a gender pay gap in that, on average, male staff earn 12.79 per cent more than female staff, even though three quarters of the senior management team are women and more than half of the organisation-wide leadership group are women. Given that women hold the majority of senior positions across Audit Scotland, what are the explanations for the reported gender pay gap?

**Caroline Gardner:** Mr Sarwar, that figure demonstrates the limitations of any single metric that aims to capture something complex, such as gender equality and gender discrimination. We pay serious attention to this, as do our board and our remuneration committee. Over the past couple of years, our efforts to ensure that the key group of staff that we recruit as professional trainees is as balanced and diverse as possible have really made the difference. We have seen an increase in the proportion of our trainees who are female. They are people who will progress through the organisation, as they qualify and move into more senior roles. However, as they come in on our training grade, they have the effect of bringing that pay ratio down rather than up.

As you say, on representation and pay equality, our performance is good for the management team and the leadership group. However, the overall metric is affected by our success in bringing in female trainees, who will progress through the organisation in the years ahead, but

who, now, are bringing the gender pay gap ratio below where we would like it to be.

**Anas Sarwar:** That is good to hear. What about the equality gap more generally? Is there any analysis of ethnicity, race or any other protected characteristics? There is a lot of information on gender, but nothing on anything else.

**Caroline Gardner:** The gender pay gap is what we are required to report. As you will know, we take diversity in all its facets very seriously, and we have an equality and diversity working group in the organisation, which looks at our performance both as an employer and in our audit work and how we take that forward. I will ask Diane McGiffen to give you a bit more information about how we monitor our performance as an employer, but one of the challenges is that our monitoring relies on people declaring their ethnicity, some other protected characteristics and whether they consider themselves to have a disability, and we do not have 100 per cent reporting on that. Diane, could you give Mr Sarwar a bit more information about the way that we monitor and manage those important aspects of our performance as an employer?

**Diane McGiffen:** Thank you. We monitor all recruitment activity, and we monitor and report on the progress of recruitment, selection, appointment, training and progression for all protected characteristics in our diversity monitoring reports. We are required to publish that data every two years, but we produce it every year, and the board and the management team will shortly be considering that. I will amplify the Auditor General's earlier points on the gender pay gap to give you an example: as at 31 March 2019, 73 per cent of our lower quartile employees, which is where our graduate entrants come in, were women, and that has reduced the median rate of pay. We are shortly to publish our figures for 2020, and those will show a reduction in the pay gap as people have progressed through the scheme, and we will send you a copy of that report when it is available.

Almost 7 per cent of Audit Scotland's workforce is from black, Asian or minority ethnic groups. Among trainee auditors, that is about 13.5 per cent. Last year, about 13.8 per cent of applicants for all our roles were from black, Asian or minority ethnic communities, which was down slightly from 14.5 per cent the previous year. However, 8.1 per cent of our appointments were to black, Asian or minority ethnic colleagues, which was up from only 3.3 per cent the year before. Our graduate training scheme is the key entry route to the organisation. We have stressed that many times for you. It is essential for us to keep recruiting, training and providing a good experience for our trainees, most

of whom we want to keep in Audit Scotland and in the public sector, where we can.

We currently have 43 trainees, and we work hard to reach out to recruit graduates. We hold open evenings, we attend many recruitment fairs, and we also reach out to schools and other organisations to encourage people to think of auditing as a career, if that is not an obvious route for them. We have four school leavers in the ICAS training scheme, which is going well for us, and we also have two modern apprentices. We monitor all our HR performances and statistics and report on them, and we work hard to live up to our aspiration to be a great and diverse employer.

**Anas Sarwar:** That is excellent. I appreciate everything in that answer, and I would expect nothing less from Audit Scotland than for it to be an exemplar for organisations across Scotland.

I have a follow-up question. When you evaluate all the organisations that you audit each year, you consider gender disparity. Why do we not look at race disparity as well, as a practice?

**Caroline Gardner:** I am not sure that that is a question for us, Mr Sarwar, as opposed to Government. As part of the best-value duty that is placed on councils, they are required to live up to and demonstrate diversity and equality. Therefore, the auditors are required to look at the way in which each council is doing that, make a judgment on how effective it is and share good practice for others to learn from. It is not something that we have done direct work on in the central Government and health parts of our responsibilities, because of the differences in the Government's regimes. However, in the annual reports and accounts, we ensure that all public bodies are reporting the information that they are required to and that that information is checked back with the underlying systems to ensure that it can be relied upon, that it is robust and fair. Therefore, we do some work there, but one of the continuing conversations we have through our equality and human rights advisory group and with the Equality and Human Rights Commission is about how we can ensure that our respective responsibilities and roles complement each other rather than adding burdens that do not lead to real change but that provide an extra overhead for the bodies concerned. I am sure that that is a conversation that we would be happy to continue with you as the work evolves in the months ahead.

**Anas Sarwar:** Thank you. Would you need Government permission to do a race disparity audit across Scotland's public sector?

**Caroline Gardner:** We would not need permission, but, as always, there is a question of where we are making best use of the resources available to us through the Scottish Commission

for Public Audit and through the audit fees that we charge and how we ensure that our work complements rather than overlaps the work of other organisations, such as the EHRC in Scotland and the statutory responsibilities that bodies have. That is not to rule such work out, but it has never felt like the area where we could add most value. However, it is a continuing conversation, and you are quite right to highlight it.

**Anas Sarwar:** I look forward to having that conversation with you, Auditor General, and with your successor in due course.

On complaints, according to the report, four complaints were recorded over the year, but only two were investigated, and those were not upheld. Can you clarify why only two of the four complaints were investigated?

14:15

**Caroline Gardner:** Yes. I suspect that Diane McGiffen may want to add to this. One complaint was assessed as being outside our complaints handling procedure, and the complainant was redirected to the Scottish Public Services Ombudsman as the appropriate person. After additional correspondence with us, we were able to provide some more information, but the complaint was outside our procedure. One complaint is on-going at this stage, and we cannot give more information than that. The other two complaints were not upheld, but, in one case, we found that we could have communicated in a more timely manner. We aim to learn from complaints in each case.

**Anas Sarwar:** For clarification, of the four complaints, one was outwith your scope and was referred, one is being investigated but is not concluded, and two were investigated and concluded.

**Caroline Gardner:** That is right.

**Anas Sarwar:** Thank you. I hand back to the chair.

**The Chair:** There are several budget lines on page 63, but the one that stands out is expenditure on communications—telephone and postage. You exceeded that budget by 66 per cent. It is not a huge sum in itself, but, for something that is as limited as telephone and postage, that seems to be a high percentage. What are the reasons for that, and is it an on-going situation?

**Caroline Gardner:** I will ask Stuart Dennis to give you more detail, but, looking at the budget lines, you will see that there was a significant reduction from £82,000 in 2019 to £63,000 in 2020. Stuart, please could you answer the chair's question about the spend against budget in 2020?

**Stuart Dennis:** Yes. As the Auditor General said, the figure has come down from last year. The main reason for that is our mobile telephone contract. The old one was concluded in August last year, and we negotiated a new one for a much better cost. Therefore, there was still an overspend last year, but that should flatten out this year and we should be on budget.

**The Chair:** So that is a bit of a blip.

Last year, you did a record number of section 22 and section 102 reports. Does the increasing requirement to produce those reports, which, presumably, are somewhat more complex and require more digging than your normal reports, represent significant additional work for the auditors? How are you managing the pressures that might arise from that?

**Caroline Gardner:** You are right to highlight them, chair. Section 22 reports are the vehicle that I have, as Auditor General, to draw to the attention of Parliament and the Public Audit and Post-legislative Scrutiny Committee issues that have arisen from the audit of individual bodies. Section 102 reports are the equivalent in local government, where the controller of audit reports to the Accounts Commission. By their nature, those reports are significant and generally about things that have gone wrong in a public body. However, occasionally, they will be an update on a matter of significant public interest, such as the section 102 report on Glasgow City Council's settlement of its equal pay claims. They require significant additional time and expertise from auditors to conclude.

The increasing number—it went up in 2018-19 as well as in 2019-20—reflects the pressures on audited bodies, which I referred to in my opening statement. We keep a small budget available for exactly that type of work, which we can use to pay firms or to make additional resources available to the in-house teams to do the necessary work and to support me in presenting a section 22 report to the Public Audit and Post-legislative Scrutiny Committee. However, where the volume of work exceeds the amount for which we have budgeted, we have to accommodate it by flexing the programme overall—by delaying some pieces of work or reducing them in scope. Therefore, those reports are a significant part of our work, which we must actively manage year on year. We have flagged the increasing number, because it is a trend that we are watching closely.

**The Chair:** Within the trend of the increasing number, are there common themes in those reports? What I am groping for is the impact of the complexity in the reports. For example, we know that IT comes up a lot. Does that area engage more resources from Audit Scotland than other areas? I am just groping a bit to understand.

**Caroline Gardner:** You are right to ask whether there are common themes. IT services have been a common theme in my areas of responsibility, as you have seen on the Public Audit and Post-legislative Scrutiny Committee, and require extra resource. I would not say that it is necessarily more again than, for example, is required in the work that we have done on NHS Tayside over the past few years. Both require senior staff and expert staff. They are expert in different ways, but I do not think that more expertise is necessarily required for IT systems than is required for the sort of complex governance problems that we have seen in NHS Tayside.

I think that I am right in saying that procurement has been a common theme in the Accounts Commission's area of responsibility. With Police Scotland, the Accounts Commission and Audit Scotland have produced some guidance called "Red flags Procurement", which is for audited bodies, setting out some of the warning signs that they might look at and for when they are concerned about good practice in procurement.

We look for those common themes because, ideally, we would like to be able to get in upstream and prevent problems from occurring. Equally, we want to learn from them in looking at the risk assessment that we carry out for individual bodies in future.

**The Chair:** Thank you. On page 23 of the report, you say:

"the Covid-19 situation has increased the risk in this area as some people/organisations are seeking to exploit the situation."

Is that a warning shot about problems that will be coming down the line? Have there been breaches of IT security that will require more resources?

**Caroline Gardner:** As an organisation, and as auditors of 200-plus organisations around Scotland, we are certainly seeing increased cybersecurity risks, with the overnight move to remote working that we all had to undertake in mid-March.

Within Audit Scotland, we have seen an increase in the number of phishing emails that we receive. We have seen some increase in sophistication, with those being targeted at particular people, particularly senior people in the organisation. We have seen general pressures on our IT systems and the security of our data. So far, we have been able to manage all of that, but it has put a lot of pressure on our digital services team, and our auditors are seeing the same sort of pattern in the bodies that they audit. At this stage, I cannot give you any indication of the impact, other than to point to the pressure that is being put on the people who are responsible for digital

security, but it is an audit risk that we are looking at closely and managing in our organisation.

**The Chair:** On page 63, point 4 of annex B sets out other operating expenditure. Under fees and expenses to appointed audit firms, there has been a substantial increase in payments to firms for audits of further education colleges. Is there a reason for that?

**Caroline Gardner:** Stuart Dennis will keep me straight and may want to add something. We have seen increased fees being agreed between auditors and some colleges, reflecting some of the challenges that they face. I have reported those challenges to the Public Audit and Post-legislative Scrutiny Committee in the annual report on colleges as well as in a disproportionate number of section 22 reports on individual colleges in the sector. That reflects the fact that colleges have relatively small governing bodies; it also reflects the financial pressures that colleges face, and it is a result of the nationalisation of terms and conditions as well as the changes to the curriculum across the country. Therefore, there is a good reason for the increase, which reflects the risks with which the bodies operate.

**The Chair:** Is it likely to be a trend?

**Caroline Gardner:** I do not think that it is likely to continue to increase, but we have seen it increase as we have carried out the annual risk assessment and gone through the discussion of audit fees between auditors and colleges.

**The Chair:** On page 64, on operating income, fees and charges payable in the national health service seem to have dropped.

**Caroline Gardner:** Yes, those have reduced very slightly. Again, to a large extent, that comes from the annual assessment of risk, but I ask Stuart Dennis whether there is anything extra that he would like to say about NHS bodies or FE colleges.

**Stuart Dennis:** On FE bodies, the Auditor General is correct that there is a pattern of additional fees needing to be negotiated and charged. Those have been agreed with the audited body and are due to the additional work required. That has been a pattern for the year, but I would not expect it to go up in the same way next year. However, we never know what is going to happen.

In respect of the operating income, the slight decrease is purely due to our being slightly behind where we were last year in respect of health bodies. We are required to recognise the amount of income from the work that we have done when starting the new audit. When we started the 2019-20 audit, we were slightly behind, and some of that could be down to Covid-19 and access to health

bodies in March. That is the reason for the slight decrease in the operating income.

**The Chair:** Before I close this part of the meeting, I wish to reflect again on the fact that Caroline Gardner is stepping down in early July. Caroline, perhaps this is a good time to ask you to reflect on your experience a little over the past eight years and what messages you might have for the commission. What could we be doing better to provide support?

**Caroline Gardner:** Thank you for that invitation, chair. It is very welcome. First, it is important to say that the SCPA plays an important role in ensuring the independence and sustainability of public audit in Scotland. Having this very direct reporting line to Parliament for the Auditor General and the organisation is a key part of ensuring that we can provide the independence and quality of public audit that Parliament requires to carry out its work well. I know that it is only a small part of your work as MSPs and that it is perhaps not the reason why you came into politics, so I am grateful for the commitment that you all demonstrate to fulfilling that role.

As you know, the Audit Scotland board is responsible for overseeing the governance of the organisation and for ensuring that we live up to the standards that we expect of others, which is something that we take very seriously. The SCPA's role is a different one: you are responsible for appointing the board's chair and independent members. It is extremely helpful to have your engagement with the strategic issues that we face, to ensure that we are considering those properly and planning for them well.

A good example of that has been our response to Scotland's new financial powers over the past four years. Those powers represent a significant change in what the Government must do and has the opportunity to do. There are big questions for us as auditors about how we can develop our capacity, skills and expertise to respond and to add value as Parliament scrutinises some quite different decisions about revenue raising and long-term financial strategies, rather than about how the budget should be spent from one year to another.

We have been very grateful for your encouragement and support as we built the capacity to allow us to underpin Parliament's work in those areas. It is one of the achievements of which I am most proud in my time as Auditor General. I think that the commission has done a great job in engaging with us to understand the issues and then encouraging that work as we have developed it.

These formal meetings are a central part of your work, and they allow us to demonstrate publicly

our accountability to the Parliament. It is important that that continues. The less formal business planning sessions have also been useful in helping us to set the formal meetings in context, to answer any questions that you and other commission members may have about our work, and to help to develop that insight behind the scenes into what we are grappling with, what we think is working well and what we are finding more difficult to get right. That direct connection to the Parliament is an important part of public audit in Scotland.

I have been grateful to the commission for your challenge and support over the past eight years, and I know that my successor, Stephen Boyle, will be keen to engage with you and your clerks to consider how we can continue to make this working relationship productive, as well as to demonstrate that all-important accountability and good governance.

**The Chair:** Caroline, I am sure that I speak on behalf of all commission members in wishing you very well in your future endeavours, as you go on to ever greater things from here. I am sure that we will meet again.

I will suspend the meeting briefly to allow for a change of witnesses.

14:30

*Meeting suspended.*

14:33

*On resuming—*

**The Chair:** Welcome back. From Alexander Sloan, I welcome Steven Cunningham, partner, and Jillian So, audit manager. Before we move to questions, I remind everybody that, because of the challenges of managing a virtual meeting, we will take questions in a pre-arranged order. If any member has a supplementary question, they should please type "R" in the chat box, and I will bring them in as soon I can. If any member does not wish to ask a question, they should indicate that in the chat box. As always, I ask members to keep their questions and answers as succinct as possible, and to give broadcasting staff a few seconds to operate the microphones before beginning to speak.

Would either of the witnesses like to make opening remarks before we ask questions?

**Steven Cunningham (Alexander Sloan):** Good afternoon, chair and commission members. I confirm that we received all the necessary information and explanations to allow us to undertake our audit of Audit Scotland for the year

ending 31 March 2020. There was no limitation on the scope of our audit work.

I will give a brief overview of our work. Alexander Sloan was appointed by the Scottish Commission for Public Audit to carry out the external audit of Audit Scotland's 2020 financial statements. I am the partner on the audit and the responsible individual. During the year, we attended all Audit Scotland audit committee meetings. Our interim audit was conducted in February at the offices of Audit Scotland. The final audit was carried out remotely, due to the closure of Audit Scotland's offices because of Covid-19. I assure the commission that working remotely did not have an impact on our gaining sufficient audit evidence, and the audit was completed without any significant problems.

As part of our work, we reviewed all internal audit reports during the year and held discussions with Audit Scotland's internal auditors. The audit file was also subject to a second partner review in accordance with our quality control procedures. That review was carried out by our senior partner, prior to the signing of the audit report. The audit was carried out in accordance with international standards on auditing, and, as I said, we received all the information and explanations that were required to form our audit opinion.

Based on our audit work, we form an opinion on whether the accounts give a true and fair view and on whether they have been prepared in accordance with international financial reporting standards, as interpreted and adapted by the financial reporting manual. We also confirm that they have been prepared properly in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions by the Scottish ministers.

We were satisfied on all three points and therefore we have issued an unmodified audit report. In other words, we are satisfied that the accounts give a true and fair view and are in accordance with legislation and accounting standards. The accounts and the audit report were signed on Tuesday 9 June. We are also required to prepare a management letter, based on our findings, the purposes of which are to summarise the key audit issues arising from our work and to report any weaknesses in the accounting systems and internal controls. I am pleased to report that we did not find any weaknesses in the accounting and internal controls.

Finally, I would like to record my thanks to Audit Scotland and the support staff of the SCPA for their assistance during the audit. Thank you.

**The Chair:** Thanks. You have comprehensively answered the first question that I was going to ask, so I will move on to Anas Sarwar.

**Anas Sarwar:** Thank you, chair. In its accounts, Audit Scotland has included income that it will receive from work in progress, based on a judgment of work completed but not yet charged to audited bodies. Are you satisfied that that calculation is accurate and robust?

**Steven Cunningham:** Yes, we are. We spent a significant proportion of the audit looking at that. We look at the methodology, the time records and the accounting policies, and, from that work, we are satisfied.

**Anas Sarwar:** Thank you. That is the only question that I had, chair.

**Bill Bowman:** I am glad that you mentioned the internal audit review because, on page 29 of the annual report, Audit Scotland states:

"BDO's 2019 review of our risk management arrangements provided positive assurance and we achieved the highest risk maturity assessment available."

BDO is the external audit firm that carried out the internal audit. What is a "risk maturity assessment"?

**Steven Cunningham:** The internal auditors look at risk systems with Audit Scotland and, based on that work, they make a judgment on how mature Audit Scotland's procedures are. We are not directly involved with internal audit, but we look over those reports to see whether there are any issues that may cause concern for our external audit.

**Bill Bowman:** Perhaps I should have asked that in the previous evidence session. It sounds like a good thing.

With regard to being a going concern, Audit Scotland is funded by the public sector, either from the Scottish Government or from the local authorities that pay audit fees. There is probably no long-term uncertainty about that. However, in the short term, everybody is under pressure to minimise cash-flow outgoings or they are short of cash. Do you look at what immediate liquid resources are available to Audit Scotland? If some of its receivables were a bit delayed, would it have enough cash or resources to borrow to keep making its monthly payments?

**Steven Cunningham:** We have discussions about that with Audit Scotland every year, but particularly this year, given the added complications that have been caused by Covid. We look at budgets and we discuss its fees. Naturally, there will be some delays, because of the nature of organisations and cash flow and problems due to Covid-19. We look at all that and take it into account when we have our going concern discussion. Based on that, we are happy that it is still a going concern and that it has cash flow. Audit Scotland may come back to Parliament

on its budget. Certainly, some audits may be delayed and there has been an extension of audit timetables as a result. However, we had discussions and looked at the information available, and we were happy with that.

**Bill Bowman:** If it had an issue, would it have to come to the Scottish Government and take money from a bank account? Do you know where liquid resources would come from in a moment of difficulty?

**Steven Cunningham:** I think that Stuart Dennis would be the person to give you more detail on that.

**Bill Bowman:** On the financial statements, we particularly rely on your expertise where there are specialists involved and technical accounting requirements, such as around the pension costs and liabilities. Are you satisfied with all the disclosures relating to the pension costs and liabilities in the current financial statements?

**Steven Cunningham:** Yes, we are. We spent a lot of time looking at that. We also considered the reasonableness of the assumptions used, and we were satisfied.

**The Chair:** I think that those are all the questions that we have for Alexander Sloan. Thank you for your attendance. That completes everything and concludes our evidence session. I thank all our witnesses. The commission is particularly appreciative of the work that has been done to produce the accounts on time, given the challenges of remote working.

That concludes the public part of today's meeting. I will allow a couple of minutes for a comfort break, before we resume in private session.

14:43

*Meeting continued in private until 15:03.*

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## Introduction

1. The UK left the EU on 31 January 2020. It is now in a transition period until the end of 2020. The opportunity for the UK to seek an extension to the transition period for the UK's withdrawal from the European Union expired on 30 June 2020. The UK will therefore leave the European Union on 31 December 2020. Negotiations between the UK Government and the European Union are continuing about their future relationship, and in particular, trading agreements, after 1 January 2021.
2. This paper updates the Board on the process of withdrawal from the European Union and Audit Scotland's response to it.

## Background

3. Negotiations between the United Kingdom and the European Union began in February 2020 but were interrupted by the Covid-19 pandemic. They started again in April 2020 but limited progress appears to have been made to date. In practical terms the negotiations will have to be concluded by October to allow them to be ratified by the 27 member states of the European Union. At this stage, it seems likely that any agreement will be very broad in scope and detailed negotiations will continue beyond the UK's departure.
4. The possibility of a departure from the European Union with no agreement remains high. The immediate issues that this raises in terms of continuity of supplies of food, medicines and medical supplies, in addition to all other supply chains with connections to the European Union, remain the same as in 2019.

## Current position across public sector

5. We have recently spoken to stakeholders across Scottish Government (SG), health and local government. It is clear that organisations have reactivated systems for preparing for a 'no deal' outcome. Stakeholders highlighted that the risks arising from 'no deal' at the end of the transition period are the same as they were last October. However, the current Covid-19 pandemic has added new significance and weight to these risks. The progress of the talks between the UK Government and the European Union means that any deal that is reached is likely to be very high level with much of the operational detail still to be worked out.
6. The key area of high, immediate risk remains the pressure on the supply of goods through the port of Dover. Work is continuing to secure warehouse space, prevent disruption to supply chains and focus on customs arrangements. The pandemic has intensified this risk as PPE supplies and certain critical care medicines are now at the top of the list of to be stockpiled.
7. Councils remain concerned about the wider, longer-term risks resulting from impacts on migration, labour markets, local economies and future UK Shared Prosperity Fund allocations. A major concern is that Covid-19, EU withdrawal and their combined economic effects could work to compound existing social and economic inequalities and risks to public services.
8. Organisations are building on their previous work to prepare for leaving the EU without an agreement, and so there is a degree of confidence about preparedness. There is also some similarity between dealing with the Covid-19 pandemic and preparedness for EU withdrawal. However, in many organisations it is the same people dealing with EU withdrawal preparations as it is for Covid-19, so this puts resources under pressure. There are some lessons being learned from the response to Covid-19 that will help preparations for 'no deal'. For example, the learning from quickly putting a system in place to procure and distribute PPE could help streamline supply chains in other areas.

## Audit Scotland activity and implications

### Communications with colleagues

9. At the end of 2019 we communicated with all EU 27 nationals currently working at Audit Scotland, offering support and highlighting relevant government guidance. We also checked in with relevant line managers to help with discussions. We plan to check-in again with relevant line managers and staff (including any new starts) now that we are nearing the end of the transition period, to offer further guidance and support.
10. As yet we do not know the future arrangements for EU nationals wanting to join Audit Scotland after the end of the transition period, we will continue to liaise with the government on arrangements and consider any impact on the talent pool for recruitment.

### Business continuity planning

11. We had completed a significant amount of planning for previous EU withdrawal timelines, including developing a broad range of potential scenarios. This planning proved very helpful in our response to the Covid-19 pandemic, which has been a robust test of our organisational resilience, for example moving all employees to working from home with remote access to information and systems. Our business continuity arrangements have also been the subject of an internal audit by BDO, receiving substantial assurance in terms of both design and operational effectiveness.
12. This range of planning and testing means that we have robust arrangements in place for the end of the transition period in December 2020. In the next few months, we will continue to review and update the arrangements to ensure that they remain fit for purpose.

### GDPR and information sharing

13. Audit Scotland uses cloud based digital services to provide business-critical services to all colleagues. Audit Scotland began its process of transitioning to cloud services in April 2015. By November 2019, with the exception of MKI and finance, all communication and data storage were provided by cloud services, almost all geo-located within the EU.
14. Formal arrangements for data sharing and the movement of data post-transition period are part of the trade deal discussions between the EU and the UK. These arrangements need to be agreed to ensure that data can legally flow between the UK and the EU (and vice versa), with data flows as part of cloud services being a significant part of this.
15. While there are currently no formal agreements, there are EU recognised Standard Contractual Conditions with Microsoft in place that would mitigate the effect on our EU based cloud services of a 'no-deal' Brexit. We have consulted with legal experts and the Scottish Government to confirm this position.
16. The Information Commissioner's Office is expected to give an update on the position shortly and we will make necessary arrangements to comply. We are also investigating with Microsoft the potential to relocate our data centres to UK should this be required, however, we are aware that there is currently a two-year lead in time to achieve this.

### Future audit work

17. Withdrawal from the EU will continue to be a significant issue for the Scottish public sector long after the end of the transition period. It will have an impact across a number of the themes in the refreshed work programme and we will continue to consider the most effective audit responses, whether this is stand-alone audit work or as a part of other audit activity.

### EU agricultural audits

18. 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.
19. The United Kingdom Co-ordinating Body (UKCB) has advised that Rural Development Programme funding can continue to be spent under EU regulations over the three-year period 16 October 2020 to

15 October 2023. UKCB has formally asked the consortium (including Audit Scotland) to continue to meet the certification audit requirements for EU-funded expenditure up to the closure of the programmes. Initial projections in the budget proposal assume audit requirements and fees will reduce by 25 per cent. We need to decide if we want to continue to be part of the consortium and continue to audit for this extended period.

## **Recommendation**

**20.** The Board is invited to note this update.

## Purpose

1. This report updates the Board on key developments surrounding financial devolution and constitutional change, including Audit Scotland's response and organisational arrangements.

## Background

2. We provided an update to the Board in September 2019 on financial devolution and European Union (EU) withdrawal. An update was planned for March 2020 but was delayed as a result of the Covid-19 lockdown.
3. Significant developments since September 2019 include:
  - The worldwide spread of the coronavirus pandemic. This has had a profound effect on every aspect of Scottish society. At the heart of it is the health emergency, and the impact of the thousands of people who have died. For the economy, the lockdown has led to an economic downturn of a scale not seen in recent times. The impact on the public finances is unprecedented. This has put pressure on budget management and has raised questions about the efficacy of the Fiscal Framework in managing crises.
  - The transfer of executive competency to the Scottish Ministers for the remaining devolved benefits (except Severe Disablement Allowance) went ahead as planned in April 2020. This means Social Security Scotland is now accountable for around £3.5 billion of annual social security spending. On 1 April 2020 the Scottish Government announced an undefined delay to the delivery timetable for new and devolved benefits as a result of the pandemic.
  - The UK left the EU on 31 January 2020 and is currently in a period of transition until the end of December 2020. Negotiations between the UK and EU on their future relationship are ongoing.

## Managing the public finances

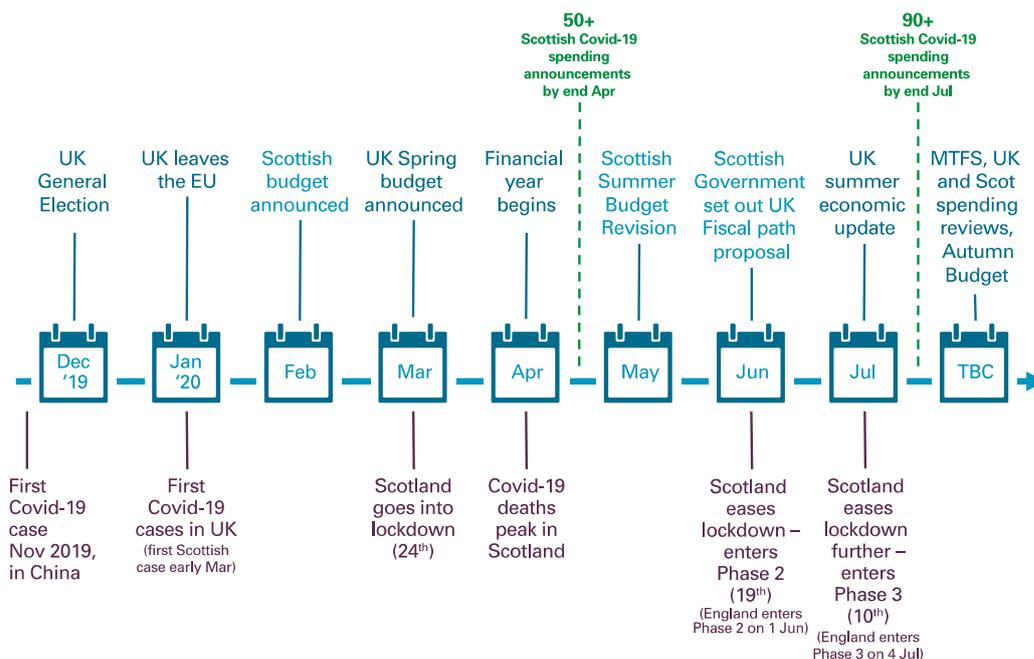
### The 2020/21 budget before the pandemic

4. The Scottish budget was expected to be published in December 2019 but was delayed because of the UK general election. This led to an unusual budget process for 2020/21, as the Scottish Government published its budget on 6 February 2020, in advance of the UK Government's budget on 11 March.
5. Given the delays to both the Scottish and UK budgets, a bespoke timetable was developed for the Scottish budget's passage through Parliament this year. The revised timetable meant that there was less time for scrutiny between the stages of the budget bill compared to a standard year. The budget bill was approved by the Scottish Parliament on 5 March 2020.
6. As in previous years, the minority SNP government had to gain the support of MSPs from other parties to pass its budget. It agreed a deal with the Scottish Green Party, which included a range of commitments, including an increase of £95 million of resource to support local government.

### The impact of the pandemic on the 2020/21 budget

7. The speed at which financial changes have had to be made due to Covid-19 is highlighted by the fact that the Scottish budget in February included no reference to the pandemic. The UK budget just over a month later included spending of £12 billion to tackle Covid-19. Significant additional spending was announced by both the UK and Scottish governments later in March once the UK entered lockdown (Exhibit 1).

**Exhibit 1: Fiscal events and Covid-19 timeline**



Source: Audit Scotland analysis

8. Since then, the UK and Scottish governments have made over 280 spending and tax announcements to respond to and manage the changing picture. Audit Scotland’s briefing paper ‘[Covid-19: implications for public finances in Scotland](#)’ published in August provides a snapshot of Scottish Government funding and spending relating to Covid-19. It also sets out the emerging financial and performance risks that the Scottish Government is facing as a result of Covid-19 and its economic consequences and considers at a high level what this may mean for Audit Scotland’s work in the future.
9. The paper sets out the £5.3 billion spending announcements made by the Scottish Government until the end of July. Of this, the Scottish Government’s current estimate of spending is £4.8 billion for 2020/21. Based on announcements made by the UK Government, the total Scottish Government budget will increase by at least a guaranteed £6.5 billion this year, as a result of additional Barnett consequentials.
10. The Scottish Government’s spending and response to Covid-19 continues to be a moving picture. The Scottish Fiscal Commission published a further [fiscal update](#) in early September 2020 that provides more information on these issues, and the Scottish Government’s Autumn Budget Revision will also be published later this month. The [Programme for Government 2020/21](#), announced 1 September 2020, is focused on measures to support Scotland’s economic, health, and social recovery from the pandemic.
11. In late August 2020, the Cabinet Secretary for finance confirmed the proposed timings for future fiscal events in a [letter](#) to the Finance and Constitution Committee. These include:
  - The Fiscal Framework Outturn report will be published in late September/early October.
  - The Scottish Budget, Medium-term Financial Strategy and updated Scottish Fiscal Commission forecasts will be released in December (with specific timing dependent on UK Budget timelines).
  - The 2021 Medium-term Financial Strategy, which would have been expected in May, will now be delayed in light of the 2021 Scottish Parliament elections.

**Social security powers**

12. Social Security Scotland (SSS) is now accountable for around £3.5 billion of annual social security spending. The detail of this is provided in Exhibit 2 below, based on the Scottish Fiscal Commission’s most recent [forecasts](#).

**Exhibit 2 Social Security benefits now devolved to Scotland**

<b>Date of payment launch</b>	<b>Social Security benefit</b>	<b>Administered by</b>	<b>Value in 2020/21 £ million</b>
<i>Pre 2020/21</i>	<b>7 benefits</b> , including the Carer's Allowance Supplement, and Discretionary Housing Payments	<i>Social Security Scotland</i>	202
2020/21	<b>2 benefits</b> , the Scottish Child Payment and Child Disability Assistance	<i>Social Security Scotland</i>	238
<i>Post 2020/21</i>	<b>8 benefits</b> , including disability benefits and attendance allowance	<i>Currently administered by Department of Work and Pensions</i>	2,996

Source: Scottish Fiscal Commission

13. The Scottish Government's social security devolution programme had been working at pace before the pandemic, and was approaching its second phase of delivery, involving the complex disability benefits. The transfer of executive competency for remaining devolved benefits (except Severe Disablement Allowance) went ahead as planned in April 2020. The UK Government has agreed to continue to administer these benefits on the Scottish Government's behalf through agency agreements, with carers allowance also continuing to be administered by the Department of Work and Pensions.
14. The Covid-19 pandemic has impacted significantly on the social security devolution programme. On 1 April 2020 the Scottish Government announced an undefined delay to the delivery timetable for new and devolved benefits as a result of the pandemic. The Cabinet Secretary has committed to update parliament on progress on devolving these benefits by the end of Summer 2020.
15. Along with the safe delivery of the benefits it currently administers, the Scottish Government has said it will prioritise the implementation of the Scottish Child Payment (SCP), and has [announced](#) that the SCP will open for applications in November 2020, with first payments beginning from the end of February 2021. Child Winter Heating Assistance is also still planned to be delivered in winter 2020. On 17 August 2020 the Scottish Government launched a further new benefit, the Job Start Payment. This benefit aims to support young people, who have been unemployed for at least 6 months, to transition into new employment.
16. All benefits that are devolved will be subject to our audit of SSS. We are working with NAO to develop audit arrangements for areas that will continue to be administered by the Department of Work and Pensions. We will need to keep these arrangements and the wider implications for our audit of SSS under review as the Scottish Government's plans for the transfer of the administration of these benefits to SSS are revised.
17. It is too early to predict the extent of any divergence in the impact on social security spending between Scotland and rUK and the subsequent impact on Scottish funding. Of the £350 million Scottish Government fund for communities affected by Covid-19, £50 million has been set aside for additional pressure on devolved social security benefits and Council Tax Reduction. In June 2020 the Scottish Government also made a one-off extra payment to recipients of Carers Allowance Supplement, costing £19.2 million.

## EU withdrawal

18. The UK left the EU on 31 January 2020, with the transition period due to end on 31 December 2020. More information on the current status of EU Withdrawal and recent developments, is set out in the EU Withdrawal update paper also provided to the Board as part of the September 2020 meeting papers.

## Audit reporting

### Scottish Government consolidated accounts

19. The AGS published a section 22 report on the 2018/19 audit of the Scottish Government consolidated accounts on 26 September 2019. The report noted that “The Scottish Government needs to improve the quality of financial reporting to better support Parliament. In May 2019, the Scottish Government published its second medium-term financial strategy, but it does not reflect all the basic components of a medium-term financial plan. It does not include indicative spending plans or priorities, or links to outcomes. There is no detail on how the Scottish Government would address a possible £1 billion shortfall due to forecast errors. In addition, the government has still not fulfilled its commitment to publish a consolidated account covering the whole devolved public sector in Scotland. This would fill an important gap and improve strategic public financial management, support Parliamentary scrutiny and enable better decision-making.”
20. The report was considered by PAPLSC on 10 October 2019 and the Committee wrote to the Permanent Secretary asking her to respond to each of the recommendations and provide an update on progress in developing consolidated accounts for the devolved public sector.
21. The 2019/20 Scottish Government audit is considering further developments in these two areas highlighted above. The publication of the medium-term financial strategy for 2020 has been delayed until the autumn and in the meantime, the Summer Budget Revision 2020-21 outlines the Covid-19 funding commitments to support Parliament’s scrutiny of the budget. The audit team has reviewed a draft of the consolidated account for the whole devolved public sector in Scotland, and continues to engage with officials to understand the reporting basis that will be selected by officials for this account. This will allow us to develop an audit approach for the first set of accounts.

### Social Security

22. We had planned to publish a performance audit in May 2020 examining the Scottish Government’s ongoing implementation of the devolved social security powers. All fieldwork has been completed, including joint work with NAO looking at relevant arrangements with the DWP, and the report was being drafted when the audit was paused. We recognise that the Covid-19 pandemic has had significant implications for the Scottish and UK’s social security system. As part of the wider review of the performance audit programme, we are currently considering the best reporting approach to maximise the value and impact of our work in this area.
23. The annual audit of Social Security Scotland is nearing completion and is expected to be considered at the agency’s Audit and Assurance Committee in October 2020.

### EU Withdrawal

24. EU Withdrawal will continue to be a significant issue for the Scottish public sector long after the end of the transition period. It will have an impact across a number of the themes in the refreshed work programme and we will continue to consider the most effective audit responses.

### Organisational arrangements

25. The SCPA has approved growth in Audit Scotland’s budget between 2018/19 and 2020/21, to accommodate additional work in response to financial devolution and constitutional change. This includes £425,000 (6.6 WTE) for 2020/21 bringing the total now incorporated into our budget to £1,192,000 (20 WTE). We have used this to build capacity in our two audit business groups, to accommodate work including auditing social security; supporting Parliamentary scrutiny of the public finances and Scottish budget; and assessing how public bodies are preparing for the impact of the UK leaving the EU. We have built capacity by recruiting new staff and through our professional trainee and school leaver schemes, as part of our integrated approach to workforce and recruitment planning. New staff have either been directly deployed on new work in response to financial devolution or provided backfill for existing staff who are taking on this new work.
26. We continue to review our resource needs, to ensure people are available at the right time, in the right place, and with the appropriate skills to allow us to respond effectively as the demands on us continue to grow with the full range of social security and financial powers continuing to play through. The Board is expected to consider proposals for Audit Scotland’s 2020/21 budget in November 2020 which would support further growth for our work in this area in line with previous projections.

27. The focus of our programme of work relating to the new financial powers and constitutional change (NFPCC) is moving from the implementation to the operation of the powers. During 2019 we integrated many elements of this work into Audit Scotland's day-to-day business, with more expected to become mainstreamed during 2020/21. Much of our activity to respond to financial devolution and constitutional change is being taken forward by colleagues across the organisation. For example, we have dedicated teams leading on our audits of social security and management of the public finances; our Internal Parliamentary Engagement Group is leading work to help improve our engagement with parliamentary committees on their budget scrutiny; and we have established a cross-organisation working group to lead on contingency planning for EU withdrawal.
28. As more of this work becomes mainstreamed the need for a dedicated resource to manage and coordinate the programme has decreased. The programme is now supported by the audit manager within the Scottish Exchequer team, and other members of the programme team moved on to other responsibilities at the start of 2020. The team is developing a legacy report on the lessons learned for the programme, to identify good practice and lessons learned to inform future workstreams
29. The NFPCC Strategic Group, which includes senior representatives from across the organisation, continues to maintain oversight of our work in this area. We will keep its focus and membership under review as financial and social security powers play through and new responsibilities come on stream. The Strategic Group will also provide oversight as we work to build capacity within the three clusters to take on responsibility for monitoring and responding to NFPCC issues.
30. We will continue to provide six-monthly updates to the Board on significant developments in this area, including Audit Scotland's response and organisational arrangements.

## Conclusion

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

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## Purpose

1. This report invites the Board to approve the proposed meeting schedule for the Board and its committees during 2021.

## Background

2. The Board typically agrees its schedule of meeting dates for the year to come in September/October of each year. Between 2015/16 and 2017/18 the Board met on eight occasions each year. In 2018, the Board agreed to move to six meetings in 2019. In 2020 six Board meetings were scheduled with one additional meeting convened on 19 August to consider Audit Scotland's response to the Covid-19 pandemic.
3. We have reviewed the content, timing and profile of board work from previous years to inform the schedule for the year to come. In doing so we have also considered key dates and actions, for example the timing of meetings to take account of:
  - the budget submission
  - the annual assurances process
  - the annual report and accounts
  - review dates for strategies, plans, policies and procedures
  - performance reporting
  - meetings of parliamentary committees and the Accounts Commission.
4. The proposed schedule of meeting dates has been updated following engagement with members on their respective availability following consideration by the Audit Committee at its meeting on 2 September 2020. The updated schedule is attached at Appendix 1 and a schedule of indicative board items is attached at Appendix 2.
5. The Standing Orders provide for any additional meetings to be called should they be required.

## Recommendations

6. The Board is invited to consider and approve the proposed meeting dates for 2021.

### Proposed meeting schedule 2021

Audit Committee*	Human Resources and Remuneration Committee*	Board*
		27 January 2021
3 March 2021	3 March 2021	
		24 March 2021
12 May 2021 <sup>#</sup>	12 May 2021 <sup>#</sup>	19 May 2021
2 June 2021 (AR&Accs)		2 June 2021 (AR&Accs)
1 September 2021		22 September 2021
10 November 2021 <sup>#</sup>	10 November 2021 <sup>#</sup>	24 November 2021

\* Committee meetings will be held in the Glasgow office.

+ Board meetings will be held in West Port and will be open to the public.

# Proposed start time 10.30am for Committee meetings scheduled for 12 May and 10 November 2021.

Note: where meetings require to be held virtually these will be held using Microsoft Teams.

### Indicative Work Programme 2021 – Audit Scotland Board

27 January 2021	24 March 2021	19 May 2021	2 June 2021	22 September 2021	24 November 2021
<p>Agenda items include:</p> <ul style="list-style-type: none"> <li>• Standing items</li> <li>• Covid-19 update</li> <li>• Environmental scan</li> <li>• Publication programme</li> <li>• SCPA report on budget submission</li> <li>• New audit appointments update</li> <li>• Openness and transparency/Board development</li> <li>• Best companies results</li> <li>• 2021 Audit Scotland conference</li> </ul>	<p>Agenda items include:</p> <ul style="list-style-type: none"> <li>• Standing items</li> <li>• Covid-19 update</li> <li>• Q3 performance reporting</li> <li>• Annual report and accounts timeline and outline plan</li> <li>• NFPs update</li> <li>• New audit appointments update</li> <li>• Equality outcomes</li> <li>• Board development</li> <li>• Draft Corporate Plan</li> </ul>	<p>Agenda items include:</p> <ul style="list-style-type: none"> <li>• Standing items</li> <li>• Covid-19 update</li> <li>• Draft Annual report and accounts</li> <li>• New audit appointments update</li> <li>• Review of information, governance and security policies</li> </ul>	<p>Agenda items include:</p> <ul style="list-style-type: none"> <li>• Standing items</li> <li>• Covid-19 update</li> <li>• Q4 performance reporting</li> <li>• Annual report and accounts</li> <li>• Annual reporting</li> <li>• New audit appointments update</li> <li>• Governance and assurance reporting</li> </ul>	<p>Agenda items include:</p> <ul style="list-style-type: none"> <li>• Standing items</li> <li>• Covid-19 update</li> <li>• Q1 performance reporting</li> <li>• Audit Scotland's draft budget submission</li> <li>• New audit appointments update</li> <li>• PSRA Annual statements</li> <li>• Openness and transparency/meeting schedule</li> <li>• Review of FOI, EIR and records management policies</li> </ul>	<p>Agenda items include:</p> <ul style="list-style-type: none"> <li>• Standing items</li> <li>• Covid-19 update</li> <li>• Q2 performance reporting</li> <li>• Audit Scotland's budget submission</li> <li>• New audit appointments update</li> <li>• Review Scheme of delegation/Financial regulations and Standing orders</li> <li>• Board development/self-evaluation</li> </ul>

# Agenda

Wednesday 25 November 2020 at 10.00am

## By Teams

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1. Private meeting of Board members
  2. Welcome and apologies
  3. Declarations of interests
- 

## Standing items

4. Chair's report – verbal update For information
  5. Accountable Officer's report – verbal update For information
  6. Accounts Commission Chair's report – verbal update For information
  7. Review of minutes:
    - [Board meeting 30 September 2020](#) For approval
    - [Audit Committee meeting 2 September 2020](#) For information
  8. [Governance arrangements: Review of Standing Orders report](#) For information
  9. [Review of action tracker](#) For information
- 

## Strategic priorities

10. [2020/21 Spring budget revisions](#) For approval  
[Appendix A 2020/21 Spring budget revisions](#)  
[Appendix B 2020/21 Spring budget revisions](#)
  11. [2021/22 SCPA budget proposal](#) For approval  
[Appendix 2021/22 SCPA budget proposal](#)
  12. [Strategic improvement programme](#) For information
  13. European Union withdrawal – verbal update For information
  14. [New audit appointments update](#) For information  
[Appendix New audit appointments update](#)
- 

## Business planning and performance

15. [Covid-19 update](#) For information
  16. [2020/21 Q2 Financial performance update](#) For information  
[Appendix 2020/21 Q2 Financial performance update](#)
  17. [2020/21 Q2 Corporate performance update](#) For information  
[Appendix 2020/21 Q2 Corporate performance update](#)
-

18. [Environment, Sustainability and Biodiversity annual report 2019/20](#) For information  
[Appendix Environment, Sustainability and Biodiversity annual report 2019/20](#)
- 

## **Governance**

19. [Corporate Governance review of Board arrangements report](#) For discussion
- 

## **Conclusion**

20. Any other business
21. Publication of papers For approval
22. Review of meeting
23. Date of next meeting: 27 January 2021

# Minutes

Wednesday 30 September 2020, 10.00am

Audit Scotland by Video conference

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## Present:

Alan Alexander (Chair)  
Stephen Boyle  
Heather Logan  
Elma Murray  
Jackie Mann

## Apologies:

There were no apologies.

## In attendance:

Diane McGiffen, Chief Operating Officer  
Martin Walker, Associate Director, Corporate Performance and Risk  
Stuart Dennis, Corporate Finance Manager  
Gemma Diamond, Audit Director, Performance Audit and Best Value  
Mark Taylor, Audit Director, Audit Services and Performance Audit and Best Value  
Fiona Diggie, Audit Manager, Performance Audit and Best Value  
Robert Leask, Project Manager, Audit Quality and Appointments  
Gayle Fitzpatrick, Corporate Governance Manager  
Ian Metcalfe, Corporate Governance Officer  
Colin Crosby, Non-executive board member designate (Observing)

### 1. Private meeting of Board members

The Board met privately and there were no matters arising.

### 2. Welcome and apologies

The Chair welcomed members and attendees to the meeting. The Chair also welcomed Colin Crosby, new member of the Board from 1 October 2020, who had been invited to observe the meeting as part of his induction.

### 3. Declarations of interest

There were no declarations of interest.

### 4. Chair's report – verbal update

The Chair informed the Board of regular scheduled meetings with Diane McGiffen, Chief Operating Officer and Stephen Boyle Accountable Officer and Auditor General for Scotland and of discussions with Stephen Boyle and Martin Walker on Audit Scotland's Office of National Statistics classification and confirmed that no further action was required on that matter. In addition, the Chair advised he had met with Stephen Boyle, Elma Murray, Interim Chair, Accounts Commission and Tim McKay, Deputy Chair, Accounts Commission and Diane McGiffen following the last Board meeting to discuss resources and budget (action tracker item ASB122).

The Board welcomed the update.

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

Stephen Boyle advised of regular scheduled meetings with Alan Alexander, Chair and Elma Murray and advised he had attended the New Audit Appointments Steering Group meeting on 23 September 2020.

Stephen advised of progress on the revised forward work programme ahead of consultation with the Public Audit and Post Legislative Scrutiny Committee at the end of October 2020. He invited members to note that he had signed off the independent auditor's report for the Scottish Parliamentary Corporate Body on 28 September 2020 and that the audit report on the Scottish Government accounts was scheduled for completion by December 2020.

Stephen advised members that he had published a blog on the impact Covid-19 on the NHS in advance of the NHS overview report that will be published in January 2021. He also advised of introductory meetings with senior officers at Healthcare Improvement Scotland and Education Scotland and of forthcoming meetings with senior officers from the Scottish Funding Council and the Institute of Chartered Accountants in Scotland.

Turning to internal engagement, Stephen advised of meetings with team members, superteams and business units across Audit Scotland and the communications to colleagues on continuing to work from home for the remainder of 2020.

Stephen also provided an update on recent Parliamentary engagements, including attending Parliamentary Committee meetings virtually and in person, on the impact of Covid-19 on public finances (27 August 2020), the National Fraud Initiative (3 September 2020) and at two private sessions on 10 and 17 September on the Scottish Government's progress of Early Learning and Childcare and Bòrd na Gàidhlig. Stephen advised that the Public Audit and Post Legislative Scrutiny Committee would be considering the Section 22 report on the Highlands and Islands Enterprise: Management of Cairngorm Mountain and Funicular Railway at its meeting on 1 October 2020.

Stephen invited the Board to note the forthcoming informal business planning session with the Scottish Commission for Public Audit on 26 October 2020 and advised that he was looking forward to welcoming new graduates to the organisation at the end of October 2020.

Following discussion, the Board welcomed the update.

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

Elma Murray advised that the Accounts Commission had considered Best Value reports on Moray Council and on Dundee City Council.

Members noted that the Accounts Commission continued to meet twice a month at present. Elma advised of a helpful session on Thursday 24 September 2020 with Diane McGiffen and Stuart Dennis where the Commission discussed the impact of Covid-19 on Audit Scotland's budget and that the Commission had expressed strong agreement on the need for appropriate levels of funding to support the quality of audit.

Elma advised that she and Fraser McKinlay, Controller of Audit, had attended a meeting with the Local Government and Communities Committee on 28 August 2020 to give evidence on the Local Government Overview report, and that there may be further opportunities to join the Committee more informally later in the year.

Elma advised that she and Fraser McKinlay would be meeting with Council Chief Executives on 1 October 2020 to gain insight on the management of public services during the pandemic. She also invited members to note that the Accounts Commission's Insight programme would include engagement with Chief Executives.

Elma advised she had chaired a meeting of the Strategic Scrutiny Group on 25 August 2020 where it was agreed the group would produce a briefing for publication at the start of November 2020.

Elma advised that the Best Value working group had met on 2 September 2020 had agreed new terms of reference and that its next meeting would take place on Friday 2 October.

Elma noted that the final report on Accounts Commission Support Review had been circulated to Commission members following the meeting of the Remuneration and Human Resources Committee on 2 September 2020 and had a further discussion about progressing some of the recommendations from the report.

The Board welcomed the update.

## **7. Review of minutes: Board meeting 19 August 2020**

The Board considered the minutes of the meeting of 19 August 2020, which had been previously circulated.

The Chair invited any comments and, there being none, the Board approved the minutes as an accurate record of the meeting.

The Chair also advised that the current style of Board minutes would form part of the governance review early next year and members agreed to consider adapting the form of minutes in advance of the review.

## **8. Governance arrangements: Review of Standing Orders**

Martin Walker introduced the Governance arrangements: Review of Standing Orders report, copies of which were previously circulated.

Martin invited members to note there were no proposed changes to the current meeting arrangements and advised of the options being explored to accommodate public meetings of the Board.

The Chair welcomed the options to support openness and transparency of future meetings and invited members to contact Martin Walker with their comments on the options set out to inform an update at the next meeting on 25 November 2020.

Following discussion, the Board agreed that the governance arrangements for virtual Board meetings remain in place.

## **9. Review of action tracker**

The Board noted the updates provided on the action tracker.

The Chair invited members to note updates on the three open actions:

- Action ASB118 (on public meetings) had been discussed under the previous item.
- ASB120 (on Covid secure workplaces) was incorporated in the update report at item 10 and members agreed this action be closed.
- ASB122 (discussions on resources) where progress had been discussed at item 6 and members agreed this action be closed.

## **10. Covid-19 update**

Martin Walker introduced the Covid-19 update report, copies of which had been previously circulated.

The Board welcomed the structure of the report, recognising the situation remains dynamic and Covid-19's impact on colleagues and the audit work and the possibility and impact of further 'circuit breaker' suppression measures in October 2020.

The Board noted that Covid-19 was a standing item for each meeting of Management Team, that the Incident Management Team continues to meet weekly and updates colleagues after each meeting. The Board recognised the important role of public audit in challenging times and agreed further discussions would take place on longer term business and continuity planning in the context of the ongoing pandemic and pending EU departure. The members agreed with the Chair's proposal for a workshop in the first quarter of 2021 to discuss these areas to inform best practice, quality and the role of Public Audit in Scotland.

Following discussion, the Board welcomed the report.

**Action ASB123:**                    **A Board workshop to be scheduled in the first quarter of 2021. (March 2021)**

## **11. 2020/21 Q1 Corporate performance update**

*Gayle Fitzpatrick, Corporate Governance Manager and Ian Metcalfe, Corporate Governance Officer, joined the meeting.*

Gayle Fitzpatrick introduced the 2020/21 Q1 Corporate performance update report, copies of which had been previously circulated.

Gayle invited the Board to review the performance reported for quarter one and to consider whether any additional management action is required.

The Board noted the report, acknowledging that the period under review was at the height of the pandemic and performance was impacted by the move to remote working, with many colleagues balancing work, caring and home-schooling demands during the national lockdown. The Board recognised that further updates on the impact of productivity will follow as part of Q2 performance reporting and Diane McGiffen provided a summary of the responses taken by the other audit agencies in the UK and Ireland.

Following discussion, the Board welcomed the report.

## **12. 2020/21 Q1 Strategic improvement programme update**

Martin Walker introduced the 2020/21 Q1 Strategic improvement programme update report, copies of which had been previously circulated.

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

The Chair noted the refocus of the overall agenda for the strategic improvement programme and the Board noted the need to be able to provide some flexibility in delivering the new longer-term work programme by March 2021.

Following discussion, the Board welcomed the report.

## **13. Remuneration and Human Resources Committee performance and future priorities**

Jackie Mann introduced the Remuneration and Human Resources Committee (Remco) performance and future priorities report, copies of which had been previously circulated.

The Chair invited members to note Remco's consideration of the report at its meeting on 2 September 2020, the performance reported and invited comments on the proposed priorities for Remco in 2020/21.

The Board welcomed the report and acknowledged the work of Audit Scotland to support

diversity, equality and inclusion, which would be discussed at the next Remco meeting on 2 November 2020, when there would be a further discussion on priorities. The Board welcomed the report.

**Action ASB124:**                    **A further discussion at the next meeting of the Remuneration and Human Resources Committee on priorities and approach to diversity and inclusiveness. (November 2020)**

#### **14. Scottish Commission for Public Audit: Official report of meeting on 22 June 2020**

The Chair invited members to note the Official report of the meeting on 22 June 2020 of Audit Scotland's Annual report and accounts, copies of which had been previously circulated.

The Board noted the report.

#### **15. 2021/22 Draft budget submission**

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

Stuart Dennis introduced the 2021/22 Draft budget submission report, copies of which had been previously circulated.

Stuart invited the Board to discuss the outline proposal for a budget submission for 2021/22, advising this had been prepared prior to the announcement on the delay of the budget by the UK Government, noting that this would impact on the Audit Scotland's budget process.

The Chair invited any comments or questions on the report.

The Board discussed the key budget assumptions including the options for a significant increased Management Contingency budget to provide greater flexibility, the impact of the devolution of financial powers to Scotland, the pay award proposal, the triannual employer pension contributions, expected fee income and the potential long term impact on productivity.

The Board also discussed scenarios which might flow from the new audit appointments project and the underlying audit market conditions, future investment needs and the property strategy to support a blended approach in the immediate term.

Following discussion, the Board welcomed early consideration of the outline budget assumptions, recognising the current financial rules were never intended to provide for the current levels of uncertainty and noted that a further iteration of the budget proposal is scheduled to come to the next meeting of the Board on 25 November 2020.

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

#### **16. European Union withdrawal update**

*Gemma Diamond, Audit Director, Performance Audit and Best Value, joined the meeting.*

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

The Board noted the risks around borders, supply chains and the storage of data. The Board also recognised the potential capacity challenges for public bodies and welcomed the engagement with Audit Scotland colleagues who are EU nationals, recognising the unsettling situation for them.

Following discussion, the Board welcomed the update.

*Gemma Diamond, Audit Director, Performance Audit and Best Value, left the meeting.*

## **17. Financial devolution and constitutional change update**

*Mark Taylor, Audit Director, Audit Services and Performance Audit and Best Value, and Fiona Diggle, Audit Manager, Performance Audit and Best Value, joined the meeting.*

Mark Taylor introduced the Financial devolution and constitutional change update report, copies of which had been previously circulated.

The Board noted that the report provided an update on the development of this work, and that Audit Scotland was in the third year of reporting as financial powers continue to devolve and that the Scottish Government had published a consultation on a draft investment plan and capital spending framework.

Following discussion, the Board welcomed the report.

*Mark Taylor, Audit Director, Audit Services and Performance Audit and Best Value, and Fiona Diggle, Audit Manager, Performance Audit and Best Value, left the meeting.*

## **18. New audit appointments update**

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

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

The Board welcomed the progress reported, discussed the increased risk profile of the project and the mitigating activities underway. The Board noted the project timeline and agreed the need to ensure continued progress. The Board noted that the process of formally extending the current audit appointments was underway with approval being sought from the Auditor General for Scotland and the Accounts Commission.

Following discussion, the Board welcomed the update.

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

## **19. Annual review of Corporate governance policies**

Gayle Fitzpatrick and Ian Metcalfe introduced the Annual review of Corporate governance policies report, copies of which had been previously circulated.

Gayle and Ian invited the Board to approve the current Standing Orders, Financial Regulations and Scheme of Delegation and to approve the revised Codes of Conduct which had been recommended to the Board by the Audit Committee.

The Chair invited comments or questions from members, and there being none the Board approved the Standing Orders, Financial Regulations Scheme of Delegation and the revised Codes of Conduct.

## **20. Annual policy review of records management policies**

Gayle Fitzpatrick and Ian Metcalfe introduced the annual policy review of records management policies report, copies of which had been previously circulated.

Gayle and Ian invited the Board to approve Audit Scotland's Records Management Policy for a further year.

The Chair invited comments or questions from members, and there being none the Board approved Audit Scotland's Records Management Policy.

## **21. Annual policy review of freedom of information and environmental**

### **Information requests**

Gayle Fitzpatrick introduced the Annual policy review of freedom of information and environmental information requests report, copies of which had been previously circulated.

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

The Chair invited comments or questions from members, and there being none the Board approved Audit Scotland's Freedom of Information and Environmental Information Policy for a further year.

## **22. Complaints handling procedure**

Gayle Fitzpatrick and Ian Metcalfe introduced the Complaints handling procedure report, copies of which had been previously circulated.

Gayle invited the Board to consider and approve the revised complaints handling guide, flow chart, customer leaflet and employee guide.

The Chair invited any comments or questions on the proposed changes and there being none, the Board approved the revised Complaints handling procedure.

*Gayle Fitzpatrick, Corporate Governance Manager, and Ian Metcalfe, Corporate Performance Officer, left the meeting.*

## **23. Proposed meeting dates for 2021**

Diane McGiffen introduced the Proposed meeting dates for 2021 report, copies of which had been previously circulated.

Diane invited the Board to consider and approve the proposed meeting dates for 2021.

The Board approved the meeting dates for 2021.

## **24. Any other business**

The Chair expressed the Board's best wishes to Heather Logan as her term of appointment ends. The members acknowledged her contribution and the scrutiny, challenge and support she had brought to Audit Scotland over the past six years. The Chair expressed the hope that when restrictions allowed, there might be the opportunity to celebrate Heather's contribution in person.

There was no other business.

## **25. Publication of papers**

The Board considered and agreed the publication of the reports with the exception of; item 15: Draft Budget report (intended for future publication), item 18, New audit appointments (commercial sensitivity) and items 19 -22 the annual review of policies (intended for future publication).

## **26. Review of meeting**

The members welcomed the quality, content and comprehensive nature of the reports in supporting helpful and detailed discussion. The Chair thanked everyone for their contributions.

**27. Date of next meeting: 25 November 2020**

The members noted the next meeting of the Audit Scotland Board is scheduled for 25 November 2020.

# Minutes

## Audit Committee



Wednesday 2 September 2020  
By Microsoft Teams

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### Present:

H Logan (Chair)  
Elma Murray, Interim Chair of the Accounts Commission  
Jackie Mann

### Apologies:

None

### In attendance:

A Alexander, Chair, Audit Scotland Board  
S Boyle, Accountable Officer and Auditor General for Scotland  
D McGiffen, Chief Operating Officer  
C Robertson, BDO  
T Barrie, BDO  
J So, Alexander Sloan  
S Cunningham, Alexander Sloan  
M Walker, Associate Director, Corporate Performance and Risk  
G Fitzpatrick, Corporate Governance Manager  
S Dennis, Corporate Finance Manager  
A Clark, Audit Director, Performance Audit & Best Value  
D Robertson, Digital Services Manager  
C Crosby, Designate Audit Committee Chair

### 1. Private meeting with BDO and Alexander Sloan

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

### 2. Welcome and apologies

The Chair opened the meeting, welcomed everyone and noted that there were no issues arising from the private meeting and no apologies for the meeting.

The Chair welcomed Jackie Mann to the Audit Committee and noted that this would be Stephen Boyle's first Audit Committee meeting as the new Auditor General for Scotland (AGS) and Accountable Officer.

The Chair highlighted that this would be her last meeting as Chair of the Audit Committee and welcomed Colin Crosby as an observer who would take on the role of Chair on 1 October. In addition, the Chair welcomed full participation in the discussions from all those attending, including those attending as observers.

### 3. Declarations of interests

There were no declarations of interest.

### 4. Minutes of the last meeting: 1 June 2020

The Audit Committee members reviewed the minutes of the meeting of 1 June 2020, which had previously been circulated.

The Chair asked members for questions or comments, of which there were none.

The Chair noted that the risk register referenced in paragraph 7 relates to Audit Scotland and not the Accounts Commission. Elma confirmed this was the case.

The Chair asked whether all information had been received for item 12, the 2019/20 Draft audit management letter. This was confirmed to be the case. The Chair requested that this action now formally be noted and closed off.

***The Audit Committee approved the minutes of the previous meeting.***

## **5. Review of action tracker**

The Audit Committee members reviewed the action tracker, which had previously been circulated.

The Chair asked whether there were any questions or comments, of which there were none.

***The Audit Committee members noted the progress on the actions in the tracker.***

## **6. Audit Committee terms of reference**

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

The Chair asked whether there were any questions or comments, of which there were none.

***The Audit Committee members reported they were content with the current version of the Terms of Reference.***

## **7. Organisational response to the Covid-19 pandemic**

Diane McGiffen, Chief Operating Officer, provided a verbal update on the organisational response to the Covid-19 pandemic.

Diane noted that the Board had considered a detailed update report at its meeting on 19 August 2020 and that Covid-19 related issues would be explored further as part of the discussion on other reports on today's agenda.

Diane noted that schools had re-opened and while some colleagues were reporting a positive impact on their home/work responsibilities, some had children who had been sent home for Covid-19 testing, resulting in a return to self-isolation. Diane explained that when self-isolating, home schooling and care responsibilities presented and additional pressures on colleagues for juggling work and home commitments.

She also noted that there has been an increase in the R rate and increased restrictions in some areas and that the organisation is keeping colleagues from these areas updated.

***The Audit Committee members noted the organisational response to the Covid-19 pandemic.***

## **8. Internal Audit report: Business Continuity Planning**

Claire Robertson, BDO, and Gayle Fitzpatrick, Corporate Governance Manager, introduced the Internal Audit report, Business Continuity Planning, copies of which had been previously circulated.

Claire Robertson, BDO noted that the review provided substantial assurance on both the design and operational effectiveness of Audit Scotland's Business Continuity Planning arrangements, and that there were no recommendations or action required.

Alan Alexander asked whether the report should be updated to reflect the fact that the Incident Management Team (IMT) now meets once a week. Claire advised that twice weekly meetings were taking place at the time of the audit work. Diane McGiffen, Chief Operating Officer confirmed that Covid-19 is a standing item on the agenda when the IMT and Management Team meet weekly. It was agreed that the internal audit report would not require to be updated and the matter clarified through the minute of this meeting.

***The Audit Committee noted the internal audit report.***

## **9. Internal Audit report: PABV Adoption of INTOSAI Standards**

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

Claire Robertson, BDO, introduced the Internal Audit report, PABV Adoption of INTOSAI Standards, copies of which had been previously circulated.

Claire advised that the review had provided substantial assurance on both the design and operational effectiveness of the PABV adoption of INTOSAI standards, and that there were no recommendations on actions required.

Alan Alexander asked for an update on the Audit Management Framework training completion rate. Antony Clark, Audit Director, PABV advised that the 20% figure in the report reflected the position at the time of the audit and that was just five days into the training being made available at that point. Antony advised that the completion rate is now 95% and that outstanding cases are being followed up as appropriate.

The Chair noted the report which highlighted the strength and quality of the work undertaken and offered her congratulations to the team.

***The Audit Committee noted the internal audit report.***

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

## **10. Internal Audit progress report: August 2020**

Claire Robertson, BDO, and Gayle Fitzpatrick, Corporate Governance Manager, introduced the Internal Audit progress report, August 2020, copies of which had been previously circulated.

Claire highlighted the upcoming audits and invited questions.

The Chair asked whether it was still the right time to proceed with the internal audit review on the Procurement of Audit Firms.

Gayle Fitzpatrick, Corporate Governance Manager advised that the Terms of Reference for this review had been revised to reflect the focus being on the Procurement Strategy and that the review is to focus on how Audit Scotland is approaching an important procurement process.

Diane McGiffen, Chief Operating Officer advised that the Terms of Reference have been discussed with the Steering Group and the Audit Quality and Appointments (AQA) team who are content that the amended Terms of Reference will provide additional value and assurance at this stage in the process.

Diane McGiffen, Alan Alexander and Elma Murray agreed to consider the timing of this audit as part of a meeting already arranged for Monday 7 September and it was agreed that the updated Terms of Reference would be recirculated to members of the Audit Committee.

Colin Crosby, Designate Audit Committee Chair asked for reassurance on the aspirational nature of Audit Scotland's IT Strategy. Diane advised that significant work is underway on

the Digital Strategy and that discussions were ongoing with the Auditor General for Scotland and the Accounts Commission. In addition, BDO will look at best practice of others in relation to what we do in the process of their IT reviews and this will assist Audit Scotland's planning and programming of digital work.

The Chair asked whether there were any other questions on proposed internal audit work programme for rest of year, and there were none.

***The Audit Committee noted the internal audit progress report.***

**Action AC109: Recirculate the revised Terms of Reference for the audit on the Procurement of audit firms.**

## **11. Internal Audit recommendations progress report**

Gayle Fitzpatrick, Corporate Governance Manager, introduced the Internal Audit recommendations progress report, copies of which had been previously circulated.

The Chair asked whether there were any questions or comments.

Elma Murray, Chair of the Accounts Commission noted the helpful format of the report.

The Chair queried whether the experiences of PABV and CSG in using the Time Recording System (TRS) would require any changes to the system in advance of its adoption by the Audit Services Group (ASG). Martin Walker, Associate Director, Corporate Performance and Risk advised that no system changes were required and that its rescheduled implementation in ASG system was still on schedule to minimise any potential disruption at a busy time in the audit cycle.

The Chair also enquired about the action in relation to cost analysis. Martin advised that audit costs were being analysed from a number of different perspectives and discussions were under way to ensure there was no unnecessary duplication, that the date of completion will remain under review, and that any updates will be communicated to Audit Committee.

The Chair asked about the level of progress with the mapping and analysis of staff knowledge. Martin advised that the mapping action is complete, that work was under way to assess the best system solution, but that this had been delayed due to other priorities.

***The Audit Committee noted the internal audit recommendations progress report.***

## **12. Q1 Financial performance report**

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

Stuart Dennis, Corporate Finance Manager, introduced the Q1 Financial Performance report, copies of which had been previously circulated, and had also been discussed at the Board meeting on 19 August.

The Chair invited questions and comments.

Elma Murray, Chair of the Accounts Commission, advised that it was helpful to know that the organisation would be approaching the SCPA to discuss the short-term financial implications of Covid-19 and the sustainability of the current fees and funding model in the longer term. Elma also requested an offline discussion with the Finance Manager to get a better understanding of the agency staffing costs.

The Chair thanked colleagues for the responses to the queries that had been sent to the team in advance of the meeting. She advised that her observation was that the responses, as written, had raised even more questions rather than given comfort, but that it was primarily a matter of presentation. She stressed that clarification of variances should be

succinct and to the point, ensuring that the explanation was relevant and not diluted by peripheral issues. As an example, the Chair advised that the over run in agency costs could be more clearly explained by noting that this related to five people employed at a pro-rata cost of £60k per annum on the EAFA audit work at the point when the Scottish Government issued guidelines not to dispense with temporary workers and that Audit Scotland had complied with that guidance. The Chair also advised that the risk and implications of Audit Scotland's accounts being qualified as a result of any funding shortfall could have been presented more clearly.

Stephen Boyle, Accountable Officer noted that Audit Scotland's funding arrangements were not designed to accommodate the scale of disruption being experienced as a result of Covid-19. He advised that risk in audited bodies had increased substantially and that many audits were taking longer than normal to complete as result of disruption to audited bodies and Audit Scotland. It was also noted that Audit Scotland is not permitted to hold reserves and that this limits flexibility in delivering a balanced budget in the current circumstances.

The Committee noted the challenging financial situation across both the public and private sectors and that this was an important factor in any discussions about fees and funding.

It was noted that the meeting on Monday 7 September involving Stephen Boyle, Auditor General for Scotland, Elma Murray, Chair of the Accounts Commission, Alan Alexander, Chair of the Audit Scotland Board and Diane McGiffen, Chief Operating Officer would be focussing on the current financial position, the scope of the audit work and the longer term funding model for public Audit in Scotland.

It was also noted that this discussion would inform the planned engagement with the Scottish Commission for Public Audit (SCPA).

***The Audit Committee noted the Q1 Financial report.***

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

**Action AC110: Finance Manager to meet with Chair of the Accounts Commission Chair to discuss agency staff budget and expenditure (September 2020).**

**Action AC111: Auditor General for Scotland, Chair of the Accounts Commission, Chair of the Audit Scotland Board and Chief Operating Officer to meet 7 September on the financial position and the longer-term funding model for public audit in Scotland (September 2020).**

### **13. Review of the risk register**

Martin Walker, Associate Director, Corporate Performance and Risk, introduced the Review of the Risk register, copies of which had been previously circulated.

Martin noted the increasing level of risk evident within the risk register and advised that this reflected the dynamic and fluid working environment caused by Covid-19.

The Chair invited questions and comments.

Elma Murray, Chair of the Accounts Commission thanked Martin for the report and asked for clarification on the term 'bad actors' in relation to the risk on digital security. Martin advised that this is a term used in the digital security community to describe organised groups looking to exploit system vulnerabilities.

Elma noted the importance of strong partnership arrangements between the Auditor General for Scotland, the Accounts Commission and Audit Scotland and asked whether this should be incorporated in the risk register. Martin advised that this would be considered when preparing the next update of the register.

Colin Crosby asked for clarification on how Audit Scotland assesses the effect of risks and disruption in audited bodies on our own risk profile. Martin advised that the Risk Management Framework draws from the well-established public sector risk framework as well as Audit Scotland's financial and performance data. He advised that this is considered by the Performance and Risk Management Group (PRMG) and the Management Team on quarterly basis in advance of the risk register being presented to the Audit Committee.

Martin also advised that the Covid-19 risks to Audit Scotland and audited bodies are considered at each meeting of the Incident Management Team (IMT) and regularly by Management Team.

***The Audit Committee noted the Review of the Risk Register.***

**Action AC112: Martin Walker to provide detail on the Risk Management Framework as part of the induction sessions with the new Chair of the Audit Committee. (September 2020)**

## 14. Risk Interrogation: Digital Security

*David Robertson, Digital Services Manager, joined the meeting.*

David Robertson, Digital Services Manager, introduced the Risk Interrogation, Digital Security paper, copies of which had been previously circulated.

Martin Walker, Associate Director, Corporate Performance and Risk advised new members that the risk interrogations form part of the risk management framework and provide the opportunity for a detailed analysis of individual or linked risks from the risk register to be considered each quarter.

David Robertson, Digital Services Manager highlighted that this item and the six-monthly digital security update report at item 15 were companion reports. Before inviting questions and comments, David highlighted that the risk score is currently 20 out of a possible 25, and this was due to a significant increase in digital/cyber-attacks in recent months.

The Chair invited questions and observations on the report.

Elma Murray, Chair of the Accounts Commission thanked David for the reports, and for the discussion earlier in the week relating to digital support of the Accounts Commission. Elma asked if the two digital reports tabled could be shared with Accounts Commission members and David confirmed that this could be done.

The Chair asked David what else could be done to improve cyber resilience if resources were not an issue. David advised that additional team members would provide additional resilience and flexibility, noting that would always be an issue in a small team.

Alan Alexander welcomed the clear and comprehensive nature of both reports and asked about the digital security in relation to core Audit Scotland systems being accessed from personal devices. David summarised the security arrangements around accessing secure networks.

The Chair thanked David for the report and noted that it was much more understandable to a non-IT professional than previous reports.

***The Audit Committee noted the Risk Interrogation: Digital Security report.***

## 15. Digital Security update

David Robertson, Digital Services Manager, introduced the Digital Security update paper, copies of which had been previously circulated.

There were no further questions on this update given the discussion at item 14.

***The Audit Committee noted the Digital Security update report.***

*David Robertson, Digital Services Manager, left the meeting.*

## **16. Data incidents/loss report**

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

The Chair asked how the data incident reported to the ICO had occurred. Gayle advised that the issue was technical in origin and would be better explained by Digital Services, who had now left the meeting.

It was agreed that supplementary information would be shared with members via correspondence after the meeting.

***The Audit Committee noted the data incidents/loss report.***

**Action AC113: Digital Services to provide additional information on the origin of data incident by correspondence. (September 2020)**

## **17. Annual review of corporate governance policies**

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

The Chair invited questions and comments.

Elma Murray, Chair of the Accounts Commission, asked whether there would be a requirement to complete two separate registers of interests given her position on the Audit Scotland Board and in her role as Interim Chair of the Accounts Commission. Martin Walker, Associate Director, Corporate Performance and Risk advised that only one was required and this was published as appropriate on the website.

***The Audit Committee noted and approved the Annual review of corporate governance policies report for submission to the Audit Scotland Board on 30 September 2020.***

## **18. Proposed Board and Audit Committee meeting schedule 2021**

Diane McGiffen, Chief Operating Officer, introduced the proposed Board and Audit Committee meeting schedule for 2021, copies of which had previously been circulated.

Diane McGiffen, Chief Operating Officer advised that the meeting schedule was currently being agreed via correspondence. In addition, Diane highlighted the Scottish Parliamentary elections in May 2021 as a consideration for the scheduling of the June meeting date as the SCPA also consider the annual report and accounts in June.

Jackie Mann advised that pending the outcome of finalisation of the schedule that she would be content to dial in from her holiday to accommodate a meeting as required.

***The Audit Committee noted the proposed dates for the Board and Audit Committee meeting schedule in 2021.***

## **19. Any other business**

There was no other business.

## 20. Review of meeting

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

The Chair formally asked the Auditor General for Scotland and the Chair of the Accounts Commission in their capacity of recipients of Audit Scotland services whether there were any issues that should be brought to the attention of the Audit Committee for action. Both advised there were no issues to report.

***The Audit Committee members expressed satisfaction with the papers and the focus and pace of the meeting.***

The Chair advised that there was a further item to be taken in private and therefore asked that both the Internal Auditors and External Auditors withdraw from the meeting. She thanked them all for their support and participation in the committees which she had chaired and offered Colin Crosby and the members of the Audit Committee going forward her very best wishes.

Alan Alexander, Chair of Audit Scotland noted that this would be the last meeting of the Audit Committee chaired by Heather Logan before she demits office in September 2020. Alan paid tribute to Heather's long service, first as a co-optee to the Audit Committee and then as a full Board member and Chair of the Audit Committee. Alan also praised Heather's clarity, forensic scrutiny and approach to support and challenge which had been so valuable over the years.

Diane McGiffen, Chief Operating Officer also paid tribute and offered thanks on behalf of colleagues Audit Scotland.

## 21. Date of next meeting

The next meeting of the Audit Committee was scheduled on 4 November 2020, via video conference, to be chaired by Colin Crosby.

*Claire Robertson and Tony Barrie, BDO left the meeting.*

## 22. Internal Audit contract (Item taken in private)

Gayle Fitzpatrick, Corporate Governance Manager, introduced the Internal Audit contract report, copies of which had been previously circulated.

The Chair invited questions and comments. The proposal to extend the current internal audit appointment by one year, as permitted under the existing contract, was approved.

***The Audit Committee approved a one-year extension to the current internal audit appointment with BDO.***

## 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. At its meeting on 17 March 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. The Board also agreed to keep the Standing Orders under review at each meeting.
4. At its meeting on 13 May 2020 the Board agreed that the temporary suspension of the standing orders in relation to the issue and publication of board papers were no longer required.
5. The Board carried out the normal annual review of the Standing Orders at its meeting on 30 September 2020 alongside the annual review of the Scheme of Delegation, the Financial Regulations and the codes of conduct for board members and colleagues.

## Considerations

### Public meetings

6. The Board remains committed to openness and transparency and meeting in public forms part of delivering on this commitment. Holding virtual public meetings, which are accessible, while having appropriate digital security arrangements in place remains challenging.
7. While practical options are being explored (see below) it is recommended that meetings continue to take place via videoconference and that attendance is limited to Board members and those presenting papers.
8. We are exploring a number of options; these options are also being by the Accounts Commission in respect of its meetings.
  - live virtual meetings of the Audit Scotland Board using Microsoft Teams - which members of the public or colleagues can request to observe
  - live streaming of virtual meetings – using proprietary platforms/ service providers – which members of the public could observe via a weblink
  - live streaming of 'in person' meetings - using proprietary platforms/ service providers (when such meetings recommence in the future)
  - recordings of meetings being made available on request
  - recordings of meetings being made available via the Audit Scotland after each meeting, and promoted via social media

- the use of short videos/ podcasts by the Chair or a board member following each meeting which can be made available on Audit Scotland's website and can also be promoted through social media channels, for example Facebook, Twitter and YouTube.

9. There are a range of factors we will need to consider in assessing the options, these include:

- Ease of access for those wishing to view the meetings.
- Compliance with the relevant data protection and accessibility regulations on video content (including automatic subtitling/ captioning/ transcripts etc)
- The cost and resource implications for each option– including in house resources and/ or outsourcing.

### Future review of governance arrangements

10. The Board has agreed to carry out a focussed review of some aspects of its governance arrangements. The proposed scope of the review is on the agenda for today's meeting at item 19.

11. The review is provisionally scheduled to take place between January and February 2021 and the 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
- note ongoing work to assess options for members of the public to view Board proceedings
- agree that the variations to the Standing Orders are kept under review and considered at each Board meeting until further notice.

REF	FORUM	Agenda Item No	Item Title	Action Description	Meeting Date	Due Date	Responsible	Assigned to	Complete/Ongoing	Reported Yes/No	Progress Notes
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)
ASB106	Board	3	Governance arrangements	The Standing Orders to be reviewed at each meeting.	24/03/2020	May-20	Martin Walker	Martin Walker	Complete	Yes	Two of the three varied orders reinstated on 13/05/20. Public meetings remains under review and is a standing item for each Board meeting.
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	Complete	No	The Board will consider a report at item 19 of today's meeting.
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	Yes	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	Yes	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	Yes	An additional Board meeting was convened 19/08/2020 to consider this together with Audit Scotland's response to the Covid-19 pandemic. Further C19 reports are on the agenda for today's meeting.
ASB118	Board	7	Governance arrangements: Review of Standing Orders	Diane McGiffen to report back on the options available to support public meetings of the Board.	19/08/2020	Sep-20	Diane McGiffen	Diane McGiffen	Complete	Yes	The options to support future public Board meetings was considered at the meeting of the Board and 30 September 2020 and members agreed this action was now closed.
ASB119	Board	8	Review of action tracker	The Chair to share a copy of the letter to the Chair of the Scottish Commission for Public Audit.	19/08/2020	Aug-20	Alan Alexander	Alan Alexander	Complete	Yes	A copy of correspondence was circulated to members on 28 August 2020.
ASB120	Board	9	Covid-19 update	The Board agreed a standing item on Covid secure workplaces and new ways of working be scheduled for future meetings of the Board and Remco.	19/08/2020	N/A	Diane McGiffen	Diane McGiffen	Complete	Yes	This has been added as a standing item on the respective agenda planners for the Board, Audit Committee and Remco and Board members agreed, at its meeting on 30 September, that this action is completed.
ASB121	Board	9	Covid-19 update	David Blattman to circulate a link to the link to the workplace assessment tool.	19/08/2020	Sep-20	David Blattman	David Blattman	Complete	Yes	David Blattman emailed members a note and the link to the workplace assessment tool following the Board meeting on 19 August 2020.
ASB122	Board	9	Covid-19 update	Diane McGiffen to schedule a meeting with the Chair, Stephen Boyle and Elma Murray.	19/08/2020	Sep-20	Diane McGiffen	Diane McGiffen	Complete	Yes	A meeting was scheduled on 7 September 2020 and the Chair provided a verbal update at the Board meeting on 30 September, following which members agreed this action be closed.
ASB123	Board	10	Covid-19 update	A Board workshop to be scheduled in the first quarter of 2021.	30/09/2020	Mar-21	Diane McGiffen	Diane McGiffen	Ongoing	No	Members availability will be canvassed in December 2020.
ASB124	Board	13	Remuneration and Human Resources Committee performance and future priorities	A further discussion at the next meeting of the Remuneration and Human Resources Committee on priorities and approach to diversity and inclusiveness.	30/09/2020	Nov-20	David Blattman	David Blattman	Complete	No	The Remuneration and Human Resources Committee discussed future priorities at their meeting on 4 November 2020.

## Purpose

1. This report provides an update on the new Strategic Improvement Programme.

## Context

2. This Strategic Improvement Programme (SIP) has been developed at a time of unprecedented change and uncertainty.
3. Scotland's public sector currently faces greater challenges than at any point since devolution, and public spending is growing significantly. Audit Scotland must also change and grow in order to continue to support the Auditor General for Scotland and the Accounts Commission to deliver independent, reliable and high-quality public audit. Independent assurance to the people of Scotland that public money is spent properly and robust audit that helps public services improve are crucial as the country tackles these unprecedented circumstances.
4. Covid-19 has added significant pressure on Scotland's public bodies and public services at a time when they already face major stresses and strategic challenges. These include the UK's withdrawal from the EU, the need to reshape health and social care, changing demographics, climate change and the devolution of significant financial responsibilities. It has also exacerbated existing risks in financial sustainability and service provision.
5. The pandemic has brought significant increases in public spending, with corresponding public and Parliamentary interest in how this money is being spent.
6. Women, young people and Black, Asian and minority ethnic Scots have been disproportionately affected by Covid-19, reinforcing existing inequalities and the negative impacts seen in previous economic downturns and recessions.
7. The pandemic has accelerated the pace of public service reform, in many areas including digital transformation, collaborative leadership and community engagement.
8. In addition to these external factors the last nine months have seen significant change in the organisation. Since March 2020 we have been operating as a dispersed virtual organisation and have rapidly adopted new ways working in all areas of the business. There have also been the appointments of a new Auditor General for Scotland, an Interim Chair of the Accounts Commission and changes to the membership of the Audit Scotland Board.
9. Throughout the period of the pandemic we have been very clear that our main priorities have been the health, safety and wellbeing of our colleagues and the quality of the audit. These are themes which are central to the programme and are key drivers in the projects and workstreams.
10. The experience of the last nine months has been challenging. But it has also demonstrated the resilience of Audit Scotland both organisationally and in terms of our colleagues. It has also demonstrated our ability to be responsive, flexible and innovative. These are characteristics we want to retain, nourish and build on in the years to come and the SIP has a role to play in this. Some of the changes we have made to the way we conduct business this year would have taken much longer to develop and implement. In most cases, these have been made over a remarkably short period of time and in some cases overnight. We have a strong track record in development and improvement, and this provides a strong foundation on which to build.

## Purpose

11. Scotland's public sector is facing greater challenges than at any point since devolution and public spending is growing significantly. High quality, independent public audit is essential.

12. Audit Scotland's responsibilities are growing and changing, so we are growing as an organisation and changing how we work, to be world leaders in public audit.
13. We are focussing on the priorities facing Scotland, and developing our approaches and the skills and resources we need to deliver world class audit and provide world class careers.
14. The SIP coordinates our organisation-wide strategies and projects to meet these aims and ensure everything we do is built on the principles of wellbeing, quality, inclusion and sustainability. These principles are set out in more detail in Appendix 1.
15. Investment in more flexible, agile and efficient ways of working and enhancement to our digital and professional support capacity will ensure our audit reporting is keeping pace with the changes in public finances and services and in technological developments and that we are able to support colleagues make the most of changes to working patterns and practices arising from the pandemic.
16. Additional recruitment will ensure we are able to attract and retain the highest quality of candidates and build the skills and expertise we need to develop public audit.
17. Greater strategic capacity will enable us to respond to the rapidly changing environment, and for public audit to be a clear voice for good governance and improvement as we move towards recovery and renewal.

## Programme objectives

18. The key objectives of the Strategic Improvement Programme are to:
  - drive our organisational transformation and improvement over the next 18 months
  - provide a bridge between the 'recovery phase' and what will become a new longer-term operating model
  - assure and inspire our colleagues
  - ensure we deliver on our core commitments on audit (quality, focus, methodology and value added)
  - ensure we deliver on our commitments on how we run the organisation – being people focussed by prioritising the health, safety, wellbeing and development of our people, and by being innovative and efficient.

## Programme structure, focus and content (projects/ workstreams)

19. The programme structure retains our two main strategic objectives:
  - Delivering World Class Audit.
  - Being a World Class Organisation.
20. The continued use of these as an organising framework helps to provide some continuity at a time of significant change.

### Delivering world class audit

21. The main objectives here are to:
  - Review, redefine and clearly articulate the purpose, role and value of public audit in Scotland.
  - Develop new audit methodologies which ensure we are:
    - focussing on the right issues

- at the leading edge of quality, professional standards and practice
- delivering audits which are efficient, effective, and which make a difference
- maintaining and safeguarding our focus on quality.

**22.** The projects and workstreams which will help us achieve this are summarised below.

### Vision and purpose

- Public Audit in Scotland – a refreshed and clear statement by the Auditor General for Scotland, the Accounts Commission and Audit Scotland which sets out the vision, purpose and value of public audit to external and internal stakeholders and the general public in the new operating environment.

### Focus and scope

- The new rolling work programme – which sets out the priorities, themes and subject areas of the performance and overview audits for the years to come, while retaining maximum flexibility.
- The new code of audit practice – which sets out the expectations for audit under the next round of audit appointments.

### Methodology

- New audit approach – which will refresh our approach to audit (including Best Value audit) and address the issues identified through reviews under the Audit Quality Framework. This new approach will be supported by the implementation of our Digital audit strategy – which will develop our approach and capacity to harness digital technology in delivering the audit work and sharing insights.
- New audit outputs – which will ensure that we use a tailored and flexible approach to getting the audit messages out in an effective and timely way so that they can add the most value.

### Delivery

- 2020/21 financial audit recovery plan – which aims to ensure we are in the best position to recover from the recent disruption and minimise the impact on the 2020/21 audits
- One organisational deployment – which will help us to resource the audits based on need (in terms of the quantum of capacity, skills and experience) rather than management structure.
- New audit appointments – which will secure a mixed market for public audit delivery in Scotland in the years to come.

### Being a world class organisation

**23.** The main objectives here are to:

- Make sure Audit Scotland is an organisation of choice – to attract, develop, retain and support a highly skilled and valued workforce.
- Develop new ways of working which support our colleagues' health, safety and wellbeing and ensure equality of experience under the new hybrid/ virtual working models.
- Improve our strategic and operational agility, flexibility, resilience and efficiency.
- Support colleagues to produce high quality work in a new and dynamic operating environment.

24. The key projects and workstreams which will help us achieve this are:

- **People:** this workstream focusses on how we work together in an inclusive way in a dispersed/virtual environment, individual and collective wellbeing, learning and development and our attraction and recruitment strategy/approach.
- **Building Capacity:** this workstream is about identifying the quantum, skills, experience and specialisms we need to achieve our objectives. In the short term the focus is on building capacity to respond to the audit expectations around Covid-19, to ensure there is sufficient organisational capacity to deliver the core audit work in challenging circumstances and develop/protect capacity to deliver the Strategic Improvement Programme and support innovation and improvement.
- **Finances:** in the short term the focus is on the 2020/21 Spring Budget Revision and the 2021/22 budget. The next stage will be a review of the fees and funding model and the Medium-Term Financial Plan.
- **Digital:** the new Digital Services Strategy is designed to ensure that we maximise the use of technology to support core service delivery and new ways of working. The three key strands are cyber security, virtual business and digital transformation.
- **Workspaces:** in the short term this workstream is focusing on the provision of Covid secure workspaces and supporting colleagues working remotely. We will then look at the longer-term requirements for home working and office accommodation to meet the needs of a more dispersed workforce which is working in new and more flexible ways.
- **Internal communications:** which will ensure that colleagues are informed and engaged, this will be particularly important as we operate under a more virtual/dispersed model.

25. There are a number of other supporting development projects which form part of the programme and which support the overall objectives, business continuity and efficiency. These include assessments for a new payroll system, a new recruitment and selection system/module, the ongoing roll out and development of the time recording system and performance dashboards and the Citrix replacement/roll out of laptops etc.

## Project relationships and dependencies

26. The SIP has many 'moving parts' and many of the projects and workstreams are interconnected and interdependent. By way of example, the implementation of a new long-term audit methodology is dependent on:

- the development and integration of new methodologies for financial audit and best value audit
- the development and implementation of digital auditing (as set out in the digital audit strategy)
- the appropriate digital infrastructure in place (through the Digital Services Strategy)
- the capacity and skills (through the People Strategy and the Building Capacity workstream)
- the resources in place to deliver these (through the 2021/22 budget and the Medium-Term Financial Plan).

27. The key relationships and interdependencies are shown diagrammatically in Appendix 2.

## Key milestones

28. Key milestones over the coming months include:

November	<ul style="list-style-type: none"><li>• Digital Audit Strategy</li><li>• Digital Services Strategy</li><li>• Audit Planning Guidance published</li></ul>
December	<ul style="list-style-type: none"><li>• 2020/21 SBR and 2021/22 Budget submission</li><li>• People strategy</li><li>• Building Capacity recruitment campaign begins</li><li>• One organisational deployment project scoping begins</li></ul>
March	<ul style="list-style-type: none"><li>• Budget confirmed</li></ul>
April	<ul style="list-style-type: none"><li>• Rolling work programme published</li></ul>
May	<ul style="list-style-type: none"><li>• Refreshed Public Audit in Scotland statement published</li></ul>

29. Some projects workstreams are well established and well under way, others are provisional or are at the scoping stage. A detailed programme Gantt chart is currently being developed which will include all of the projects/workstreams and their phases and milestones. An overview is attached as Appendix 3.

## Communications

30. We want to use the SIP to communicate the overarching vision, direction and aims of our development, and the reasons for doing it. Consistent internal/external communications will be important in this, as well as using the core messaging of the SIP to frame aspects of external and internal communications (including the recruitment campaign, budget submissions and corporate development projects such as the digital services strategy).

## Programme governance and reporting

31. The programme governance arrangements will ensure that appropriate governance is in place, while retaining sufficient agility and flexibility to support innovation.

32. The Management Team is the Programme Board, its main role is:

- approving project scopes where appropriate
- making decisions regarding prioritisation and resources where required
- considering quarterly programme updates as part of scheduled Management Team meetings
- approval of outputs/deliverables.

33. Project/workstream leads are responsible for the delivery of the individual projects and will report to the Programme Board.

34. We will also establish a programme co-ordination group – this will help to ensure that the relevant links are made and there is consistency across the projects (in terms of objectives, dependencies and timescales). The group/members of the group will also provide support and challenge for the project teams and act as a sounding board for testing ideas and proposals. We are keen to ensure that the principles of simplicity, flexibility and pragmatism highlighted above apply to the programme governance and this group will operate as a virtual group.

35. Programme updates will be reported to the Management Team and the Board on a quarterly basis using a programme dashboard.

## Recommendations

36. The Board is invited to consider:

- the purpose, objectives, structure and content of the programme
- the proposed governance and reporting arrangements.

## Appendix 1

25 November 2020

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### Draft principles

#### Wellbeing

- Wellbeing and the safety of our colleagues are priorities and will be the overriding guide to decisions we make about how we work.
- We will create and refine flexible working practices which support colleagues to both work safely and deliver high quality services to our external and internal stakeholders.

#### Quality

- The quality, independence and rigour of our work is not negotiable.
- We will move deadlines and timeframes if necessary, to ensure and safeguard quality.

#### Inclusion

- All colleagues should have equal opportunities for participation, progression and Learning and Development.
- Colleagues' working patterns are their choice and all should be treated equally.

#### Sustainability

- We will maintain and strengthen the sustainability and resilience of the Scottish model of public audit.
- We will reduce our environmental impact by developing new ways of working.

## Appendix 2

25 November 2020

### Links and dependencies between the projects/ workstreams

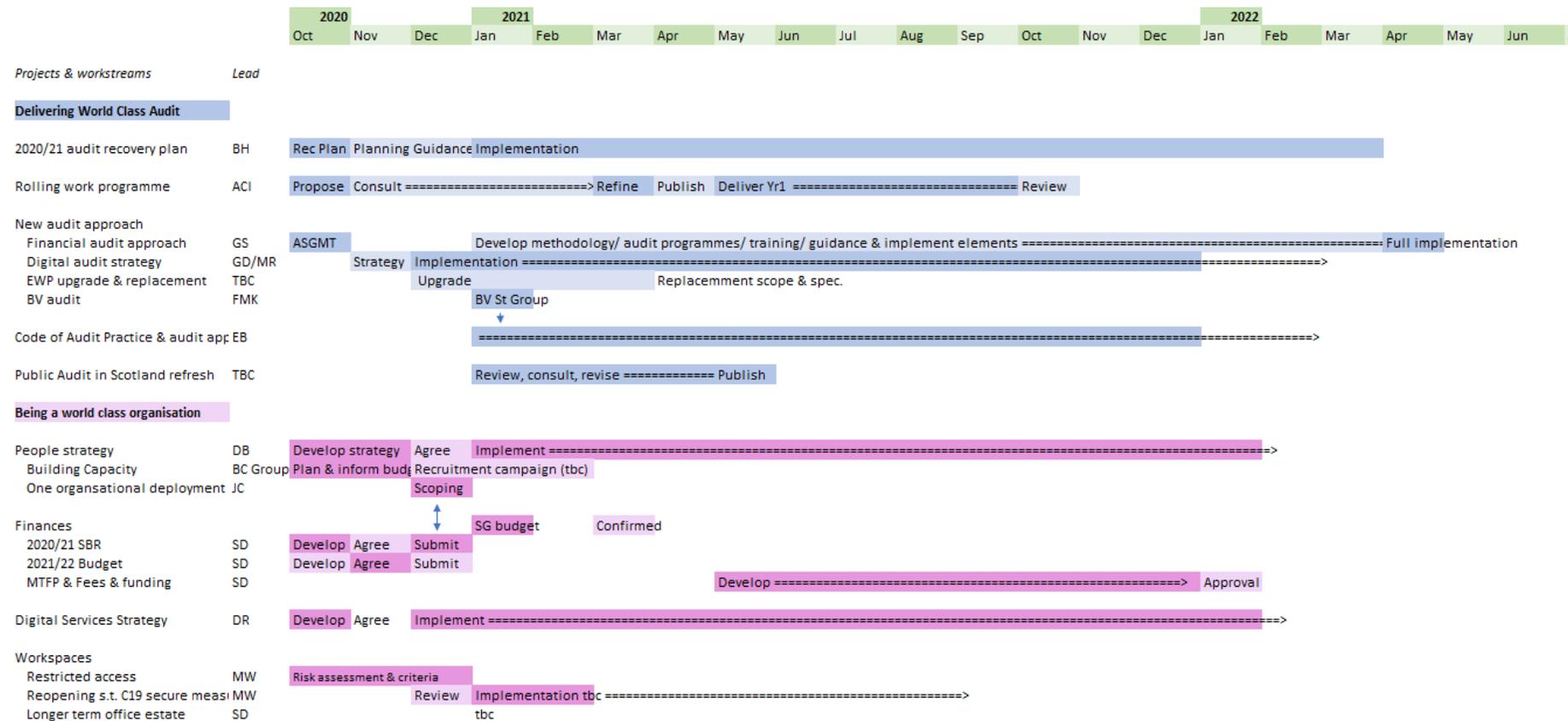


# Appendix 3

25 November 2020

## Programme timeline and milestones

Programme summary at November 2020



## Purpose

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

## Background

2. The Board considered a detailed Covid-19 update at its last meeting on 30 September 2020 and a further update was provided at the Audit Committee on 5 November 2020.
3. The Incident Management Team (IMT) continues to meet on a weekly basis, Covid-19 remains a standing item on the agenda for Management Team and the Board and regular updates have been issued to all colleagues and Board members.
4. On 23 October 2020 the Scottish Government published [Coronavirus: Scotland's Strategic Framework](#) which set out a five tier approach. The [Local protection levels](#) were most recently updated on 17 November 2020. Our offices remain closed and we continue to operate as a virtual organisation.

## Our response to Covid-19

5. On 19 March 2020 the Auditor General for Scotland advised the Public Audit and Post Legislative Scrutiny Committee (PAPLS) that Scotland's public services were 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, [Covid-19: how public audit in Scotland is responding](#) in June and [Covid-19 Financial Impact](#) in August 2020.
6. We have also issued briefings on the [Emerging Fraud Risks](#) (July), a [guide for Audit and Risk Committees](#) (August), supported the production of the Strategic Scrutiny Group's [scrutiny response to Covid-19](#) (November) and published a series of [blog posts](#) and a summary of the [risks and issues facing public services](#) in light of the pandemic.
7. 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 that cannot guarantee all deadlines can be met. This is due to the disruption in audited bodies as well as to Audit Scotland. We have also been clear that, while timescales may change, audit quality remains an absolute priority and is even more important at times of significant disruption.
8. The disruption continues to impact on productivity and this and other cost pressures mean that the financial situation is also challenging, this will be reflected in a Spring Budget revision and the 2021/22 budget bid to the Scottish Commission for Public Audit (SCPA). We are also reviewing the medium-term financial plan and the fees and funding strategy.

## Organisational implications and responses

### Our people

9. From the start of the pandemic we have adopted a safety-first approach, prioritising the health, safety and wellbeing of our colleagues. 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. Since the last update:

- One colleague has tested positive for Covid-19 and is recovering well.
- Fewer than five colleagues are currently shielding.
- The sickness absence rates for quarter two remained low, though slightly higher than in previous years and below the 2019 CIPD benchmark (5.9%).
- The absence statistics for October show that there has been a 30% decrease in the number of colleagues who are absent, but an increase in total absence days compared to the same month last year, this is mainly attributable to a small number of longer-term absence cases.
- An analysis of the time logged by colleagues to the C-19 business continuity time recording codes tells us that 1,911 days have been logged by 246 colleagues since March 2020. (This equates to an average of 7.77 days per colleague who has used the code).

## Digital and office equipment

11. To date we have issued 296 items of digital equipment to 206 colleagues. These items have mainly been screens, keyboards and mice. The total cost to date has been £19,466.99, an average of £94.49 per colleague who has needed equipment.
12. We have also issued 275 items of office equipment to 205 colleagues. These items have included desks, chairs, footrests, and some items have been issued from existing stock in the offices. The total cost to date has been £13,165.10, an average of £64.22 per person who has needed equipment.

## Office accommodation

13. The Audit Scotland offices have been closed with effect from 17 March 2020 and we expect this to be the default position for some time to come. On 17 September 2020 the IMT confirmed that the offices would remain closed for the remainder of 2020. This is consistent with the current government guidance.
14. Our Covid Secure Workplaces working group has carried out a detailed risk assessment and planning for Covid-19 secure workspaces. On 27 October 2020 the Management Team agreed the criteria and process to provide limited access to a small number of colleagues to attend the office to perform business critical tasks which cannot be performed remotely and which support business continuity.
15. Management Team will review the position on offices in December 2020 with reference to the Scottish Government guidance at that point in time.
16. Between 28 September and 16 October 2020, we surveyed colleagues on their future working preferences. The response rate was 89.6% and 76% of colleagues expressed a preference for a hybrid working from home/office model in the future. We intend to run a similar survey in the future to assess any change in opinions and to inform our longer-term office requirements. This review will consider both the capacity required and purpose of the offices.

## Financial management

17. The outturn on core funding was £404k (13.9%) above budget in quarter two (Q2) 2020/21. The Q2 financial performance report is on the agenda for the meeting of the Board on 25 November 2020.
18. The Board will also consider the 2020/21 Spring Budget Revision and the 2021/22 Draft Budget Submission at its meeting on 25 November 2020.

## Audit implications and responses

19. 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.
20. 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.

21. As at 12 November 2020, 141 sets of accounts have been signed off, including 91% of the NHS accounts and 76% of the Central Government accounts. This is fewer than we would have completed by this point in a normal year but better than we were forecasting earlier in the year. At the time of writing delays are expected on 10 sets of accounts, though the situation remains fluid.
22. The delays to the audits this year will delay the start of planning for 2020/21 audits. Planning guidance for the 2020/21 audits was issued earlier in the month and discussed at the annual planning conference on 18 November 2020. The guidance recognises the impact of the timing of the 2019/20 audits and the consequential later start to 2020/21 audits, the challenges in completing audits remotely, and the additional complexities and uncertainties. We view 2020/21 as a transitional year, leading in future to audit timetables which were possible before the pandemic. The guidance reinforces the message that the well-being of audit teams remains paramount and the continued expectation for high-quality audit.
23. A revised schedule for Best Value Assurance Reporting to the Accounts Commission in 2020 has been prepared which reflects the impact of Covid-19 on both auditors and councils. Best Value Assurance Reports on Dundee City Council and Aberdeenshire Council were published in September and October 2020 respectively.

### Rolling work programme refresh in the context of Covid-19

24. The Auditor General for Scotland (AGS) and the Accounts Commission Interim Chair have met regularly over recent months and agreed a shared set of priorities/key themes which will inform the focus and targeting of future audit work in response to the impact of Covid-19.
25. The AGS has prepared draft longer-term work programme which is currently the subject of consultation with the Scottish Parliament's Public Audit and Post-legislative Scrutiny Committee (PAPLS). Feedback from PAPLS and subject committees of the Parliament on the draft proposals is expected in quarter three.
26. The Accounts Commission considered the key strategic risks facing local government bodies and what this might mean for its audit priorities and future work programme at its strategy seminar in August 2020. The Commission is continuing to take this work forward through its *Insight* Programme which will inform the preparation of the Commission's new strategy. It is anticipated this will be published in Spring 2021. The Commission is also considering the rolling work programme with a view to external consultation early in 2021.

### Next steps

27. 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.
28. This has informed our refreshed Strategic Improvement Programme which is the subject of an update report on today's agenda.

### Recommendations

29. The Board is invited to:
  - note the actions taken to date in respond to the Covid-19 pandemic
  - note the ongoing actions and next steps.

## Purpose

1. This report presents the financial result for the six months to 30 September 2020.

## Background

2. Detailed variance analysis and explanation is provided in Appendix 1 attached to this report. Appendix 1 also includes a section on the key financial risks that need to be managed in 2020/21 and for future budget proposals.
3. The report was discussed by Management Team on 27 October 2020 and considered by the Audit Committee on 4 November 2020.

## Discussion

4. In the second quarter of the 2020/21 financial year Audit Scotland's Net Operating Expenditure was £3,318k which was £404k (13.9%) more than budget.
5. In-house income for 2019-20 audits was in total £408k (9.4%) less than budget with a negative volume variance of £375k and a negative price variance of £33k.
6. Fee income earned for 2019-20 audits carried out by external firms net of fees and expenses paid to the firms was £49k better than budget. Income recognition was £40k worse than budget with fees and expenses payable to the external firms being £89k less than budget.
7. Staff costs including agency expenditure was £157k (1.8%) more than budget.
8. Other expenditure was £110k (6.6%) better than budget. The main positive variances were recorded in travel and subsistence (£179k) and printing/office costs (£29k). The main adverse variances were in legal, professional and consultancy (£54k) and information technology (£20k).
9. There will be a requirement for an in-year budget adjustment to meet a potential funding shortfall of between £1.25 million and £2 million (5.5% to 7.3% of total budget).

## Virement

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

## Recommendation

11. The Board is invited to note the financial results for the six months to 30 September 2020.

## Headline Results

The summary financial position to 30 September 2020:

£000	Annual Budget	Actual	Budget	Var.	% Var.	Prior Year	Note
Fee Income - In House	8,099	3,950	4,358	(408)	-9.4%	4,497	1
Fee Income - Audit Firms	4,947	2,962	3,002	(40)	-1.3%	3,111	2
Central Charges	5,646	2,823	2,823	0	0.0%	2,765	
Rebate	0	0	0	0	-	0	
Interest	0	1	0	1	-	2	
Other Income	0	1	0	1	-	20	
IAS 19 Income	0	0	0	0	-	0	
<b>TOTAL INCOME</b>	<b>18,692</b>	<b>9,737</b>	<b>10,183</b>	<b>(446)</b>	<b>-4.4%</b>	<b>10,395</b>	
Approved auditors	4,435	2,575	2,664	89	3.3%	2,738	2
Staff salaries and oncosts	17,916	8,754	8,737	(17)	-0.2%	8,230	3
Payroll provisions incl. severance	0	0	0	0	-	0	
Agency and secondment costs	75	178	38	(140)	-368.4%	282	3
IAS 19 Pension costs	100	0	0	0	-	0	
Property costs	944	425	414	(11)	-2.7%	403	
Travel and subsistence	886	170	349	179	51.3%	433	4
Legal, professional and consultancy	861	206	152	(54)	-35.5%	221	5
Training	490	109	113	4	3.5%	188	
Recruitment	145	75	70	(5)	-7.1%	48	
Printing and office costs	284	76	105	29	27.6%	146	6
Information technology	486	256	236	(20)	-8.5%	232	7
Audit	60	37	30	(7)	-23.3%	32	8
Depreciation	342	173	171	(2)	-1.2%	186	
Other costs	383	21	18	(3)	-16.7%	16	9
<b>EXPENDITURE</b>	<b>27,407</b>	<b>13,055</b>	<b>13,097</b>	<b>42</b>	<b>0.3%</b>	<b>13,155</b>	
<b>NET OPERATING (EXPENDITURE)</b>	<b>(8,715)</b>	<b>(3,318)</b>	<b>(2,914)</b>	<b>(404)</b>	<b>-13.9%</b>	<b>(2,760)</b>	

## Income and Expenditure Summary

### 1. Fee Income – In House

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

The table below shows the performance by sector at 30 September 2020 for the in-house audits:

	2019/20 Audit Year		Prior Years	Total	
	Volume	Price			
	WIP %	£	£	£	
Local Government	-4.91	-220	+41	-	-179
Health	-8.14	-120	+19	-	-101
FE	-5.50	-2	-	-	-2
Central Government	+1.94	+21	-95	-	-74
Non-statutory	-6.70	-54	+2	-	-52
<b>Total – September 20</b>	<b>-4.88</b>	<b>-375</b>	<b>-33</b>	<b>-</b>	<b>-408</b>

#### Local Government

Local Government audits are 4.91% behind budget leading to an adverse volume variance of £220k. The positive price variance of £41k 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 current adverse position is expected due to numerous factors linked to the coronavirus pandemic with the completion percentage being 8.97% behind the prior year actual position. 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 continues to be closely monitored.

#### Health

Overall health audits are 8.14% behind budget leading to a negative volume variance of £120k. The positive price variance is due to an increase in the fee for NHS Tayside. The completion percentage for the sector at this stage last year was 100%. This variance is due to the impact of the coronavirus pandemic with some health boards not in a position to submit annual accounts within the revised deadlines. The deadline for audit sign-off of the health sector was extended to the end of September, however, audit work remains outstanding for some bodies due to various complications.

#### Further Education (FE)

ASG undertake 2 FE audits, Dundee & Angus College and Edinburgh College. Progress on 19/20 audits is currently 5.50% behind 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. The current planning expectation is that this target will be met.

#### Central Government

Central Government chargeable audits are 1.94% ahead of plan leading to a positive volume variance of £21k. 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 December. The main reason for the price variance is due to the official start date of a new body, South of Scotland Enterprise, being later than expected with the audit requirement now commencing in 2020/21 instead of 2019/20.

**Non-statutory**

The European Agricultural Fund Account (EAFA) audit is behind schedule by 6.70%. The audit of the European Agricultural Guarantee Fund will 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 the fee and audit requirements will reduce by around 25~30%.

**2. Fee income and expenditure – Audit Firms**

The adverse income variance of £40k is offset with the positive expenditure variance of £89k for approved auditors. Effectively this approach highlights a net favourable variance of £49k on chargeable audits.

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

The table, below, shows the performance for approved auditors by sector to 30 September 2020:

	2019/20 Audit Year		Prior Year	Total
	Volume	Price	Price	
	WIP %	£	£	£
Local Government	-3.24	-92	+34	-58
Health	-4.62	-47	+2	-45
Water	-5.00	-7	-	-7
FE	+7.05	+31	+3	+34
Central Government	-0.69	-3	+39	+36
<b>Total – September 20</b>	<b>-2.42</b>	<b>-118</b>	<b>+78</b>	<b>-40</b>

**Local Government**

Audits in the local government sector are 3.24% behind plan leading to an adverse volume variance of £92k. Audit firms have agreed fees above expected fees for some bodies leading to a price variance recognition of £34k.

**Health**

Health audit completion based on the prior year actuals is 4.62% behind trajectory generating an adverse volume variance of £47k. 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 7.05% ahead of schedule leading to a positive completion position of £31k.

**Central Government**

Central government audits are slightly behind schedule leading to a minor negative volume variance of £3k. The £39k price variance is due to a number of agreed fee increases with the largest increases being applied to Bord na Gaidhlig, Historic Environment Scotland and Scottish Canals.

## 3. Staff &amp; 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	4,457	4,479	22	150.7	154.5	a)
ASG agency & secondments	75	166	38	(128)			
PABV staff costs	4,542	2,273	2,271	(2)	74.1	73.5	b)
PABV agency & secondments	0	12	0	(12)			
CSG staff costs	2,210	1,135	1,108	(27)	37.4	35.7	c)
CSG agency & secondments	0	0	0	0			
Business Support staff costs	703	365	352	(13)	19.8	18.7	d)
Business Support agency & secondments	0	0	0	0			
Governance & Other staff costs	1,165	524	527	3	19.1	20.0	e)
Governance & Other agency & secondments	0	0	0	0			
<b>Total staff costs</b>	<b>18,016</b>	<b>8,754</b>	<b>8,737</b>	<b>(17)</b>	<b>301.1</b>	<b>302.4</b>	
<b>Total agency &amp; secondments</b>	<b>75</b>	<b>178</b>	<b>38</b>	<b>(140)</b>			

- a) **ASG Staff costs** - in the first 6 months of the year the average number of staff employed in ASG has been 3.8 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. The overall saving to budget is due to lower than planned staffing levels (£114k) and higher average actual salary costs per employee (£92k). As in previous years there will be an intake of professional trainees at the end of October. ASG will receive an allocation of the ringfenced new financial powers budget to meet recruitment planning requirements.

**ASG agency costs** – it is projected that the overspend will continue to enable us to fill resourcing gaps and protect capacity to ensure we can meet the revised audit certification deadlines. Covid-19 has meant there are significant additional resourcing/capacity challenges on the availability of staff and there has also been an impact due to the increase in the length of time it takes to undertake audits. This year much of the focus of agency staff deployment has been to assist EAFA work, which helps to enable in-house staff to gain more experience on other audits. This additional cost will be managed through reduced expenditure on travel & subsistence, other savings and staffing variances (reduced seasonal auditor and student placement costs). The deployment of agency staff will assist in minimising the shortfall in income recognition as at 31 March 2021.

- b) **PABV staff costs** - on average PABV have been 0.6 w.t.e. above budget year to date (£20k) which 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 (£18k). 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.

**PABV secondment costs** - secondment costs of £12k relate to a Scottish Parliament member of staff seconded to assist with housing benefit audit work. This secondment finished in May and is being funded by an underspend in the PABV consultancy budget.

- c) **CSG staff costs** - The average staff resource requirements in CSG has been higher than the funded w.t.e. (£50k) 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 (£23k). 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 Staff costs** - w.t.e. above funded figure (£20k) due to the provision of cover for maternity leave. The actual average salary costs are slightly better than budget (£7k).
- e) **Governance & Other staff costs** - slightly below budget due to the vacancy at the start of the financial year for a non-executive board member and a reduction in Accounts Commission members with the Chair leaving at the end of July.

#### 4. Travel and subsistence

Expenditure on travel and subsistence has significantly reduced compared to the same period last financial year. This is due to homeworking and audit work being delivered remotely rather than onsite at the public bodies. Expenditure will be significantly less this financial year with the savings being used to support the overspend on agency expenditure and other financial pressures.

#### 5. Legal, professional and consultancy

The overspend is due to increased expenditure on legal services, corporate subscriptions and external firms' expenditure for best value assurance reports. This is a budget virement issue as this is expenditure that is being met by reduced expenditure in other budget headings. Further budget management work is required to establish if this is likely to be recurring and a permanent budget adjustment is required to resolve this in the long term.

#### 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 monitoring is lower than budget which is due to some expenditure being classified as corporate subscriptions. Expenditure year to date is £70k less than the prior year and it is projected that there will be significant savings on print/copier and mobile phone expenditure in 2020/21.

#### 7. Information technology

Software licence 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 licences (e.g. microsoft, mki) to enable the safe delivery of our work requirements. As previously reported, the projection in this expenditure heading will be in excess of budget with the plan to meet this overspend by savings within other digital services budget headings.

#### 8. Audit

The current overspend is a timing issue on invoices received and accruals made for the internal audit work plan. The full year position is planned to be within the budget allocation of £30k.

#### 9. Other costs

The minor overspend is due to one-off expenditure being incurred with the budget being phased equally over the financial year. This will be corrected as we progress through the financial year.

### Overview of Financial Risks

The overall financial impact for Audit Scotland of the organisational and audit implications of Covid-19 means we will be unable to deliver our statutory obligation of a balanced budget unless approval is received for additional funding from Parliament.

Financial models of the potential shortfall based on our current position and future in-year expectations indicate that the worst-case scenario is in the region of £2 million and the best-case scenario is £1.25 million. The key financial risks that we need to manage in 2020/21 include:

- shortfall in fee income recognition
- additional costs to deliver audit
- resource availability
- impact on firms' costs

The recognition of fee income is a key component of our budget proposals with the extension to deadlines of 2019/20 audits leading to a delay in the start to planning of the 2020/21 audits. Effectively these extensions mean we will not have completed as much audit work as in previous years as at 31 March 2021. International reporting standards only allow us to recognise in the accounts the amount of income we have earned for the work we have completed up to that point

in time. The shortfall in income recognition depending on the outcomes of the best- and worst-case scenarios have the potential to vary between £1.25 million up to £1.75 million.

People costs represent 66% of our total expenditure and the forecast modelling includes the need for additional temporary staff (agency and short term ex-employee contracts), lower staff turnover due to the economic situation arising from the pandemic and the impact of audit deadline extensions on the recognition of untaken leave as at the 31st March. The additional unplanned financial impact is between £0.5 million and £0.7 million.

Any saving in fees and expenses paid to external firms due to work completion percentages being lower than planned at 31 March 2021 will be offset by a projected shortfall in the recognition of fee income.

To offset some of the financial pressures there are projected forecast savings in other operating expenditure which are mainly due to the significant reduction in travel and subsistence with staff unable to travel to undertake on-site audit work. Further savings have been identified in stationery & printing, other (e.g. annual wellness checks) and other accommodation costs (e.g. catering, security waste). There will be an increase in information technology expenditure with the requirement to ensure compliant and secure technology to meet the demands of all staff working from home. The overall expected savings are in the region of £0.4 million.

Our original budget proposal highlighted that we would aim to manage within our overall budget allocation, but it will be necessary to seek in-year adjustments if significant challenges arise. Covid-19 is a significant challenge for us with significant financial consequences requiring us to seek a budget adjustment in 2020/21 between £1.25 million and £2 million.

In the longer term there are financial issues that will need to be considered in our budget submissions 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

To date there has been £53k of capital expenditure against the full year allocation of £150k. This expenditure relates to the purchase of 60 laptops.

**Stuart Dennis**  
Corporate Finance Manager  
4 November 2020

## Purpose

1. To provide the Board with a review of organisational performance in quarter two (Q2) 2020/21.

## Background

2. The performance information is reported under the two strategic objectives of 'delivering world class audit' and 'being a world class organisation' in line with the Corporate plan.
  - Appendix 1 provides a summary of performance for each strategic objective.
  - Appendix 2 provides the detailed performance information.

## Q2 performance summary

3. Performance over all is good in what remain challenging circumstances and is better than we may have anticipated given the amount of disruption due to Covid-19. This is largely due to the commitment, professionalism and flexibility of colleagues across the organisation.
4. It is also the case that the Covid-19 pandemic continues to have a significant impact on Audit Scotland and the bodies we audit. The pandemic is affecting our ability to deliver audits and our financial position. This can be seen most clearly in our 'RAG' assessment on three of our performance objectives.
5. The following objectives are 'red'. This is defined as 'Not progressing/significant additional management action required':
  - We conduct relevant and timely audits and report in public (where the main impact is on delivery dates and budgets).
  - We manage our resources effectively (where the main impact is on audit costs and income).
  - We maximise our efficiency (where the main impact is on colleague productivity).
6. We expect a negative impact on performance to continue to show in the quarterly reports for 2020/21 and anticipate this will extend into 2021/22.

## Delivering World Class Audit

7. Local Government and NHS audit deadlines have been rescheduled while Central Government and Further Education dates remain the same as in previous years. We have advised audited bodies and stakeholders about the potential impact this may have on deadlines.
8. There were 184 publications in quarter two including; 96 annual accounts, 81 Annual audit reports, two Best Value Assurance Reports, one annual audit plan and four other publications. This is lower than the equivalent quarter in 2019/20 where there were 226 publications.
9. To date we have delivered thirty-three per cent of the total planned outputs due for the year 2020/21 and 96 per cent of these were on time.
10. Media mentions, downloads and social media engagements are down on the same quarter last year. This is due to the lower number of performance audits being published at present, less promotional content to broadcast, and a busy news agenda dominated by Covid-19.

11. Audit Scotland audits were 18% above budget in Q2.
12. We have reviewed the rolling work programme, made proposals to the Auditor General for Scotland and the Accounts Commission and the revised programme is now the subject of consultation.

### Being a world class organisation

13. We have continued to prioritise communication and engagement with colleagues across the organisation using a broad range of channels. This includes formal business messaging (through the regular Incident Management Team (IMT) updates, the Covid-19 yammer channel, pulse surveys, the weekly Staying Connected communications and video posts and blogs from members of Management Team) and informal channels (including the 'How we doing' yammer channel, on-line quiz events, virtual tea breaks and check-ins via video conferencing).
14. We had 287.1 (98.9%) whole time equivalent colleagues in place at the end of the quarter against an establishment 290.2. The absence rate is slightly higher than Q2 in previous years but remains low at 1.66 days.
15. The outturn on core funding was £404k (13.9%) above budget in Q2.

### Forward look

16. Quarter three includes the revised deadline for the local and central government financial accounts and 30 September was the deadline for the NHS accounts. At the time of writing two NHS audits have missed the deadline and we expect 11 central and 7 local government accounts may be late. Current projections indicate that 10% of all audits may miss the deadline in 2020/21. This, and the consequential delayed start to the audit planning process is expected to impact on the delivery of the 2020/21 audits.
17. All audits are carried out in accordance with the code of audit practice and the relevant professional standards. Currently our assessment of performance on quality is at 'amber' as we recognise that the unavoidable approach to remote/virtual auditing presents challenges to both auditors and the organisations we audit. The internal and external reviews of audit quality will take place in Q3 and Q4. The results from these reviews will provide clearer information on the quality of audit delivered in 2020. The outcome of the reviews will be considered by the Audit Quality Committee and will be reported in the quarterly performance reports to the Management Team and Board and in the annual report on quality.
18. The Auditor General for Scotland and the Accounts Commission interim Chair have met regularly over recent months and agreed a shared set of priorities/key themes which will inform the focus and targeting of future audit work in response to the impact of Covid-19.
19. The Auditor General for Scotland has prepared draft longer-term work programme which is currently the subject of consultation with the Scottish Parliament's Public Audit and Post-legislative Scrutiny Committee (PAPLS). Feedback from PAPLS and subject committees of the Parliament on the draft proposals is expected in quarter three.
20. The Accounts Commission considered the key strategic risks facing local government bodies and what this might mean for its audit priorities and future work programme at its strategy seminar in August 2020. The Commission is continuing to take this work forward through its *Insight* Programme which will inform the preparation of the Commission's new strategy. It is anticipated this will be published in Spring 2021.
21. The Incident Management Team continues to meet to monitor and respond to the organisational impact of the Covid-19 situation. This, alongside other priorities have informed a review and refocussing of our strategic improvement programme, which was the subject of further Management Team discussion on 17 November 2020.

### Recommendations

22. The Board is invited to review the performance in quarter two and consider whether any additional management action is required.

## Appendix 1

25 November 2020

### 2020/21: Q2 performance summary

 Delivering world-class audit	Measure in Q2	Previous quarter	Same quarter last year	Direction of travel in Q2 this year compared to Q2 last year
<b>We conduct relevant and timely audits and report in public.</b>				
Reports 2021(Q2)	184	44	226	
Reports 2021(YTD)	230	44	309	
On time (YTD)	96%	100%	95%	
Audit Budget (YTD)	+18%	+14.56%	-4%	
<b>We get our messages out effectively</b>				
Media mentions (Q2)	125	101	340	
Downloads (Q2)	210,057	262,497	232,975	
Social media engagements (Q2)	3,822	2,178	7,991	

### Key performance messages in Q2

- The RAG for the 'relevant and timeliness' objective remains red. This reflects the impact of Covid-19 on both Audit Scotland and the bodies we audit. The significant increase in cost and the potential impact of delaying audits are also reason for the RAG assessment.
- We delivered 184 audits/reports in Q2. This is fewer than in previous years due to the rescheduling of audits. Central and local government audit are not due until Q3.
- NHS accounts and annual audit reports were due to be completed by 30 September 2020. Most reports (79%) were delivered on time, however three accounts (2 ASG 1 Firms) and six Annual Audit Reports (2 ASG and 4 Firms) are outstanding and this may also impact on timeliness of the remaining audits.
- Audits were delivered at 18% above budget and outwith our 5% tolerance for this measure.
- Communications statistics show we are getting our messages out, despite the scaled back promotion of reports. This is reflected in media mentions downloads and social media figures.

### Key actions

- The key actions for this strategic objective are covered by the projects and workstreams in the revised Strategic Improvement Programme. This includes workstreams on refreshing/refining the role of audit in a Covid/post Covid world, the annual audit process for 2020/21, the revised rolling work programme, audit methodology and digital audit and the new Code of Audit Practice and audit appointments.

**Key:**

Red = Not progressing/significant additional management action required.

Amber = Progressing and management action planned.

Green = On target/no need for additional management action

**2020/21: Q1 performance summary**

 Being a world-class organisation	Measure in Q2	Previous quarter	Same quarter last year	Direction of travel in Q2 this year compared to Q2 last year
<b>We manage our resources effectively</b>				
Budget Variance (YTD)	+13.9%	+10.9%	+0.5%	
WTE establishment (YTD)	98.9%	98.6%	96.7%	
<b>We maximise our efficiency</b>				
Staff costs (YTD)	8,754k	4,400k	8,230k	
Agency/secondment costs (YTD)	178k	78k	282k	
Average cost per audit day (Q2)	433.5	429.8	432	
Proportion of audit time (Q2)	65%	60%	72.5	
<b>We empower and support our people to be engaged, highly skilled and perform well</b>				
Absence (YTD)	3.29 days	1.63 days	2.06 days	
Staff turnover (YTD)	1.75%	2.43%	3.01%	
Exams pass rate (YTD)	80%	78%	75%	
Training events (Q2)	22	28	39	
Training attendees (Q2)	526	405	374	
IT uptime (Q2)	100%	99.91%	99.43%	

**Key performance messages in Q2:**

- The outturn on core funding was £404k (13.9%) above budget. There was 53k capital spend in Q2.
- The average number of colleagues employed in the quarter were 98.9% of the establishment which is slightly higher than the same quarter last year.
- Absence levels remain low and slightly higher than previous years. We remain below the 2019 CIPD benchmark (5.9%).
- The proportion of audit time was 65%, which is down from 72.5% in the same quarter last year.
- There have been 22 training events and 526 attendees, which is up on the same quarter last year.
- IT up time remains consistently high.

## Key actions

The key actions for this strategic objective are covered by the projects and workstreams in the revised Strategic Improvement Programme. This includes workstreams on resourcing and one organisational deployment, our workforce strategy, learning and development and wellbeing and the longer-term fees and funding model.

## Appendix 2

25 November 2020

### Performance detail

2020/21: Quarter 2

 <b>Delivering world-class audit</b>	<b>We conduct relevant and timely audits and report in public.</b>
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Key Performance Questions	2018-19				2019- 20				2020-21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Are relevant audits being delivered?	G	G	G	G	G	G	G	G	A	A		
Are audits delivered on time?	G	G	G	G	G	G	G	G	A	A		
Are audits delivered on budget?	G	G	G	G	G	G	G	G	R	R		

#### Key messages

The overall performance assessment RAG status for this objective is red as a result of the impact of the Covid-19 pandemic. Red is defined as *'Not progressing/significant additional management action required'*. This management action is ongoing.

- We are on track to complete most 2019/20 audits by 31 December.
- Almost all NHS boards are now signed off by the deadline of 30th September, as are half of central government bodies and IJBs, and we are broadly on track with local authorities. The three outstanding NHS bodies are late due to late receipt of draft accounts from the audited body.
- There are 22 audits projected to miss the revised deadline, this is about ten per cent of all audits.
- Annual Audit plans for the 2020/21 are scheduled for quarter four, however these may be delayed due to the delays in the 2019/20 audit work.
- Audit expenditure is 18% above budget and remains significantly outwith the 5% tolerance target.

#### Performance

In **Quarter 2**: we delivered 184 audit/reports.

- 25 NHS reports (Accounts 12, AARs 13)
- 64 Central Government (Accounts 33, AARs 31)
- 88 Local Government (Accounts 51, AARs 37)
- 1 Annual Audit plan
- 2 BVARs (The Moray Council and Dundee City) were published in line with the agreed revised schedule.

- 4 other reports were published including the National Fraud Initiative and three new outputs were published as part of our new programme of briefings on the impact of Covid-19 on public finances and public bodies in Scotland (i.e. Covid-19: emerging fraud risks, Covid-19: guide for audit and risk committees, and Covid-19: Implications for public finances in Scotland)

**Year to date:** we delivered 230 audit/reports.

- 36 NHS reports (Accounts 20, AARs 16)
- 71 Central Government (Accounts 37, AARs 34)
- 88 Local Government (Accounts 51, AARs 37)
- 18 Annual Audit plans
- 7 Performance reports (2 Performance audit, 4 BVARs, 1 overview)
- 10 Other reports.

The revised dates for delivery of the 2020/21 financial audit and Annual reports are:

Sector	Total AS	Total Firms	New date	Delay	Scheduled Quarter
LG	66	39	30-Nov	2-month delay	Q3
CG	47	29	31-Oct	no change	Q3
NHS	10	13	30-Sep	3-month delay	Q2
FE	2	19	31-Dec	no change	Q3
Total	125	100			

The audit work programme faces unprecedented change and uncertainty due to the impact of Covid-19 pandemic. Our initial May 2020 position statement on [the impact of Covid-19 on public audit in Scotland](#) made clear that this uncertainty means that our work programme will need to be more dynamic and flexible than in the past. This includes changes to existing audits (paused, delayed and rescheduled, scope changes or ultimately audits stopped altogether), but also the use of a wider range of different audit outputs such as blogs, roundtables and briefing papers on key audit themes and issues in future.

During quarter two the Auditor General for Scotland and the Accounts Commission agreed a revised short-term (2020/2021) work programme reflecting the impact of the Covid-19 coronavirus pandemic on both auditors and audited bodies. The key changes made to the short-term programme include:

- Changes to the strategy, timing and approach for future overview reporting (NHS and local government) to reflect the impact of Covid-19 on those sectors.
- Proposed ways forward for 'paused' audits and performance audit reports which were due to be published in 2020/21 but which had not yet started at the time of the start of lockdown.
- A rescheduled programme of Best Value Assurance (BVAR) reporting, adjusted to reflect the additional time and flexibility now available to complete the current Best Value assurance programme as a consequence of the Auditor General for Scotland/Commission decision to extend current audit appointments to September 2022. This included the changed planned publication date for the City of Edinburgh BVAR from quarter two to quarter three.
- The teacher work planning briefing (previously quarter three) has now been removed from the work programme.
- The Skills planning and investment audit (previously quarter three) is now planned as a Covid-19 briefing paper to be published in 2021.

**Audit/report schedule 2020/21**

	Q1	Q2	Q3	Q4
Annual Audit Plans Audit Scotland (125)	2 FE ✓  <u>Late from 19-20 Q4 return</u> 7 LG ✓ 6 CG ✓	<u>Late from 19-20 Q4 return</u> 1 CG ✓		66LG 47CG 10 NHS
Annual Audit Plans Firms (100)	FE 15 ✓ <u>Late from 19-20 Q4 return</u> LG 1 ✓ CG 2 ✓	FE 1 (Q1) ✓	FE 3 (Q1) ✓	39 LG 29 CG 13 NHS
Accounts certified Audit Scotland (125)	NHS 2 ✓ CG 3 ✓	NHS 6 ✓ CG 21 ✓ LG 24 ✓	2 LG ✓ 4 CG ✓	
Accounts certified Firms (100)	NHS 6 ✓ CG 1 ✓	NHS 6 ✓ CG 12 ✓ LG 27 ✓	1 LG ✓ 11 CG ✓	
Annual Audit Reports Audit Scotland (125)	NHS 1 ✓ CG 2 ✓	NHS 6 ✓ CG 19 ✓ LG 20 ✓	NHS 1 (Q2) ✓ 6 CG ✓	
Annual Audit Reports Firms (100)	NHS 2 ✓	NHS 7 ✓ CG 12 ✓ LG 17 ✓	4 LG ✓ 8 CG ✓	
Performance Audit (6)	Affordable Housing ✓ Highlands and Islands Enterprise: Cairngorm Mountain ✓ Education outcomes X (audit paused - now Q1 2021)  Social Security X (audit paused, date TBC)		Skills planning and investment X (audit paused – 2021)	Digital in Local Government
Best Value Assurance Report (7)	Argyll and Bute Council ✓ North Ayrshire Council ✓	Dundee City Council ✓ Moray Council ✓	Aberdeenshire Council  City of Edinburgh Council	Falkirk Council X (now 2021 date TBC)
Overview Report (3)	Local government in Scotland ✓			Local government: financial NHS in Scotland

Statutory (1) Numbers to be confirmed during year	S22 City of Glasgow College ✓		Health and central government S22s (as required)	Health and central government S22s (as required)  Local government s102s (as required)  Scottish Government Consolidated Accounts
Other (13) Numbers to be confirmed during year	Fraud and irregularity report 2019/20 ✓ Quality of Public Audit in Scotland annual report 2019/20 (QPAiS) ✓ Transparency report 2019 ✓ Equal Pay in councils Impact Report ✓ Covid-19: Impact on public audit in Scotland ✓ Covid-19: How public audit in Scotland is responding ✓	National Fraud Initiative ✓ Covid-19: Emerging fraud risks ✓ Covid-19: Guide for audit and risk committees ✓ Covid-19: Financial impact ✓	Housing Benefit Annual Report  Teacher workforce planning briefing X (removed from programme)	Skills planning and investment audit X (briefing paper to be published 2021 tbc)
Published	46	184	40	

There were no delays to any performance audits, BVARs or other outputs based on the revised short-term (2020/2021) PABV work programme agreed by the Auditor General for Scotland and the Accounts Commission in quarter two.

On time YTD (Q2)	Number delivered on time	delivered Late	Due but not yet delivered	% of planned delivered to date	% on time YTD	Comment
Annual Audit Plans – AS (125)	2	0	0	2%	100%	All FE Annual Audit plans were published on time. All other Annual audit plans are due to be published in Q4.
Annual Audit Plans – Firms (100)	15	1	3	16%	96%	All FE Annual Audit plans are published. Four were delivered late due to waiting for Audit Committee taking place after the due date. All other Annual audit plans are due to be published in Q4.
Accounts certified – Audit Scotland (125)	56	0	2	45%	98%	48% of accounts certified to date 2 NHS Accounts yet to be delivered.
Accounts certified – Firms (100)	52	0	1	52%	99%	52% of accounts certified to date 1 NHS Accounts yet to be delivered.
Annual Audit Reports – Audit Scotland (125)	48	1	2	39%	97%	40% of accounts certified to date 2 NHS Annual audit report yet to be delivered.
Annual Audit Reports – Firms (100)	38	0	4	38%	96%	38% of accounts certified to date 4 NHS Annual audit report yet to be delivered.
Performance Audit (6)	2	0	0	33%	100%	No performance audits were published in Q2.
Best Value Assurance Report (6)	4	0	0	67%	100%	The two BVARs completed during Q2 were delivered on-time.

Overview Report (3)	1	0	0	33%	100%	No overview reports were published in Q2.
Statutory Reports (1)	1	0	0	n/a	100%	No statutory reports were published in Q2. The number of 'other' outputs varies each year and are often responses to risks or issues arising during the year.
Other Outputs (13)	10	0	0	n/a	100%	The number of 'other' outputs varies each year and are often responses to risks or issues arising during the year. The NFI and three Covid-19 briefing papers were published in Q2.
<b>Total (704)</b>	<b>229</b>	<b>2</b>	<b>12</b>	<b>33%</b>	<b>96%</b>	

**On budget:** In Q2 the expenditure on audit is

	Budget £	Actual £	£ Variance	% Variance
ASG	£8,624,610	£10,369,579	£1,744,969	20%
PABV	£796,482	£791,969	£-4513	-1%
<b>Total</b>	<b>£9,421,092</b>	<b>£11,161,548</b>	<b>£1,740,456</b>	<b>18%</b>

### Issues/ risks

- There is considerable uncertainty about the short-term and long-term impact of the pandemic on public bodies and Audit Scotland.
- Ongoing uncertainty around workforce capacity (and constraints such as childcare, remote working, etc) is affecting auditor availability to undertake core audit work.
- There are significant risks around our ability to deliver the financial audits to time and budget. This is a red risk in the risk register.

### Forward look

#### **2020/21 Annual Audit Plans**

Planning normally would have begun across many clients (NHS and CG) in October/November with annual audit plans delivered to committees before Christmas. This will unlikely be the case this year. Planning guidance has yet to be realised from Professional Support and ASGMT are yet to decide how they plan to approach planning for 2020/21. The Audit Directors have engaged with ASG colleagues on the audit planning process and options are being reviewed by Professional Support to ensure ISA compliance. Prior to the pandemic Professional Support were revising the audit approach with training due to be delivered late 2020/early 2021 for implementation across all 2020/21 audits. A decision has yet to be made as to whether this will be rolled out in 2020/21. ASGMT will discuss and agree to a wider recovery plan at its strategic planning day in October 2020.

#### **The rolling work programme**

The Auditor General for Scotland and the Accounts Commission interim Chair have met regularly over recent months and agreed a shared set of priorities/key themes which will inform the focus and targeting of future audit work in response to the impact of Covid-19. These key themes are:

- Economic recovery and growth:** *how public money is being used to support the economy and its response to, and recovery from, Covid-19*
- Policy priorities:** *progress on key policy commitments and public services' ability to deliver on long-term strategic priorities and outcomes*
- Inequalities:** *impact of Covid-19 on different groups in society, with a focus on the risk of exacerbation of existing inequalities*
- Innovation and transformation:** *how public bodies are learning lessons and innovating and transforming public services*
- Governance and accountability:** *how public bodies are ensuring proper and effective use of public money across the public sector and within individual bodies.*

The Auditor General for Scotland has prepared draft longer-term work programme proposals which he is currently consulting the Scottish Parliament's Public Audit and Post-legislative Scrutiny Committee (PAPLS) on. Feedback from PAPLS and subject committees of the Parliament on the draft proposals is expected in quarter three. This material will also be used for engagement with the Scottish Government and other key external stakeholders later in the year.

The Accounts Commission considered the key strategic risks facing local government bodies and what this might mean for its audit priorities and future work programme at its strategy seminar in August 2020. The Commission is continuing to take this work forward through its *Insight* Programme which will inform the preparation of the Commission's new strategy. It is anticipated this will be published in Spring 2021.

Key Performance Questions	2018-19				2019-20				2020-21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Are we assured about the quality of our work?	G	G	G	G	G	G	G	G	A	A		
Are we improving the quality of our work?	G	G	G	G	G	G	G	G	A	A		

### Key messages

In quarter one we changed this RAG from green to amber due to the increased risk to quality whilst working remotely due to the pandemic. The risk to Audit quality is monitored by the Audit Quality Committee and the Audit Committee. While we are aware of the risk to quality caused by the pandemic working context there is not currently evidence of that quality is being compromised. The internal and external quality reviews will provide data on audit quality in Q4. The refresh of the audit methodology has been impacted in terms of capacity and timescales.

### Quality assurance and improvement during quarter two included:

We continue to maintain our programme of quality-related audit developments. During quarter two, training was provided to all PABV colleagues on the revised PABV Audit Management Framework (AMF) which has now been updated to reflect INTOSAI auditing standards. The training also aimed to address areas for improvement in audit practices highlighted in earlier audit quality reviews. Due to the impact of lockdown working conditions a virtual training package was designed using Microsoft Sway to allow colleagues to complete the training at a time which suited them over the summer. Uptake of training overall was high, with 61 (95%) colleagues completing the course as at 30 September 2020.

### Technical guidance/notes published in quarter two included:

We responded to 298 technical queries this quarter, all within the timescale and published the following to help quality of audits:

- A bulletin on technical developments and emerging risks in the quarter.
- Two technical guidance notes and nine frequently asked questions outputs to assist auditors with financial statement audits.
- 12 briefing notes to provide auditors with a synopsis of new technical documents.
- Five technical update sessions to Audit Services Group and audited bodies on housing benefit certification and the National Fraud Initiative.
- Audit Management Framework training to 60 auditors.
- Revisions to the Audit Management Framework on attending Parliamentary committees either virtually or through a hybrid option.
- Prepared the annual report for PABV Leadership team summarising key points and actions arising from the audit review meetings and a quality update for a PABV Audit Managers meeting in September.

### Forward look:

The internal and external quality reviews usually take place in quarter three as the majority of audits are complete by this time. This year with audits still ongoing in quarter three (and some into quarter four) the timing and process for quality reviews are under review. Internal quality reviews will still go ahead and ICAS will likely work reviews to a later timetable. We will provide a further update in quarter three.

Key Performance Questions	2018-19				2019-20				2020-21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Are we getting messages out effectively?	G	G	G	G	G	G	G	G	G	G		

**Key messages**

During quarter two we:

- continued to develop a range of different approaches to communicating the messages from our audit work to key stakeholders with significantly increased use of blogs and the piloting of a range of different shorter reporting styles
- continued to engage with audited bodies and key stakeholders (including the firms, scrutiny partners and UK and Ireland audit agencies)
- continued to engage with Scottish Parliament.

**Covid-19 update:**

The Auditor General for Scotland briefed the Parliament's PAPLS in August 2020 about the impact of Covid-19 on the work programme and public audit more generally. This provided the opportunity to start a discussion with the committee about the priorities as Auditor General for Scotland and how he and the work of Audit Scotland can best support the committee in supporting effective parliamentary scrutiny.

The Controller of Audit and the Director of Audit Services provided similar briefings for the Accounts Commission during quarter two.

There is ongoing engagement with audited bodies and key stakeholders (including the firms, scrutiny partners and UK and Ireland audit agencies) about respective experiences of and response to the pandemic. This includes the impact on staff, public bodies and audit programmes.

We have received very positive feedback from audited bodies and key stakeholders on the three new outputs i.e. Covid-19: emerging fraud risks, Covid-19: guide for audit and risk committees, and Covid-19: Implications for public finances in Scotland. These were published in quarter two as part of our new programme of briefings on the impact of Covid-19 on public finances and public bodies in Scotland.

**Engagement:** In quarter two we attended:

- Eight Parliamentary Committees.
- 12 external working group meetings - to ensure Audit Scotland is engaging with relevant standard setters as they prepare and review relevant codes, manuals, standards and guidance.

**Consultations:** We responded to five consultations on:

- A review of Coherent Provision and Sustainability in Further and Higher Education
- Impact of Covid-19 on the financial sustainability of Local Government in Scotland
- Scottish Housing Regulator - Consultation on our future regulatory approach in response to Covid-19
- DWP housing benefit subsidy arrangements
- Data sharing by Scottish public authorities.

## Parliamentary engagement

Month	Parliamentary questions mentioning Audit Scotland	Mentions of Audit Scotland's work across committees	Mentions of Audit Scotland during FMQs	Audit Scotland staff appearances at committees	Total
Jul	3	6	2	0	11
Aug	1	6	1	3	11
Sept	1	20	1	5	27
Quarter Total	5	32	4	8	49

## Communications

	Q1	Q2	Q3	Q4	YTD	19/20
Media	101	125			226	1,333
Downloads	262,497	210,057			472,554	1,043,838
Engagements*	2,178	3,822			6,000	25,901

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

Our media and social media engagements figures are down compared to Q2 last year (Media 340, Downloads 232,975 and engagements 7,991).

### Media

The top three published reports by media coverage in Q2 were BVAR Moray, National Fraud Initiative, BVAR Dundee.

- The traditionally quieter summer months, combined with a lighter performance audit programme, resulted in a quieter quarter than normal in terms of media coverage.
- However, strong BVAR reports on Moray and Dundee councils were able to cut through news media dominated by the ongoing response to the pandemic.
- An NFI report highlighting the potential for increased fraud across the public sector (because of the need to respond quickly to Covid-19) also resonated.
- Two out of the six reports published this quarter were briefings. It is likely that we will continue to see more use of different outputs (blogs, briefings, vlogs, animations) to get information into the public domain quickly, in a way that aids transparency across the public sector.
- Our internal media and online reporting may need to be refreshed to give a better sense of the impact we are making as different outputs increasingly become the norm. The Communications Team will monitor this.

### Downloads

- The Covid-19 briefing on the Implications for Public Finances was the most popular stand-alone report across the quarter, with around 1500 downloads across August and September 2020.
- In quarter one, the NHS Overview report from 2019 and the 2018 Mental Health report consistently showed up as among the top downloads. This trend continued in quarter two, with over 4,000 downloads of the two reports combined – showing the interest in the state of Scotland's health services as they respond to Covid-19.

### Social media activity

- Social media activity began to return to normal levels in quarter two, but with fewer reports still being published there was a knock-on effect on the amount of content the Communications team had to work with. That is reflected in the still relatively modest amounts of engagement with posts across our Audit Scotland platforms.
- Popular posts from the quarter included a welcome to our new Auditor General for Scotland, Stephen Boyle; Elma Murray taking up the post of Interim Chair of the Accounts Commission, and the success of some of our auditors in making ICAS's Top 100 Young Accountants long list.

### Correspondence

Audit Scotland handles a wide range of correspondence from members of the public, elected representatives and organisations. Figures for new and reopened cases are:

<b>New correspondence cases</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>YTD</b>	<b>19/20</b>
Number of cases	31	31			<b>62</b>	136
Acknowledgement within five working days	100%	97%			<b>98%</b>	99%
Final response within 30 working days	96%	100%			<b>97%</b>	94%

- Figures above are for new and reopened cases.
- The missed acknowledgements within five working days are due to logistical issues with responding to physical letters during Covid-19.
- In addition, we had 20 audit enquiries (compared to 23, Q2 19/20) – relating to queries about our work (e.g. figures within our reports, guidance and access to materials/reports).

### FOI/EIR/Complaints

- There were seven FOI requests, no EIRs and no complaints received in Q2. All FOIs were answered with the 20 day deadline.

Key Performance Questions	2018-19				2019-20				2020-21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Is our work delivering impact?	G	G	G	G	G	G	G	G	G	G		
Are our recommendations leading to improvements?	G	G	G	G	G	G	G	G	G	G		
Are we offering insight and foresight and making information and intelligence available to others?	Y	G	G	G	G	G	G	G	G	G		

**Examples of where work has made a positive impact or positive feedback received include:**
**Central government**

- Audit work was undertaken to ensure that the new operating lease and associated lease incentive were correctly included in the accounts. We highlighted the relevant guidance and noted that failure to account for this correctly would have resulted in pervasive errors in the accounts.
- On completion of the 2020 financial audit, the chair of the Audit and Risk Committee wrote to the Auditor General for Scotland to praise the work of the Audit Scotland team, highlighting the maturity of the relationship and that the hard work put in from both the executive and the auditors was paying dividends.
- Two issues were found during the financial statements audit which had a significant impact on the balance sheet. Non-current assets were overstated by £390m and the audited body has agreed to look at its processes in future. The land and property acquisitions provisions balance was over-stated by £20m as it had not been adjusted in light of more recent estimates - the audited body has agreed to review the process in 2020/21. In addition the audited body has agreed to publish its senior management team's registers of interest, in line with the Scottish Government's guidance.
- We had reported on issues with relocation costs in the remuneration report, and the associated policy. The audited body carried out work in 2019/20 which resulted in improvements in controls, the quality of reporting in the annual report and accounts, and a new relocation expenses policy being approved by the Board.
- Our recommendations in both the Annual Audit Report and S22 report have resulted in the audited body producing a Corporate plan and an associated Business Plan.

**Local Government**

- An audited body included the graphic used in the Account Commission's 'What is integration?' Report (2018) within its own Annual Accounts to provide illustration of the IJB Model.
- Acting on a 2018/19 recommendation the body reviewed the level of ear marked reserves for decommissioning of land. This established partial liability and a £30m provision was booked as prior year adjustment.

**Health**

- Last year we recommended that an audited body should review its performance report to develop a more accessible account of overall performance which is more consistent with other corporate publications. The management commentary in the 2019/20 performance report has improved significantly, reflecting the wide range of the organisation's activities, giving case study examples and using easy to understand language and graphics and financial performance links more clearly to the financial statements.

**Other**

- In her September vlog the Director of ASG advised of the many emails she had received from audited bodies telling her how much they appreciate how Audit Scotland has gone about its work this year in both attitude and approach.

Key Performance Questions	2018-19				2019-20				2020-21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Are new processes, products and services being developed?	G	G	G	G	G	G	G	G	G	G		
Are products and study programmes suitable and appropriate for emerging issues?	G	G	G	G	G	G	G	G	G	G		

**Key messages:**

We continue to develop new ways to get messages out in a timely way.

In August 2020 we published [Covid-19: A guide for Audit and Risk Committees](#) and a [Covid-19: Financial impact report](#), which highlighted that Public spending must adapt to Covid-19 as it will have significant consequences for public spending in Scotland now and well into the future. The Covid-19 e-hub is also being updated with blogs as appropriate to ensure key messages and information can be shared in a timely way and is not restricted to formal audit reports and the associated reporting deadlines.

The revised Audit Approach was due to be rolled out in Q3. Discussions are underway as to when best to roll out the revised approach given current work pressures and climate. The outcome of these discussions will be reported in quarter three.

**During quarter two:**

- The Accounts Commission began to consider the key strategic risks facing local government bodies as a consequence of Covid-19 (as reflected in the above themes) and what this might mean for its audit priorities and future work programme at its strategy seminar in August. The Commission is continuing to take this work forward through its *Insight* Programme which will inform the preparation of the Commission's new strategy and work programme which the Commission anticipates publishing in Spring 2021.
- The Auditor General for Scotland prepared draft longer-term work programme proposals which he is currently consulting the Scottish Parliament's PAPLS committee on. Feedback from PAPLS and subject committees of the Parliament on the draft proposals is expected in quarter three. This material will also be used for engagement with the Scottish Government and other key external stakeholders later in the year.

Key Performance Questions	2018-19				2019-20				2020-21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Are we managing our resources effectively	G	G	G	G	A	A	A	A	R	R		
Are we maximising efficiency?	G	G	G	G	A	A	A	A	R	R		

**Key messages**

In the six months to 30 September 2020 Audit Scotland's Net Operating Expenditure was £404k (13.9%) more than budget.

We are aware from engagement with firms and other agencies that they are facing similar financial challenges including, in some cases, an increase of up to 20% in expenditure.

**Action**

- The Audit Scotland Board is reviewing the financial position and identifying short and medium term responses and options and engaging with the SCPA.
- 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.

**Resource management**

In the six months to 30 September 2020 Audit Scotland's Net Operating Expenditure was £404k (13.9%) more than budget.

	Q1	Q2	Q3	Q4	19/20
Actual	(2,049)	(3,318)			(13,715)
Budget	(1,847)	(2,914)			(17,442)
Variance K	(202)	(404)			(426)

**Staff** - The average number of staff in the quarter was 287 (98.9%) of establishment

	Q1	Q2	Q3	Q4	19/20
2020/21 establishment w.t.e	290.2	290.2			286.4
Average number of staff employed in 2020/21 w.t.e:	288.5	287			285.9
No. of staff at end of quarter w.t.e:	286.4	287.1			291.1

**Staff and Agency costs** – The total staff costs in the six months to 30 September 2020 are 17k above budget.

	Annual Budget £000	Actual YTD	Budget YTD	Variance	Actual Average WTE	Budget WTE
Total Staff costs 2020-21	18,016	8,754	8,737	(17)	301.1	302.4
Total agency & secondments 2020-21	75	178	38	(140)		
Q2 Staff costs 2019-20	16,751	8,230	8,323	93	296.4	296.1
Q2 agency & secondments 2019-20	75	282	69	(213)		

**Legal, professional and consultancy:** the budget this year has increased due to the ongoing Audit appointments process and the NFI which runs every other year. The overspend is due to increased expenditure on legal services, corporate subscriptions and external firms' expenditure for best value assurance reports. This is a budget virement issue as this is expenditure that is being met by reduced expenditure in other budget headings. Further budget management work is required to establish if this is likely to be recurring and a permanent budget adjustment is required to resolve this in the long term.

	Q1	Q2	Q3	Q4
Actual	81	206		
Budget	101	152		
Prior year spend	87	221		

**Estate:** There is a £11k overspend in estate costs in the six months to 30 September 2020, mainly due to the purchase of essential furniture and equipment for staff to work safely from home and also the purchase of new locks for the doors at WP.

	Q1	Q2	Q3	Q4
Actual	215	425		
Budget	205	414		
Prior year spend	202	403		

**Costs of travel:** Travel costs in the six months to 30 September 2020 are lower than budget. Expenditure on travel and subsistence has significantly reduced compared to the same period in the last financial year. This is due to homeworking and audit work being delivered remotely rather than onsite at public bodies. Expenditure will be significantly less this financial year and the savings are being used to support the overspend on agency expenditure and other financial pressures. The ongoing expenditure is due to the car lease scheme.

	Q1	Q2	Q3	Q4
Actual	87	170		
Budget	110	349		
Prior year spend	207	433		

**Capital Expenditure and Funding:** To date there has been £53k of capital expenditure against the full year allocation of £150k. This expenditure relates to the scheduled purchase of 60 laptops.

#### **Digital Services**

IT Network	Q1	Q2	Q3	Q4	19/20
IT uptime (%)	99.91	100			99.36
Working hours lost	0.09	0			631.8
Average time lost per person (minutes)	0.67	0			2hrs

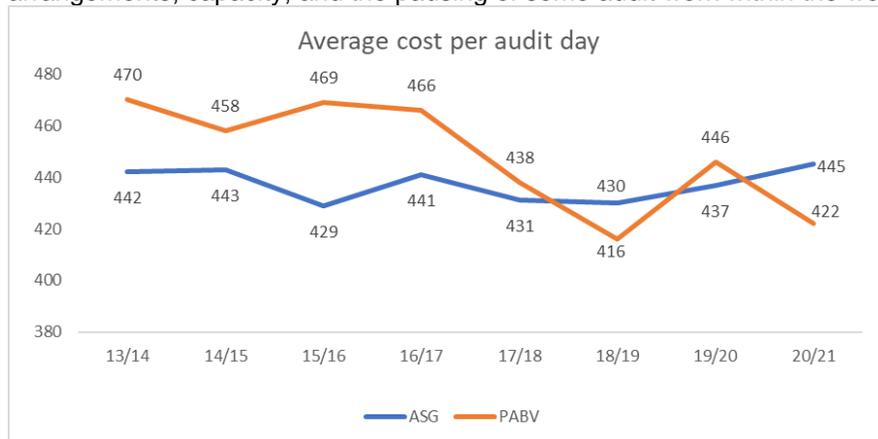
**IT Incident management summary** (incident targets are expected to achieve 97%)

- 93.72% of the 831 requests were accepted within the response time SLA)
- 96.79% of the requests were closed within the fix time SLA
- An average of 2.5 incidents were logged per user.

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

	20/21 (%)				19/20 (%)			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
ASG	62	65			67	71	57	63
PABV	58	65			72	74	64	73

The reduction in audit time from the same quarter last year is due to the impact of Covid-19 and auditing remotely. The impact of the pandemic on staff working arrangements, capacity, and the pausing of some audit work within the work programme.



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

Key Performance Questions	2018-19				2019-20				2020-21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Are we managing information and intelligence effectively (Internal)	Y	Y	G	G	G	G	G	G	G	G		

### Key messages

The Audit Scotland Incident Management Team (IMT) has been in operation since March 2020 in accordance with the Business continuity Plan. The IMT is maintaining oversight of information and intelligence, the impact on financial and performance audit programmes, and ensuring the health of colleagues and stakeholders is at the core of its thinking.

Audit intelligence relating to Covid-19 is being coordinated by a designated lead Audit Director. The IMT receive regular updates on the progress of the audit work and key messages form part of the IMT all staff communications. The Auditor General for Scotland and the Controller of Audit provide regular updates in relation to engagement with parliamentary committees and the Accounts Commission. The IMT also discusses the responses of other organisations including the other UK audit agencies based on regular engagement.

The IMT receives regular updates on organisational performance in the context of the pandemic. This includes updates on:

- Our people - including sickness absence, annual leave balances, disruption due to the pandemic, staff survey results (pulse surveys, workstation assessments and future working preferences and feedback from team meetings etc.
- Finance – budget pressures/the proposed SBR.
- Digital – including system performance, service desk requests and updates on items issued to colleagues to support effective home working.
- Buildings and services – including items of office equipment issued to colleagues to support effective home working and updates from the Covid Secure Workplaces working group.

We continue to prioritise communication and engagement with colleagues cross the organisation using a broad range of channels. This includes 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. We also use more informal channels including the ‘How we doing?’ yammer channel, on-line quiz events and virtual tea breaks, ‘the kitchen’ and check-ins via video conferencing.

Covid-19 is a standing agenda item for the meetings of Management Team, the Audit Committee, Remuneration and Human Resources Committee and the Board. The Board also considers an update report at each of its meetings.

Key performance questions	2018-19				2019-20				2020-21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Are our people empowered and engaged?	G	G	G	G	G	G	G	G	G	G		
Are our people highly skilled?	G	G	G	G	G	G	G	G	G	G		
Are people performing well?	G	G	G	G	G	G	G	G	G	G		
How effective is communication and collaboration across the organisation?	G	G	G	G	G	G	G	G	G	G		
Are career paths offered across the organisation?	G	G	G	G	G	G	G	G	G	G		
Do we understand and support diversity within the workforce?	G	G	G	G	G	G	G	G	G	G		

### Key messages

The HR & OD team continue to work closely with people leads and managers across the organisation to support learning and wellbeing within teams. The team have also been supporting looking at our future ways of working by hosting a people summit in September. The outcome of this work will also feed into the workforce plan for 2021. The team have reviewed our diversity and inclusion priorities for the year ahead and beyond following the reporting this summer. Recruitment has continued and is being conducted virtually.

### Covid-19 update

Wellbeing is a key focus for us as we approach the winter months and we all continue to work remotely. The HR & OD team are actively supporting managers to continue to support their teams. All staff are working remotely from home, with the annual financial statements audit being undertaken 'off-site'. This is a challenging and significantly different approach for auditors and audited bodies, with audit work taking longer than would be the case in a standard audit. Additional PABV colleagues have been assigned to financial audit this Summer to support final accounts work and a package of training and support has been developed jointly by Professional Support, ASG and PABV to ensure colleagues are equipped to undertake this role.

### Forward look

People strategy (including workforce plan and learning and development strategy) to be finalised in Q3.

### Empowered and engaged:

#### Highly Skilled

In Q2 all colleagues were asked to complete a homeworkers training and workstation assessment. Excluding those still on maternity/sick leave, 99 per cent of colleagues completed the assessment by 30/09/20, leaving just 4 people outstanding.

All colleagues in PABV were asked to complete online training on the Audit Management Framework. We delivered our first virtual induction with nine new starters over August/September.

#### Wellbeing

The SAMH charity group worked with Communications to prepare material and activities for the How we Doing? Week. These were shared and promoted through Yammer and on the SharePoint/Staying Connected sites. HR&OD will soon be sharing the 'How to get support' document with all colleagues which, in addition to sign-posting internal and external support (e.g. counselling), this will also launch the informal 'buddy system'.

The HR&OD team facilitated the first Colleague Conversation about working from home in September. The next one in the series is taking place at the end October (both promoted on Yammer).

A number of resources were developed for colleagues to provide support, advice and guidance on managing mental health and wellbeing during the pandemic. Audit Scotland also participated in Mental Health Awareness Week (18-24 May), with activities for staff including online sessions on topics such as mental wellbeing and mindfulness.

All colleagues were invited to complete a 'Disability Confident' survey and the results will help us support colleagues with disabilities or long-term health conditions.

**Career Paths:** In quarter two we welcomed one new start into the organisation and filled four vacancies. Of the external campaigns three were external appointments and one was an internal promotion. One additional internal campaign was completed for the role of International Liaison Manager and we promoted two senior auditors who are now qualified with the Institute of Chartered Accountants Scotland.

Vacancies filled	20/21 YTD	19/20
Internal	2	19
External	3	35
Total	5	54

**Absence levels:** Remain low but there is an increase compared to Q2 last year.

	Q1 days	Q2 days	Q3 days	Q4 days	ytd days
<b>Audit Scotland – 20/21</b>	1.63	1.66			3.29
Audit Scotland – 19/20	1.6	0.46	1.33	1.32	4.97
Audit Scotland - 18/19	1.28	0.76	1.41	1.4	4.85
Audit Scotland - 17/18	0.69	1.16	1.07	1.12	4.40

**Staff turnover:** Resignations and leavers are lower than Q2 2019/20 (2019/20 resignations 1.0 and all leavers were 1.33%)

	Q1	Q2	Q3	Q4	YTD	19/20	CIPD benchmark
Resignations %	1.39	0.35			1.75	3.34	
All Leavers %	2.43	0.71			3.15	6.32	

**Exam results:** There were eight exams with a pass rate of 88 percent.

	Q1	Q2	Q3	Q4	YTD	19/20

Exams taken	27	8			35	122
Exams passed	21	7			28	102
% pass rate	78	88			80	84

**Highly skilled** - Due to the higher number of technical training events the total number of events in quarter two are higher than normal as they reflect all staff completing Homeworkers training and all PABV staff completing the Audit Management Framework training.

	Q1		Q2		Q3		Q4		YTD		19/20	
	Events	Attendees	Events	Attendees	Events	Attendees	Events	Attendees	Events	Attendees	Events	Attendees
Health & Safety	0	0	0	0					0	0	9	117
Knowledge Cafes	0	0	1	25					1	25	13	154
Learning & Development	0	0	1	287					1	287	13	184
Management Development	6	30	1	3					7	33	16	71
Organisational Development	5	20	11	89					16	109	19	94
Technical Training	17	355	8	122					25	477	28	437
Total	<b>28</b>	<b>405</b>	<b>22</b>	<b>526</b>					<b>50</b>	<b>931</b>	<b>98</b>	<b>1057</b>

## Purpose

1. This report provides an outline scope of the Corporate Governance Review of Board arrangements proposed to take place in January/February 2021.

## Background

2. The Board of Audit Scotland is committed to strong corporate governance and continuous improvement and as such the Board has always welcomed internal and external review.
3. In June 2018, the Scottish Commission for Public Audit (SCPA) agreed to undertake ‘an informal review to seek assurance that the composition, resources and time commitment of the members of Audit Scotland is sufficient to meet the future challenges of the further devolution of powers and Brexit and to ensure that the SCPA’s oversight role remains effective’.
4. The review focused on the composition of the Board, its resources and the time commitment of the members, its current workload capacity and its preparedness for further devolution and Brexit, the role of the SCPA in appointing and interacting with the members of the Board and the role of the SCPA in holding the Board to account.
5. The review concluded that:  
  
‘There is significant evidence to confirm that the Board of Audit Scotland has established robust governance arrangements that contribute to robust leadership, challenge and scrutiny. The existing Board members work well together contributing to the Board’s overall effectiveness. Looking forward, whilst acknowledging the uncertainties inherent with significant change, Board members are currently adequately equipped in terms of resources, capacity and preparedness.’
6. The [report](#) made 11 recommendations overall, most of these related to the SCPA. It made recommendations to Audit Scotland on matters relating to quorum, directions and attendance at Audit Committee. These were considered by the Board and the Standing Orders were updated to reflect the recommendations as appropriate.
7. On 16 March 2020 Audit Scotland’s Incident Management Team initiated the Business Continuity Plan due to increasing prevalence of the Covid-19 pandemic. The Board met on 24 March 2020 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. The Board also agreed to keep the Standing Orders under review at future meetings.
8. The [Standing Orders](#) were updated as part of the annual review of corporate governance policies, tabled at the 30 September 2020 meeting alongside the Financial Regulations, Scheme of Delegation, Codes of Conduct for Members and Code of Conduct for Employees. Following the annual review, the Standing Orders remain under review at each Board meeting, given that pandemic related restrictions remain in place and consequently some Standing Orders remain suspended.
9. The Board also agreed to a focused review of specific corporate governance arrangements, in addition to the annual review of corporate governance policies. At the Board meeting on 19 August 2020 it was agreed the scope of the focused corporate governance review would be considered by the Board at its meeting on 25 November 2020 as this would allow new members to settle into their roles and better inform the scope of the review.
10. The focused review of Board arrangements will take place in the context of other considerations, including a potential review of [Public Audit in Scotland](#) and the partnership agreement between the Auditor General for Scotland, the Accounts Commission and Audit Scotland.

## Scope of the Corporate Governance Review

11. The Chair of the Audit Scotland Board and Corporate Governance Manager met to consider the scope of the review and the proposed areas are set out below.

### Matters taken in public and in private

12. The Board remains committed to openness and transparency. In business as usual Board meetings would be held in public. Given the pandemic, Board meetings are not currently being conducted in public/in person until there are Covid-19 safe office working conditions in place.

13. The Board aims to hold discussion on all agenda items publicly, however, on occasion there are papers that require to be taken in private. These items are agreed by the Board and the criteria for private papers mirror those agreed by the Board in relation to the publication of papers.

14. The three main criteria for items to be taken in private/reports not for publication are:

- statutory/security/legal
- commercial sensitivity
- effective conduct of business.

15. Even in these circumstances, papers may be published subject to specific redactions from the text.

16. The review will consider:

- defining public and private matters within the Standing Orders
- the balance of public and private items at meetings
- how items taken in private are reflected within the meeting minutes.

### Meeting minutes

17. The review will consider the minuting of meeting in terms of style, content and level of detail.

### Induction and personal development of members

18. Audit Scotland's Non-Executive Board members are appointed by the Parliament and the Auditor General for Scotland and Chair of the Accounts Commission are members by virtue of their appointment to those positions. Audit Scotland does not make the appointments to the Board.

19. Each Board member brings a wealth of skills and experience to Audit Scotland and it is also important that Board members have the relevant information, support and skills to fulfil their role effectively.

20. Audit Scotland has a comprehensive onboarding and induction process for new members. The process was reviewed by internal auditors, BDO during October 2020 and reported to the Audit Committee on 4 November 2020. The internal audit report provided substantial assurance on the design and operational effectiveness of the process and made no recommendations. As a result, it is not proposed that the induction process forms part of the review.

21. The areas proposed for the review are:

- a skills/training needs analysis process for members
- the arrangements to support the ongoing development of Board members
- the review/appraisal process undertaken by the Chair
- a skills/information needs check-in session for new members (within the first six months of appointment).

## Collective Board development

22. Over the course of the last two years the Board has held development sessions which have focused on managing relationships with key stakeholders and managing organisational risks. These sessions are typically supported by an external facilitator.
23. The next Board development session is scheduled to take place in the first quarter of 2021.
24. The review will explore what the focus and approach of development sessions should be over the course of the next 12-24 months.

## Timescale and methodology for the Corporate Governance Review

25. The review is provisionally scheduled to take place between January and February 2021, in keeping with the principle that new board members should have the opportunity to settle into their roles and experience Board business.
26. The review will be undertaken via a survey on the areas outlined in the scope above and follow-up discussions between the Corporate Governance Manager and members to clarify potential improvement areas and recommendations.
27. The findings of the review will be considered by the Board at its meeting on 24 March 2021.

## Recommendations

28. The Board is invited to consider and agree the proposed scope, methodology and timescales for the review.