Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- **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.

- 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.

About us

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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Introduction

1. Covid-19 has already had a significant impact on every aspect of society in Scotland. It has affected individuals and communities, public services and the economy.

2. The response of public-sector bodies has been strong, and the pandemic has highlighted some of their key strengths, such as agility and partnership working. But Covid-19 has also exacerbated many pre-existing risks and challenges facing public bodies in areas such as financial sustainability and service demand pressures. A difficult road lies ahead as public bodies move from response to recovery and renewal.

3. Audit and risk committees have a crucial role to play in providing effective scrutiny and challenge. They help public bodies focus on important aspects of the business and maintain effective oversight of spending, performance and governance arrangements. As public bodies manage their business during this global pandemic, the role of audit and risk committees becomes even more important.

4. This guide for audit and risk committees draws on our recent experience of auditing public bodies during the pandemic. It also refers to key sources of guidance such as the Scottish Government’s Scottish Public Finance Manual and On Board: a guide for members of statutory boards and the Chartered Institute of Public Finance and Accountancy’s Audit Committees: Practical Guidance for Local Authorities and Police.

Key issues for consideration by audit and risk committees during the Covid-19 pandemic

5. There are a wide range of short, medium and long-term risks and issues emerging from Covid-19 for public bodies to consider. This guide focuses on the short-term challenges facing public bodies in the response phase of the pandemic. During this phase, key areas that audit and risk committees will need to focus on include:

   • internal controls and assurance
   • financial management and reporting
   • governance
   • risk management.

6. This guide provides audit and risk committee members with suggested questions to help them effectively scrutinise and challenge in these key areas. Answering the questions in this guide will help audit and risk committees better understand how their organisation is responding to the pandemic and managing both the immediate and longer-term challenges that it creates.

7. Audit and risk committees must assure themselves that they are engaged and well-informed about the changes that are occurring and affecting their organisation due to Covid-19. For example, they should be informed of changes to internal reporting arrangements, and policy and legislative changes and the impact they are likely to have on the organisation. They should also be apprised of any fraud and error risks arising from the response to Covid-19.1

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## Internal controls and assurance

8. Public-sector staff are working under extreme pressure as a consequence of the scale and pace of change created by the pandemic and the need to respond rapidly to unfolding events. This may mean that some internal controls are suspended or relaxed. For example, the segregation of duties between colleagues for completing tasks and subsequent checks may not be possible due to unforeseen capacity issues or the lack of availability of more senior or experienced staff. Staff transfer between departments, for example, to new areas such as those responsible for distributing funding to support people and businesses most affected by Covid-19, may also leave some areas under-staffed. Furthermore, inexperienced staff may be working remotely without a full understanding of the required procedures and controls.

9. Internal audit provides independent assurance on governance arrangements, risk management and internal control processes. As the landscape changes, internal audit will have to consider its approach to audit planning and how it continues to deliver its assurance activities while balancing the workload created by new risks emerging from Covid-19.

10. As staff work remotely, there may also be potential security risks such as an increase in cyber-crime. For example, fraudsters may try to access public-sector systems by claiming to be legitimate technical support services or through phishing emails and scams.

11. **Exhibit 1** proposes potential questions for audit and risk committee members to consider.

### Exhibit 1

**Internal controls and assurance – questions to consider**

**What changes to internal controls have been required due to Covid-19?**
- Has internal audit assessed the design, implementation and operational effectiveness of revised internal controls?

**What new controls have been established to account for the distribution of any additional funds received?**
- Have officers identified any weaknesses in new controls and if so, how are these being addressed?

**To what extent has your organisation assessed the impact of working remotely on the control environment and working practices?**

- Has internal audit reviewed their audit plan and assessed which projects might need to be cancelled, postponed or accelerated as your organisation navigates its way through the pandemic?

- How is management supporting internal audit to balance its ‘routine’ programme of work and that required to respond to Covid-19-related audit work?

**What impact has Covid-19 had on the annual reporting and accounting process?**
- Has your organisation’s timetable for the annual reporting process been considered for 2019/20 and 2020/21? If so, have the timetables been revised and updated accordingly?
- Has the external auditor’s annual audit plan been updated to assess and address new risks?

**To what extent has your organisation considered work undertaken by other organisations (via professional networks and bodies), or where appropriate, engaged with external experts to inform decision-making around significant areas of change in response to the pandemic?**

- How have IT services performed during the pandemic?
- To what extent have cyber security controls been considered?
To what extent has management assessed the impact of Covid-19 on overall staff capacity?
• What areas have been identified as being under resourced and how is this being addressed?

What is your organisation doing to support its staff during the pandemic?
• To what extent have workload and working practices been adjusted to allow for the challenges that people may face when working remotely?
• What guidance, advice or signposting has your organisation put in place to support staff wellbeing?

What opportunities and risks have arisen as staff are deployed across departments?

How is your organisation capturing the learning and opportunities that arise from new ways of working?

Financial management and reporting

12. Public bodies face considerable uncertainty during the pandemic and as they plan for the future. Having robust financial management and transparent reporting arrangements in place is critical to ensuring that an organisation can manage its finances and deliver services effectively, identify issues and challenges early and act on them promptly.

13. Financial impacts of the pandemic could include a reduction in income generated from business rates and council tax non-payments as well as a reduction in fees and charges from, for example, leisure, public transport and parking. Organisations may also face increased costs such as higher staff costs to cover the delivery of services. The economic uncertainty and market volatility caused by the pandemic also make it difficult for public bodies to value, for example, property portfolios, inventories and pension schemes.

14. A number of factors will affect how well an organisation can report on and manage its financial position at a time where it is facing significant pressure and challenge. For example, there is likely to be competing pressures on finance staff, significant changes in financial processes and procedures and the introduction of financial systems in new areas, such as those for Covid-19-related government relief, assistance and stimulus packages. Exhibit 2 proposes potential questions for audit and risk committee members to consider.

Exhibit 2
Financial management and reporting – questions to consider

Is financial (and performance) information received in a timely manner, with sufficient detail, to inform the fast-paced changes that are required due to Covid-19?

How is management assessing the financial impact of Covid-19 on income and expenditure?
• What processes or procedures have been put in place to assess, for example, new demands, new expenditure streams, savings from activity foregone and lost income?

What information has been used in determining the value of assets and liabilities?
• To what extent have estimated valuations been impacted by Covid-19, for example, disruption to the revaluation of properties or market volatility impacting on investments?
• What is the likely impact of Covid-19 on pension deficits and what does this mean for your organisation?

What commitments and guarantees have been made to third parties, and how are these being monitored?
• Where relevant, how is your organisation ensuring that the impacts of the pandemic on its arm’s-length external organisations (ALEOs) are being appropriately monitored?
What impact has Covid-19 had on savings plans?
- Is your organisation on track to deliver these savings and if not, what plans are your organisation putting in place to help with this?

What impact has Covid-19 had on transformational activity?
- If there has been or will be significant delays to activity or a failure to meet savings targets, what are the financial implications and how is management preparing for this?

Is there sufficient capacity within the finance team to deal with competing pressures, such as preparing annual accounts, at a time when working practices are having to be adapted due to Covid-19?

Governance

15. The pace and scale of change is unprecedented, and changes in governance arrangements are likely to have taken place. This may mean that there has been less opportunity for scrutiny and due diligence as public bodies respond rapidly to the challenges arising from Covid-19. For example, urgent procurement decisions and changes to delegated authority arrangements may have impacted on the level of scrutiny.

16. Governance and accountability arrangements around collaborative working may be increasingly complex but when done effectively, allows for better planning, design and coordination of services. Many aspects of public bodies’ responses to the pandemic can only be done in partnership with others.

17. Recent changes to governance arrangements due to Covid-19 may include basic alterations such as documenting authorisation processes through to oversight of the overall running of the business. Exhibit 3 proposes potential questions for audit and risk committee members to consider.

Exhibit 3
Governance – questions to consider

What impact has Covid-19 had on governance arrangements?
- How is your organisation ensuring that effective oversight and scrutiny of key decisions is maintained as it responds rapidly to the challenges it faces during the pandemic?
- Have any significant changes been made to governance arrangements due to the pandemic, for example, suspension of committees or increased use of delegated decision-making powers?
- Where decisions are being made using delegated or emergency powers, how are these being recorded, made public and subjected to scrutiny by the relevant committee(s)?
- Have changes to processes and procedures made in response to Covid-19 been reviewed and documented appropriately to comply with overall governance arrangements?

Are governance arrangements being reviewed regularly to ensure they remain fit for purpose?

Are non-executive directors providing appropriate levels of support, scrutiny and challenge to your organisation as it responds to the current environment and new risks?

What barriers, if any, have affected your organisation’s ability to continue to provide services for individuals and communities during the pandemic?
- How have these barriers been overcome?
- What was the impact on service users?

What impact has Covid-19 had on your organisation achieving its stated objectives?
- Does performance reporting highlight any changes on your organisation’s ability to meet its objectives as a consequence of Covid-19?
• Has the pandemic caused new risks to achieving your organisation’s objectives? If so, how are these being addressed?

What impact has Covid-19 had on collaborative working?

Risk management

18. While public bodies will have risk management processes in place, the likelihood and impact of existing risks and the emergence of new risks will need to be monitored carefully. There may also be a change in the risk appetite during the pandemic to allow for services to operate effectively and respond to issues in a timely manner. Some changes may be significant therefore officers and audit and risk committee members need to consider how sustainable these changes will be in the longer term.

19. Public bodies were already facing risks and challenges around, for example, financial sustainability, outcomes and inequalities. These risks and challenges have become greater due to Covid-19. They are also heightened further because of the uncertainty around the UK’s exit from the European Union and increasing budget pressures.

20. Exhibit 4 proposes potential questions for audit and risk committee members to consider.

Exhibit 4
Risk management – questions to consider

Are there new expenditure or procurement streams, or delivery methods arising from Covid-19 that introduce new risk?
• What indicators does management have to support informed decisions on risk and is this data available in real time?
• Is your organisation’s risk management strategy up-to-date to include risks associated with Covid-19?
• What risks have emerged that need to be addressed and what protocols are in place to report and analyse emerging risks as the situation evolves?
• Are risks being reported to the relevant committee?

Has your organisation’s risk register been updated to reflect new risks arising from Covid-19?

Is there a need for management’s risk appetite framework to be reviewed to ensure it is appropriate in this rapidly evolving environment?
• If so, when will the committee be informed of the outcome and any next steps?

How does Covid-19 impact on any financial risks already facing your organisation and how does this affect short, medium and long-term financial plans?

What impact does Covid-19 have on any scenario planning that your organisation has in place for events such as EU withdrawal and increasing budget uncertainty?
Looking ahead

21. This is the second in a series of Covid-19 guides prepared for public bodies and auditors. Our first publication, Covid-19 Emerging fraud risks, sets out a range of fraud risks that may arise due to the pandemic. By drawing on our position as external auditors across the public sector in Scotland, we have used our recent experience to develop these Covid-19 outputs. We will be issuing further guidance to public bodies to support them as they move beyond the response phase of the pandemic into recovery and renewal.

22. We invite feedback on how the role of external audit can further support public bodies as they respond to the challenges Covid-19 presents.

Further reading
