



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

**2019**

# Agenda

Tuesday 29 January 2019 at 10.15am

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

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

## Standing items

4. Chair's report – verbal update
  5. Accountable Officer's report – verbal update
  6. Accounts Commission Chair's report – verbal update
  7. Review of minutes: Board meeting 28 November 2018
  8. Review of action tracker
- 

## Strategy and planning

9. Scottish Commission for Public Audit's report on Audit Scotland's Budget Proposal for 2019/20 For information
  10. Review of regulator/audit market study update For information
  11. Professional Support: update For information
  12. New financial powers and constitutional change update For information
  13. Best Companies survey results For information
  14. Audit Scotland conference 2019 - verbal update For information
- 

## Conclusion

15. Any other business
  16. Review of meeting
-

17. Date of next meeting: 18 March 2018

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### Items to be taken in private

18. Leased cars procurement

[Item to be taken in private due to commercial sensitivity]

For approval

19. Stakeholder engagement update

[Item to be taken in private to support the effective conduct of business]

For information

Wednesday 28 November 2018, 12.00pm

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

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## **Present:**

I Leitch (Chair)  
C Gardner  
G Sharp  
H Logan  
A Alexander

## **Apologies:**

None

## **In attendance:**

D McGiffen, Chief Operating Officer  
M Walker, Associate Director, Corporate Performance and Risk  
M Roberts, Senior Manager, Performance Audit and Best Value (item 9)  
R Seidel, Audit Manager, Performance Audit and Best Value (item 9)  
S Dennis, Corporate Finance Manager (item 11)  
A Devlin, Corporate Governance Manager (item 14)  
J Webber, Senior Executive Assistant

### **1. Welcome and apologies**

The Chair welcomed members and attendees to the meeting of the Audit Scotland Board, the agenda and papers for which had been published on Audit Scotland's website on Monday 26 November 2018.

### **2. Declarations of interest**

There were no declarations of interest.

### **3. Decision on items to be taken in private**

The members noted there were no items to be taken in private.

### **4. Chair's report**

Ian Leitch provided a verbal update on regular meetings with Caroline Gardner and Diane McGiffen on general business matters and parliamentary staff in advance of the 2019/20 budget submission to the Scottish Commission for Public Audit (SCPA).

The members welcomed the update.

### **5. Accountable Officer's report**

Caroline Gardner provided a verbal update on a very busy period for Audit Scotland.

Caroline invited members to note the recent publication of a report on Health and Social Care Integration and statutory reports on the Scottish Police Authority and Community Justice Scotland. She also advised of the pending publication of a statutory report on NHS Tayside.

Caroline advised of upcoming evidence sessions at the Public Audit and Post Legislative Scrutiny Committee (PAPLS) on the Scottish Government Consolidated Account, Health and Social Care Integration and Community Justice Scotland.

Caroline also advised of recent engagement with the National Audit Office on HMRC's administration of Scottish Income Tax, where reports will be published by on 30 November 2018 and on the ongoing discussions on the Audit and Accountability Framework regarding the devolved financial powers and fiscal framework. She also advised that meetings had taken place with a range of MSPs and parliamentary officers as part of an ongoing programme of engagement.

Caroline updated the Board on a recent meeting of the UK and Ireland's Supreme Audit Institutions and advised that she would be attending the Scottish Public Services Awards on 5 December 2018.

The Board welcomed the update.

## **6. Accounts Commission Chair's report**

Graham Sharp invited the Board to note that the Accounts Commission meeting on 8 November 2018 had considered the Statutory Performance Information: Draft 2018 Direction and the Best Value Assurance Report on Dumfries and Galloway Council. He also provided an update on the Accounts Commissions discussions following its mid year strategy seminar.

Graham advised that the Local Government Finance Overview Report would be published on 29 November and that the parliament's Local Government and Communities Committee would take evidence on the report at its meeting on 12 December 2018.

He also advised that the Commission's Financial Audit and Assurance and Performance Audit committees had met on 22 November. The committees had included presentations from audit providers, reports on audit quality and future publications.

Graham invited members to note that the agenda for the forthcoming Accounts Commission meeting on 6 December 2018 included consideration of the five year rolling work programme and reports on housing benefits, local government audit fees and the emerging messages for the Local Government Overview Report.

Graham advised of other meetings arising from the Commission's work including; a meeting with representatives of East Lothian Council on the recent Best Value Assurance Report, a meeting of the Strategic Scrutiny Group and meetings with MSPs and officers from the Scottish Government and COSLA.

The Board welcomed the update.

## **7. Review of minutes**

### **Board meeting, 31 October 2018**

The Board considered the minutes of the meeting of 31 October 2018, which had been previously circulated, and agreed that these were an accurate record of the meeting, subject to the correction of typographical errors in sections six and 11.

## **8. Review of actions tracker**

The Board noted the updates provided by the action tracker.

## 9. New financial powers and constitutional change update

*Mark Roberts, Senior Manager, and Rebecca Seidel, Audit Manager, joined the meeting.*

Mark Roberts, Senior Manager, and Rebecca Seidel, Audit Manager introduced the New financial powers and constitutional change update report, which had been previously circulated.

The Board noted that the subject was very dynamic in nature and discussed a range of issues, seeking clarification from the officers present. The discussion included consideration of the scenarios for agricultural funding and the possible impact on the auditing requirements, audit work in audited bodies on levels of preparedness (and how a similar exercise had been carried out on Audit Scotland's own preparedness), how Audit Scotland was facilitating discussions amongst stakeholders and the potential impact in different areas of the public sector.

The Board welcomed the update.

*Mark Roberts, Senior Manager, and Rebecca Seidel, Audit Manager, left the meeting*

## 10. Digital Economy Act 2017

Diane McGiffen, Chief Operating Officer, introduced a report on the Digital Economy Act 2017, which had been previously circulated.

The Board discussed how Audit Scotland's work supported the prevention of fraud, the protection of public funds and the required safeguards for data handling.

Following discussion, the Board welcomed the report.

## 11. Q2 Financial performance report

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

Stuart Dennis, Corporate Finance Manager introduced the Q2 financial performance report, which had been previously circulated.

Following discussion, the Board welcomed the report.

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

## 12. Q2 Corporate performance report

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the Q2 corporate performance report, which had been previously circulated.

Alan Alexander sought clarification on the colour coding used in the report and Heather Logan noted that minor amendments to the phrasing in some areas would help any external readers of the report.

Following discussion, the Board welcomed the report.

## 13. Q2 Becoming world class improvement programme report

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the Q2 Becoming world class improvement programme report, which had been previously circulated. Heather Logan sought clarification on how the benefits and costs of the improvement projects was considered.

Following discussion, the Board welcomed the report.

#### **14. Annual review of corporate governance policies**

*Alex Devlin, Corporate Governance Manager, joined the meeting.*

Alex Devlin, Corporate Governance Manager introduced the reviews of corporate governance policies paper, which had been previously circulated.

Alex advised that the proposed amendments were minor and had been made to reflect changes to job titles. He also advised that the amendments had been considered, and were being recommended by, the Audit Committee.

Following discussion, the Board welcomed the report and approved the proposed amendments.

The Chair noted that, due to his forthcoming retirement, this was the last Board meeting that Alex would attend. The Chair, on behalf of the Board, thanked Alex for his many years of valued service and wished him well in his retirement.

*Alex Devlin, Corporate Governance Manager, left the meeting.*

#### **15. Any other business**

There was no further business.

#### **16. Review of meeting**

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

#### **17. Date of next meeting**

It was noted that the next Audit Scotland Board meeting was scheduled for 10.15am on Tuesday 29 January 2019 in the offices of Audit Scotland, 102 West Port, Edinburgh.

| Ref   | FORUM | Agenda Item No | Item Title  | Action Description   | Meeting Date | Due Date   | Responsible                  | Assigned to                  | Complete/Ongoing | Reported Yes/No | Progress Notes  |
|-------|-------|----------------|---|--|--------------|------------|------------------------------|------------------------------|------------------|-----------------|---|
|       |       |                |   |  |              |            |                              |                              |                  |                 |   |
| ASB64 | Board | 5              | Accountable Officer's Report                                | An update report on developments within the Appointments and Assurance and Professional Support teams to be scheduled. | 29/11/2017   | 30/11/2018 | Diane McGiffen/Fiona Kordiak | Diane McGiffen/Fiona Kordiak | Complete         | No              | An update is reported at Item 11 at today's meeting.  |
| ASB78 | Board | 9              | Q1 Corporate performance report                             | Martin Walker to include expenditure data on consultancy in future quarterly reporting.                                | 22/08/2018   | 30/11/2018 | Martin Walker                | Martin Walker                | Complete         | Yes             | incorporated in quarterly reporting, with the Q2 report considered by the Board at its meeting on 30/11/2018. |
| ASB85 | Board | 17             | Audit Scotland Draft British Sign Language plan 2018-24     | Elizabeth Gorrie to organise access to the online British Sign Language training for Board members.                    | 28/09/2018   | 31/10/2018 | Joanna Mansell               | Colin Pentland               | Complete         | Yes             | Colin Pentland has liaised with members to confirm their interest to register for the online training.        |
| ASB86 | Board | 17             | Discussion on proposals for Board development activity 2019 | Diane McGiffen to liaise with Judith Strange to take forward arrangements for an early 2019 Board development session. | 31/10/2018   | 28/11/2018 | Diane McGiffen               | Diane McGiffen               | Complete         | No              | The Board development session is scheduled for 8 February 2019.   |



## **Purpose**

1. This report updates the Board on the Scottish Commission for Public Audit's (SCPA) report on Audit Scotland's Budget Proposal for 2019/20.

## **Background**

2. The SCPA considered the 2019/20 budget proposal at its meeting on 12 December 2018. The minute and official report of the meeting are available on the SCPA pages of the Scottish Parliament's website.
3. The SCPA published its report on the budget proposal on 21 January 2019.

## **Next steps**

4. The Finance and Constitution Committee will consider a draft report on the Scottish Government's budget at its meeting on Wednesday 23 January 2019.

## **Recommendation**

5. The Board is invited to note the SCPA report.



The Scottish Parliament  
Pàrlamaid na h-Alba

Published 21 January 2019  
SP Paper 451  
1st Report, 2019 (Session 5)

## Scottish Commission for Public Audit

# Audit Scotland Budget Proposal for 2019/20



**Published in Scotland by the Scottish Parliamentary Corporate Body.**

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All documents are available on the Scottish  
Parliament website at:  
[http://www.parliament.scot/abouttheparliament/  
91279.aspx](http://www.parliament.scot/abouttheparliament/91279.aspx)

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# Committee Membership



**Colin Beattie**  
Scottish National Party



**Bill Bowman**  
Scottish Conservative  
and Unionist Party



**Alison Johnstone**  
Scottish Green Party



**Rona Mackay**  
Scottish National Party



**Jenny Marra**  
Scottish Labour

# Introduction

1. Section 11(9) of the Public Finance and Accountability (Scotland) Act 2000 requires that Audit Scotland prepares proposals for its use of resources and expenditure and sends these proposals to the Scottish Commission for Public Audit (“the Commission”). The Commission then examines the proposals and reports to Parliament on them.
2. As Audit Scotland's budget forms part of the total Scottish budget, the Commission reports its views to Parliament to assist Parliament's wider scrutiny of the Budget for 2019/20. Previously the Commission has reported its scrutiny of Audit Scotland's budget proposal to the Finance and Constitution Committee. Following the report of the Budget Process Review Group <sup>1</sup> the Commission now reports directly to Parliament.
3. Audit Scotland submitted its [budget proposal](#) for 2019/20 on 4 December 2018. The Commission took oral evidence on the budget proposal at its meeting on [12 December 2018](#). The Commission took evidence from Ian Leitch, Chair of the Board of Audit Scotland; Caroline Gardner, Auditor General for Scotland and Accountable Officer for Audit Scotland; Diane McGiffen, Chief Operating Officer for Audit Scotland and Stuart Denis, Corporate Finance Manager, Audit Scotland.

# Budget Proposal 2019/20

## Overview

4. Audit Scotland's budget is drawn from two main sources. These are fees charged to audited bodies and monies approved by the Scottish Parliament from the Scottish Consolidated Fund. The budget proposal, which the Commission is required to consider, broadly funds the following areas of activity by Audit Scotland—
  - Non-chargeable Central Government audits
  - Performance audits
  - The Auditor General
  - The Accounts Commission
  - A proportion of Audit Scotland senior management
  - National Fraud Initiative
  - New Financial Powers
5. Audit Scotland's budget proposal for 2019/20 is based on a total expenditure requirement of £25,394K. This is an increase of £776K from the approved 2018/19 budget total expenditure of £24,618K.
6. Whilst £17,980K in 2019/20 will be funded from income from charges to audited bodies and £150K from capital, the budget proposal seeks parliamentary approval for funding of £7,564K. This is an increase of £416K (5.8% in cash terms) on last year's approved total resource requirement of £7,148K. The £416K increase is derived from an additional £900K in staff costs offset by administrative cost savings of £124K, increased income of £335K from audited bodies (that pay for the costs of audit directly) and a reduction in capital expenditure of £25K.
7. In her letter to the Commission, the Auditor General for Scotland in her role as Accountable Officer for Audit Scotland, commented that—


” The main strategic operational and financial issues affecting Audit Scotland next year are the continued devolution of new financial powers to Scotland, public sector pay policy and uncertainty over the UK's withdrawal from the EU.  
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8. In her evidence to the Commission the Auditor General went on to say that—

” Our budget proposal will enable us to continue to fulfil our statutory audit responsibilities; to take on the audit of the significant new expenditure and revenue-raising responsibilities; and to support the Scottish Parliament in its important role of holding the Government to account.  
3
9. The budget proposal notes that once again it has been prepared in the context of a number of significant uncertainties. These include the:

- impact of the UK autumn budget statement on Scottish budgets;
- Scottish Government's public sector pay policy;
- timing of the implementation of the financial aspects of the Scotland Act 2016;
- impact of the United Kingdom leaving the European Union; and
- financial assumptions used to estimate International Accounting Standard 19 (IAS 19) defined pension costs.

**10. The Commission notes the uncertainties highlighted by Audit Scotland and which provide context for the 2019/20 budget proposal.**

## **New Financial Powers and Constitutional Change**

11. In its 2018/19 submission Audit Scotland set out three-year funding projections for implementing new financial powers as associated audit work. Over a three-year period to 2021/22 Audit Scotland plans a phased approach to increases in resource requirement such as staffing.
12. The budget proposal highlights the additional work requirements in 2019/20 arising from financial and performance audit work on Social Security Scotland. Audit Scotland confirmed that the audit work on Social Security Scotland will also include an assessment of its set-up costs.
13. In addition, further audit work will be required, with the National Audit Office, in respect of Scotland's VAT share and the Scottish Rate of Income Tax. This extra work will enable Audit Scotland to provide additional assurance to the Scottish Parliament on VAT assignment and on HMRC's administration of different tax bands and rates for Scottish taxpayers.
14. For 2019/20, Audit Scotland has proposed that a further 4.5 Whole Time Equivalents (WTEs) at a cost of £285k will be required to deliver this additional workload. The Commission questioned why this had increase from the projected 1 WTE in the Budget Proposal for 2018/19. The Auditor General explained that it was a "timing difference rather than an increase". She went on to explain that—  
  
 The exact timetable for the roll-out of the new financial powers is not fixed and keeps changing. For example, on social security, the Scottish Government has entered into an agreement with the Department for Work and Pensions (DWP) to take on responsibility for some of the benefits sooner, which means that the audit work needs to run more quickly. I am just about to appoint an auditor to the new social security agency to cover that. In addition, we think that the timetable for the full devolution of the assignment of VAT revenues is about to be agreed. <sup>4</sup>
15. In assessing the level of work required in new or emerging areas of audit work the Auditor General explained that—



” an element of judgement is involved...We use our own audit experience of bodies of similar size and look at the particular functions and responsibilities of the new body to see what we think is likely to be needed. <sup>4</sup>

16. In relation to the potential audit requirements for the new Scottish Social Security agency Audit Scotland staff had worked with the National Audit Office who have experience of auditing the DWP to better understand the systems that will need to be audited and the risks to take account of. Information provided by Audit Scotland following the Commission’s meeting of 12 December 2018 confirms that significant uncertainty remains around detailed resource requirements and will continue to do so until the timetable for the remaining benefit transfer is set.

17. The Auditor General explained that in order to ensure that Audit Scotland had skilled staff ready to carry out this new audit work it had been developing its expertise in this new audit area using specialised training as well as building on existing knowledge of auditing housing benefits. Staff had also benefited from working closely with staff from the National Audit Office who currently audit the DWP. <sup>5</sup>

18. The budget submission also included a proposal to increase ‘management contingency’ from £150k in 2018/19 to £300K in 2019/20 to cover significant uncertainties in expenditure and income. In 2018/19 approximately £75K had been used with the expenditure appearing in the annual accounts provided to the Commission. In evidence the Auditor General explained that the increase in contingency in 2019/20 was being sought as a result of—


” the level of uncertainty we are now facing with regard to not just to the work we need to carry out....but what the impact might be on our costs in future. <sup>6</sup>

19. The Chair of the Board of Audit Scotland, Ian Leitch, highlighted the audit arrangements for the European Agriculture Fund, in the context of Brexit, as one such area where considerable uncertainty about the terms of future audit work exists. In deciding to increase the level of contingency the Board had sought to manage its contingency within reasonable limits whilst giving it a degree of flexibility.

20. **The Commission recognises that the devolution of further financial powers will result in an increased workload for Audit Scotland. The Commission considers that the increase of £285K to fund people costs is appropriate to meet the requirements of the phased transfer of new financial powers to Scotland based on current information.**

21. **The Commission welcomes the inclusion of information on management contingency in Audit Scotland’s Budget proposal for 2019/20, and recommends its inclusion in subsequent budget proposals.**

## Staffing

22. In our report on the Audit Scotland budget proposal for 2018/19 we noted concern that the reduction in audit fees may be impacting on audit quality and at that time agreed that we would explore this issue further.
23. The budget proposal for 2019/20 also addresses audit quality, stating that £250K will continue to be invested to support the enhanced audit quality inspections and reporting by Audit Scotland. The Commission highlighted concerns that the survey of Audit Scotland's in-house team, which forms part of its Audit Quality Annual Report 2017/18, indicated that in several areas Audit Scotland's performance has fallen. For example, despite Audit Scotland having the highest number of training hours per year (72) compared to the staff of the six audit firms appointed by Audit Scotland to carry out its audit work<sup>7</sup> the in-house staff survey reported that:
- in relation to having 'the time and resources available to enable a quality audit' only 46% agreed with this statement compared to 63% the previous year.
  - in relation to 'the training and development I receive enables a quality audit' only 54% agreed with this statement compared to 62% the previous year.
24. The Commission therefore sought clarification on how the £250K being invested in audit quality will address this decline in performance and ensure that staff are well supported to deliver quality audits. Responding the Chief Operating Officer, Diane McGiffen commented that—
-  We were disappointed by the results and we have been working hard to improve them. People and their skills are at the heart of the organisation. We want our people to have the time to devote to learning and development and to be supported in their learning and development, and we are working to make that as effective as possible.<sup>8</sup>
25. Diane McGiffen added that Audit Scotland is investing through its learning and development strategy to improve the quality of work. She explained that Audit Scotland has a comprehensive programme of quality reviews, which it reports on annually and in addition it has independent external reviews of its work which it also publicly reports on.
26. The Commission heard of the actions that Audit Scotland has already taken, since the publication of the Audit Quality Annual report in June 2018, to help address the issues raised in the in-house staff survey. This includes changes to how professional support is organised to ensure the provision of technical and auditing support is sufficient to enable auditors to be up to date on the technical aspects required to deliver their audits. This professional support has been linked with learning and development, where Audit Scotland has worked with external and internal providers to offer more events and a wider range of topics.
27. The Chair of the Board of Audit Scotland, Ian Leitch also commented that—

” Quality is one of our key issues.... we are particularly keen that the public audit model in Scotland is the best that it can possibly be. That is why we have gone to all this trouble and why we are concerned to make sure that we have the team to monitor it and that we have the independent review, it is why the board of Audit Scotland and its audit committee consciously seek those reports throughout the year. We have to assure ourselves first and then we have to assure the client groups, the commission and the Parliament that the audit quality is good. <sup>8</sup>

28. **The Commission acknowledges the steps taken by Audit Scotland to improve audit quality and support staff. We recommend that within the Budget proposal for 2020/21 information is included on how effective the £250K has been in improving Audit Quality performance.**

29. **The Commission will consider the outcome of the next Audit Quality Annual report in due course and will return to this issue.**

## Costs of auditing sectors

30. Audit Scotland's budget proposal for 2019/20 shows that although the costs of auditing NHS bodies and further education bodies had remained broadly the same as in 2018/19 the cost of audit of local authorities has increased by £483K (4.2%) in 2019/20. Responding Stuart Dennis, Corporate Finance Manager, explained the approach Audit Scotland takes to ensure break even by sector—

” we take the number of days for each sector as the key driver for how we then distribute the costs in our budget across the sectors, allocating all the different overheads such as finance, human resources and information technology. <sup>9</sup>

31. In terms of the 4.2% increase in local government costs, the Auditor General for Scotland explained that local government meets the costs of all its audit work. The increase had arisen from a change in the volume of the number of local government bodies audited and the increase in the size of the Integrated Joint Boards (IJBs) as the IJBs have taken on their full responsibilities. <sup>10</sup>

32. **The Commission notes the explanation for the changes in costs for auditing bodies.**

# Conclusion

33. **The Commission recommends to the Scottish Parliament that Audit Scotland's budget proposal for 2019/20, including the request for a total resource requirement of £7,564K, is approved.**

- [1] Finance and Constitution Committee. (2017, June 30). Budget Process Review Group Final Report. Retrieved from [https://www.parliament.scot/S5\\_Finance/Reports/BPRG\\_-\\_Final\\_Report\\_30.06.17.pdf](https://www.parliament.scot/S5_Finance/Reports/BPRG_-_Final_Report_30.06.17.pdf) [accessed 21 January 2019]
- [2] Audit Scotland. (2018, December 4). Letter from the Auditor General for Scotland. Retrieved from [http://www.parliament.scot/ScottishCommissionforPublicAudit/18\\_12\\_5\\_Letter\\_SCPA\\_Budget\\_Submission\\_December\\_2018.pdf](http://www.parliament.scot/ScottishCommissionforPublicAudit/18_12_5_Letter_SCPA_Budget_Submission_December_2018.pdf)
- [3] Scottish Commission for Public Audit. (2018, December 12). Official Report, col 5. Retrieved from [http://www.parliament.scot/ScottishCommissionforPublicAudit/Meeting\\_of\\_the\\_Commission\\_12\\_December\\_2018\\_Draft\(12\\_December\\_2018\).pdf](http://www.parliament.scot/ScottishCommissionforPublicAudit/Meeting_of_the_Commission_12_December_2018_Draft(12_December_2018).pdf)
- [4] Scottish Commission for Public Audit. (2018, December 12). Official Report, col 6. Retrieved from [http://www.parliament.scot/ScottishCommissionforPublicAudit/Meeting\\_of\\_the\\_Commission\\_12\\_December\\_2018\\_Draft\(12\\_December\\_2018\).pdf](http://www.parliament.scot/ScottishCommissionforPublicAudit/Meeting_of_the_Commission_12_December_2018_Draft(12_December_2018).pdf)
- [5] Scottish Commission for Public Audit. (2018, December 12). Official Report, col 19. Retrieved from [http://www.parliament.scot/ScottishCommissionforPublicAudit/Meeting\\_of\\_the\\_Commission\\_12\\_December\\_2018\\_Draft\(12\\_December\\_2018\).pdf](http://www.parliament.scot/ScottishCommissionforPublicAudit/Meeting_of_the_Commission_12_December_2018_Draft(12_December_2018).pdf)
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- [7] Audit Scotland. (n.d.) Audit Quality Annual Report 2017/18. Retrieved from [http://www.audit-scotland.gov.uk/uploads/docs/report/2018/as\\_audit\\_quality\\_1718.pdf](http://www.audit-scotland.gov.uk/uploads/docs/report/2018/as_audit_quality_1718.pdf)
- [8] Scottish Commission for Public Audit. (2018, December 12). Official Report, col 16. Retrieved from [http://www.parliament.scot/ScottishCommissionforPublicAudit/Meeting\\_of\\_the\\_Commission\\_12\\_December\\_2018\\_Draft\(12\\_December\\_2018\).pdf](http://www.parliament.scot/ScottishCommissionforPublicAudit/Meeting_of_the_Commission_12_December_2018_Draft(12_December_2018).pdf)
- [9] Scottish Commission for Public Audit. (2018, December 12). Official Report, col 11. Retrieved from [http://www.parliament.scot/ScottishCommissionforPublicAudit/Meeting\\_of\\_the\\_Commission\\_12\\_December\\_2018\\_Draft\(12\\_December\\_2018\).pdf](http://www.parliament.scot/ScottishCommissionforPublicAudit/Meeting_of_the_Commission_12_December_2018_Draft(12_December_2018).pdf)
- [10] Scottish Commission for Public Audit. (2018, December 12). Official Report, col 12. Retrieved from [http://www.parliament.scot/ScottishCommissionforPublicAudit/Meeting\\_of\\_the\\_Commission\\_12\\_December\\_2018\\_Draft\(12\\_December\\_2018\).pdf](http://www.parliament.scot/ScottishCommissionforPublicAudit/Meeting_of_the_Commission_12_December_2018_Draft(12_December_2018).pdf)



## Purpose

1. This report provides the Board with an update of recent developments in the commercial audit sector that are of relevance to public audit in Scotland.

## Background

2. Two reports were published before Christmas which set out wide ranging proposals for the regulation of audits and improving audit quality.
3. The first report follows a review of the Financial Reporting Council (FRC) carried out by Sir John Kingman on behalf of the Department for Business, Energy, and Industrial Strategy (the Kingman Review). I referred to this review in my [report](#) on audit quality and reputation risks discussed at the Board's meeting on 28 September 2018. The FRC has several functions related to audit including oversight of the regulation of auditors by professional bodies, determining technical and ethical standards and monitoring audit quality. The FRC also sets UK accounting and actuarial standards, maintains the corporate governance code and provides oversight of the regulation of the accounting profession.
4. Following criticism of the FRC (for example that its responsibilities are too wide ranging, that it acts as both standard-setter and regulator and that it is too close to the Big Four accountancy firms), the objective of the Kingman Review was to ensure that the FRC's structures, culture, processes and powers are fit for purpose. The Kingman Review focusses on audit in the private sector but includes reference to local public audit in England.
5. The second report follows a review undertaken by the Competition and Markets Authority (CMA) which considered whether the market for the provision of statutory audit in the UK commercial sector is working as well as it should. The review comes amid growing concerns about statutory audits, in particular, following the collapse of construction firm Carillion and the criticism of those charged with governance, as well as recent poor results from the FRC's reviews of audit quality.

## Kingman Review of FRC

6. The Kingman Review recommends that the FRC be replaced with an independent statutory regulator, accountable to Parliament, with a new mandate, clarity of mission, leadership and powers. The new regulator would be called the Audit, Reporting and Governance Authority. The Government has indicated that it will take forward this recommendation.
7. The report sets out 83 recommendations, many of which are concerned with how the new regulator should operate in practice. Although predominantly focussed on the commercial sector, some of the recommendations relate to local audit in England. They are summarised in the following table.

| Issue   | Recommendation  |
|---|---|
| <b>Audit quality reports:</b> Currently only a summary of the audit quality review gradings for a firm is published along with a high-level summary of findings. However, stakeholders advised the Review team that greater transparency of audit quality findings is needed. | The new regulator should work towards a position where individual audit quality inspection reports, including gradings, are published in full.<br><br>As an interim step, the audit quality reports should be published on an anonymised basis. |

| Issue  | Recommendation   |
|--|--|
| <p><b>Local audit in England:</b> Following the abolition of the Audit Commission, the framework for the local audit regime in England is fragmented and piecemeal.</p> <p>Bodies are able to procure and appoint their own auditors. However, 98% have opted into a central procurement body. The review has serious concern that the arrangements are prioritising a reduction in cost of audit over audit quality.</p> <p>This concern is echoed by a recent <u>report</u> from the NAO which refers to local authority concerns that reductions in the audit fee have led to a reduced contribution from external audit to local governance.</p> | <p>The arrangements need to be fundamentally rethought to ensure they:</p> <ul style="list-style-type: none"> <li>• deliver robust scrutiny of audit quality, with individual reports shared with audit committees and published; and</li> <li>• bring together in one place all the relevant responsibilities, so a single regulatory body can take an overview.</li> </ul> <p>Such a role should be undertaken by a separate body with deep expertise in local audit. It should have a clear objective to secure quality and take on responsibility for appointing auditors for local bodies, agreeing fees, and preparation of the Code of Audit Practice.</p> <p>The Government should review whether the arrangements now in place for other public sector audits, such as Foundation Trusts, are genuinely robust and effective.</p> |
| <p><b>NAO audits of companies:</b> the FRC monitors the quality of audits carried out by the NAO under the Companies Act. Results of the reviews are only reported privately to the NAO. The FRC does not interact with the audit committee chair, nor are the reports published, or shared with Parliament.</p>   | <p>The new regulator's individual audit quality reviews gradings and findings in relation to the NAO should be shared with the relevant audit committee and Parliament and should be published.</p>  |
| <p><b>Other NAO audits:</b> when requested by the Controller and Auditor General (C&amp;AG), the FRC also reviews selected non-Companies Act audits, reporting privately to the C&amp;AG the results of this work.</p>   | <p>All financial audits in scope of the NAO should be brought within the audit quality monitoring scope of the new regulator, and not only at the discretion of the C&amp;AG.</p>  |

8. The main consideration for Audit Scotland of the above recommendations relates to the publication of the regulator's audit quality review reports. Currently, the reports prepared by ICAS are not published or shared with the audited body. In light of this paper, Audit Quality and Appointments will be reconsidering our approach in this regard.
9. The paper notes that monitoring similar to the NAO's non-Companies Act audits is performed by ICAS for Audit Scotland. However, a key difference is that ICAS rather than Audit Scotland selects the audits to be reviewed.

## Audit market study

10. The CMA paper identified the following main reasons why it believes that commercial audit quality is falling short:
  - companies choose their own auditor and, for example, may seek 'cultural fit' over 'challenging scrutiny'
  - choice is too limited, with 97% of the audits of the biggest companies undertaken by the Big Four accountancy firms (i.e. PWC, EY, KPMG and Deloitte)
  - auditor's focus on quality may be diluted by 75% of revenue of the Big Four coming from non-audit services such as consulting.
11. To address these concerns, the CMA is proposing a package of reforms as set out in the following table. The table also summarises the considerations of each reform for Scottish public audit. However, the fundamental features of the public audit model operating in Scotland (including the independent



appointment of auditors, the Audit Quality Framework, and central fee-setting arrangements) mean that we are already well placed in many areas.

| Issue  | Proposed reform   | Considerations for Scottish public audit  |
|--|---|---|
| <p><b>Auditor independence:</b><br/>Auditors must be properly incentivised to deliver sceptical audits. This requires auditors to be independent and willing to challenge company management. One way to achieve this would be to transfer responsibility for the audit selection processes, and audit engagement monitoring, from companies to an independent body.</p> <p>However, most stakeholders are opposed to this reform as they are concerned it would disenfranchise shareholders. In addition, a blanket generic removal of shareholders' rights to appoint the auditor would be inconsistent with the current EU legislative framework.</p> | <p><b>Regulatory scrutiny of audit committees:</b> Audit committees should be subject to specific regulatory requirements and obligations. The CMA's current view is that this regulation should include:</p> <ul style="list-style-type: none"> <li>• A requirement that audit committees report directly to the regulator before, during and after a tender selection process. The regulator would also have the ability to include an observer on all or a sample of audit committees.</li> <li>• A requirement that audit committees report directly to the regulator throughout the audit engagement.</li> <li>• The ability for the regulator to issue public reprimands or direct statements to shareholders.</li> </ul> | <p>The 'independent body' model is already used in the Scottish public sector (i.e. Accounts Commission for local government, and Auditor General for the other sectors). This is a unique strength of public audit and is an important safeguard in ensuring that auditors are free from conflicts of interest or other pressures which may compromise their judgement.</p> <p>The proposed reforms are in lieu of an independent body model and are therefore not necessary for public audit in Scotland.</p> |
| <p><b>Barriers to mid-tier firms auditing large companies:</b><br/>There are concerns about the capability of mid-tier firms to carry out the most complex audits. However, the CMA found that the firms were frequently ruled out of tenders on the basis of lack of experience; but they would only be able to build that experience by gaining a more substantial foothold in the market. Mid-tier firms consequently appear reluctant to bid for the largest audits due to the cost of tendering relative to the likelihood of winning.</p>  | <p><b>Mandatory joint audit:</b> A joint audit would require two firms to sign off on the accounts of their audit client. Responsibility for the audit opinion, and audit liability, would rest with both auditors.</p> <p>The CMA's preferred way of achieving this would be by mandating that at least one of the audit pair is a mid-tier firm. This would give mid-tier firms access to the largest clients, allowing them to develop their experience and credibility.</p> <p><b>Market share cap:</b> An alternative approach, but less favoured by the CMA, is imposing a market share cap on the Big Four.</p>  | <p>The six appointed firms comprise three of the Big Four and three mid-tier firms. As an example, two of the biggest audits are carried out by a mid-tier firm (Scott-Moncrieff). The barriers to entering the market do not therefore apply.</p> <p>Audit Scotland does not currently use a joint audits model. However, if this proposal is accepted, Audit Quality and Appointments would monitor its implementation and consider its relevance and application for the next procurement round.</p>         |
| <p><b>Conflicts between audit and non-audit services:</b> The CMA do not believe that the rules that limit the effect of conflicts caused by combined audit / non-audit structures are sufficient because:</p> <p>(a) Profit pooling means that audit partners directly benefit from the commercial success of the non-audit part of the business</p>  | <p><b>Operational split between audit and non-audit parts of the firm:</b><br/>An operational split with separate profit pools and governance arrangements for audit and non-audit.</p> <p>The CMA want to test whether an operational split could be designed in a way that would make it almost as effective as structural separation. If that is not the case, <b>full structural separation</b></p>   | <p>Any non-audit services carried out requires to be approved in advance by Audit Quality and Appointments. Information on non-audit services is reported in the bi-annual audit quality reports.</p> <p>The total value of non-audit services carried out is less than 1% of audit fees.</p>   |

| Issue  | Proposed reform  | Considerations for Scottish public audit   |
|--|--|--|
| <p>(b) The significant revenue derived from non-audit services means that governance and investment decisions are heavily driven by non-audit considerations.</p> <p>(c) There are underlying cultural concerns of the same firm providing audit and non-audit services.</p> | (prohibiting audit firms from providing non-audit services) will be revisited  | However, operational or structural changes to audit firms may have implications for the next procurement round.  |
| <p><b>Underperformance:</b> The report highlights the importance of a regulatory regime that makes visible the differences in audit quality between firms and then holds firms to account for any underperformance.</p>  | <p><b>External peer review:</b> The regulator would determine which companies were subject to a peer review as an additional, independent quality check. External peer reviews could be funded by a levy on audit fees. A peer review firm, unconnected to the auditor, would be appointed by the regulator. In contrast with the regulator's audit quality reviews, the peer review would occur prior to the signing-off of the accounts.</p> | <p>Audit Scotland does not currently use an external peer review model. However, if this proposal is accepted, Audit Quality and Appointments would monitor its implementation and consider its relevance and application.</p> |

## Conclusion

12. Many of the proposed changes to the regulation of, and market for, audit are already key characteristics of the Scottish public-sector audit model and Audit Scotland's Audit Quality Framework. This signifies clear support for the strengths of the audit model operated by Audit Scotland although there are no grounds for complacency, and Audit Scotland will consider which measures outlined in the reports might be adopted to improve audit quality and consult with the Auditor General and Accounts Commission.

## Recommendation

13. The Board is invited to consider and comment on this report.

**Professional Support: update****Audit Director, Audit Services and Performance Audit and Best Value**

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**Purpose**

1. This report provides an update to the Audit Scotland Board on Professional Support, its progress in 2018 and its priorities for 2019.

**Background**

2. Professional Support was created in November 2017, bringing together the Technical Services Unit (in the former Audit Strategy Group) and the Business Improvement Unit (in Audit Services Group). Early in 2018 we added staff from Performance Audit and Best Value (PABV) to complete the Professional Support core team.
3. Professional Support provides cross-organisation support on financial, best value and performance audits. Our overall aim is to drive improvement in audit quality. This involves:
  - providing support and audit guidance to Audit Scotland
  - producing technical and other guidance under the Code of Audit Practice to all audit providers
  - co-ordinating, supporting and contributing to Professional Leadership (where members of Audit Scotland's Leadership Group champion areas of interest and lead and coordinate our activities)
  - carrying out internal quality reviews
  - providing accounting and auditing training
  - co-ordinating counter-fraud arrangements.
4. As a result, Audit Scotland has distinct arrangements for supporting audit quality (through Professional Support) and for the independent assessment of audit quality to the Auditor General and the Accounts Commission (through Audit Quality and Appointments).
5. In March 2018, Audit Scotland's Management Team considered Professional Support's 2018 plan which set out what we do and how we planned to deliver. This helped build a shared understanding about our purpose across Audit Scotland and with the firms. A summary of our priorities in 2018 is included in the Appendix.
6. The core team consists of experienced staff who specialise in Professional Support and lead our activities. Core team staff may be involved full-time in providing support and advice, building knowledge and expertise on technical matters. Others in the core team split their time between Professional Support and audit work. More generally, we support a network of audit staff in Audit Services Group (ASG) and PABV who contribute to Professional Support activity, including internal quality reviews.

**Review of 2018 and next steps**

7. Professional Support made good progress across all priority areas in 2018. Highlights include:
  - Establishing the Professional Support core team and 'brand', developing working relationships with the business and building consensus on roles and responsibilities relative to other teams, including Audit Quality and Appointments.
  - Supporting Audit Scotland's new Professional Leadership arrangements eg influencing the development of public-sector financial reporting through participation in CIPFA/LASAAC (the

accounting standard-setter for local government) and FRAB (the standard-setter for the rest of the public-sector), producing good practice notes on financial reporting eg for integrated joint board (IJB) accounts, supporting business group audit quality leads, sector leads and the counter-fraud lead, including publication of the National Fraud Initiative (NFI) report.

- Providing training (and supporting others to provide training), working closely with HR&OD to improve the training offer across the business. This joined-up approach results in training that can combine technical accounting and auditing aspects with other skills required of auditors and managers.
- Performing audit quality reviews across all audit areas and, in relation to matters arising from reviews, providing training and updating audit approaches. This included a joint ICAS/Professional Support training event which was open to audit staff and the firms which identified areas of good practice and where improvement is needed.
- Investigating options for performance audit standards and securing Auditor General and Accounts Commission endorsement on the way forward. We will be applying the International Organisation of Supreme Audit Institutions (INTOSAI) standards to performance audit work. These standards reflect the specific nature of performance auditing and align with key International Auditing Standards (ISAs) which apply across other areas of the audit work.
- Providing high-quality technical support, including new outputs to support audit quality eg a sector-specific Frequently Asked Questions resource over final accounts periods. This supported communication across ASG and the firms, a focus on key emerging issues and, where appropriate, a consistent audit approach eg in relation to accounting for council pension liabilities.
- Delivering the annual planning guidance, which is the key guidance for auditors in planning audits under the Code of Audit Practice issued by the Auditor General and the Accounts Commission. We also produced supplementary guidance eg guidance for auditors on assessing openness and transparency and on EU withdrawal.
- Hosting roundtable events to support the audit approach and learning eg on the annual planning guidance (purpose, approach and content etc) and on financial sustainability in local government (where we facilitated a discussion among local government auditors on the key issues at Northamptonshire Council and in relation to financial sustainability in Scottish councils).

**8.** We will build on our success in 2018, with particular emphasis in the following areas:

- Further development of the core team arrangements. Although there are good examples of core team members from different specialisms/backgrounds working together, there is scope for more of this. Getting the right blend of core team staff working together and with others will help make the best of available skills and experience. In this way, we will release more of the potential that the Professional Support arrangement offers.
- Related to this is the need for us to develop our team systems and process e.g. project and resource management, as part of a drive to create more integrated working and sense of 'team'. This was one of the main messages from our team day in November and we have started to implement more structure to support core team working.
- Establishing a more systematic way of involving colleagues outwith the core team who have time and expertise to contribute to Professional Support activity. ASG has long-standing arrangements where colleagues sign-up to take on development tasks eg updating audit programmes. PABV colleagues are involved in quality reviews. We will look at options, re-fresh the arrangements and widen-out the involvement.
- Further engagement with the organisation to confirm or otherwise that our outputs are fully effective in driving improvement in audit quality, in terms of timing, form and content. In 2018 we attended ASG, PABV and Corporate Services Group meetings to discuss Professional Support and to get feedback on our work and outputs. We also met with groups of staff to discuss our outputs and priorities. We will continue to engage across the business and with the firms and will explore new ways of providing access to our technical material to make sure we best meet the needs of auditors eg through the new version of SharePoint.

- Follow-up on significant issues arising from the current quality review activity; from reviews on audit-related matters more generally eg thematic review by the Financial Reporting Council and from our ongoing engagement with other public audit organisations. We will also focus on new and upcoming financial reporting requirements, to anticipate where guidance and training for auditors is most required.
  - Working with PABV to develop the approach to performance auditing to ensure it aligns with the key ISAs which apply in other areas of audit. This involves a review of PABV's audit management framework and training for staff.
9. Professional Support, and the commitment to resource Professional Support, are reflected in the business plans prepared by ASG and PABV, as owners of the Professional Support 'joint venture'. We will produce a Professional Support plan for 2019, engage with colleagues and monitor progress over the year.

## Conclusion

10. The Board is invited to consider and comment on this update paper.

## Professional Support: summary of priorities from our 2018 plan

### Securing world class audit

- provide all auditors in each sector with guidance on the main risks of misstatement in the annual accounts, the correct accounting treatment, and auditors actions
- provide a revised audit guide, audit programmes, reporting templates, and model independent auditor's reports that reflect the revised international standards on auditing
- develop arrangements for supporting the delivery of performance and best value audits
- deliver technical training and updates
- support auditors through the 2017/18 audit process
- keep auditors up-to-date with technical developments and emerging risks
- carry out a programme of internal quality monitoring.

### Making a difference

- establishing the particular support needs of the relevant professional leaders and put in place arrangements to ensure they are met
- influencing the development of public-sector financial reporting frameworks through participation on external standard-setting boards and contribution to consultation processes
- expand Audit Scotland's role in promoting good practice in corporate reporting in the Scottish public-sector
- publishing a national NFI report and code of data matching practice.

### Building a better organisation

- establishing the new Professional Support core team
- reviewing and consolidating the organisation's overall approach to learning and development.

## Purpose

1. This paper provides background information on the UK's withdrawal from the European Union (EU). Given the dynamic nature of the situation, a verbal update will be provided at the meeting. The paper also provides a short update on recent developments surrounding financial devolution.

## Background

2. We provided an update to the Board in November 2018 on the new financial powers and constitutional change. Discussion at the meeting also focused on the implications of EU withdrawal on the public sector and Audit Scotland. Given the potential risks to the bodies we audit, the implications for our work and the level of uncertainty around when and how the UK will leave the EU, we will provide a verbal update on the latest political situation and implications for the public sector and Audit Scotland at the Board meeting on 29 January 2019.
3. EU withdrawal is happening within the wider context of financial devolution. We have taken the opportunity to update the Board on other key developments surrounding the new financial powers since the last update on 28 November 2018.

## EU withdrawal

4. A Withdrawal Agreement between the UK Government and the European Commission on the terms of the UK's exit from the EU was endorsed by leaders at a European Council summit in November 2018. On 15 January 2019, the UK Parliament voted by a significant majority to reject the proposed Withdrawal Agreement. Following the vote, the Labour party tabled a motion of no confidence in the UK Government, which was defeated. The Prime Minister is expected to set out how she will proceed in a statement to Parliament on 21 January 2019. The European Commission has indicated that it has no intention of renegotiating the Withdrawal Agreement and has called on the UK Government to clarify its intentions as soon as possible. At the time of writing, there remains significant uncertainty about when and how the UK will leave the EU.
5. On 16 January 2019, the Scottish Government's Cabinet Secretary for Government Business and Constitutional Relations made a statement on the outcome of the UK Parliament's vote on the Withdrawal Agreement. He called on the UK Government to extend the Article 50 process, rule out the possibility of the UK leaving the EU without an agreement, and to bring forward proposals to legislate for a second EU referendum (with remaining in the EU being an option). He confirmed that the Scottish Government would be intensifying its preparations for leaving the EU without a deal and reiterated its position that remaining a member of the EU would be the best outcome for Scotland.
6. The audit planning guidance for the 2018/19 audits asks auditors to assess how audited bodies have prepared for EU withdrawal and how they continue to respond to any emerging risks after March 2019. In December, we issued additional guidance for auditors to assist their understanding of the key issues for public bodies and help them to make audit judgements in this area.<sup>1</sup> We continue to identify the implications of the UK leaving the EU for Audit Scotland and manage any organisational implications.

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<sup>1</sup> [http://www.audit-scotland.gov.uk/uploads/docs/um/pg\\_eu\\_withdrawal\\_public\\_bodies.pdf](http://www.audit-scotland.gov.uk/uploads/docs/um/pg_eu_withdrawal_public_bodies.pdf)



## Scottish budget for 2019/20

7. The Scottish Government published its budget for 2019/20 on 12 December 2018, following publication of the UK budget on 29 October 2018. The Scottish Fiscal Commission published its five-year forecasts of tax revenues, social security spending and onshore GDP on the same day. The Local Government Finance Settlement was published on the 17 December 2018. The budget has yet to be agreed by the Scottish Parliament, so it is likely that there will be further changes to the budget before it is finalised.
8. The Director of Performance Audit and Best Value provided a briefing on the Scottish budget for 2019/20 at the Accounts Commission meeting on 10 January 2019.<sup>2</sup> This included an overview of the overall budget, real-terms budget trends and the impact of the budget plans for local government.
9. The Scottish budget is becoming increasingly complex as a result of the financial powers devolved through the 2012 and 2016 Scotland Acts. The funding for the 2019/20 budget includes revenue from Scottish income tax and two fully devolved taxes (Land and Buildings Transaction Tax and Scottish Landfill Tax). The revenues raised from these taxes is forecast to be £12.5 billion, 94 per cent of which is income tax. Assigned Value Added Tax (VAT) is shown in the budget for the first time. Scotland will receive the first 10 pence of the standard rate of VAT and the first 2.5 pence of the reduced rate, which is forecast to total £5.8 billion in 2019/20. In 2019/20, Scotland will be responsible for five social security powers, at an estimated cost of £434 million.
10. The ongoing EU withdrawal process causes uncertainty over the UK and Scottish budget positions. In the event of a 'no-deal' exit from the EU, both the Chancellor and the Cabinet Secretary for Finance, Economy and Fair Work have noted that they may need to revisit the priorities in their budgets.

## Social security powers

11. Social Security Scotland began delivering the Best Start Grant in December 2018. In January 2019, the Cabinet Secretary for Social Security announced the appointment of the chair and three members of the Scottish Commission on Social Security. Dr Sally Witcher, who is the Chief Executive of Inclusion Scotland, will be the first chair of the Commission. The Commission will be responsible for scrutinising the social security system to ensure it is delivered in line with the principles of the social security charter (*Our Charter*), which the Scottish Government laid for approval by the Scottish Parliament on 11 January 2019.<sup>3</sup> The Charter sets out what people can expect from the new social security system, including the design of policy, recruitment and training of staff, delivery of services, and the culture of Social Security Scotland. The Auditor General for Scotland (AGS) will appoint the auditor for the Scottish Commission on Social Security in early 2019.

## Audit reporting

12. The National Audit Office (NAO) reported on its 2017/18 audit of HMRC's administration of Scottish income tax on 30 November 2018. The report covered the first year of the Scottish Parliament's powers over non-savings non-dividend income tax rates and bands for Scottish taxpayers. It reported that HMRC has adequate procedures to ensure the proper assessment and collection of Scottish income tax but that identifying the Scottish taxpayer population continues to be the main challenge. As in the previous three years, the AGS published a report alongside this, providing additional assurance to the Scottish Parliament on the NAO's audit work in this area.<sup>4</sup>
13. The Scottish Government and HM Treasury continue to discuss a draft framework for audit and accountability arrangements for devolved services provided by UK public bodies (such as HMRC and DWP). The Scottish Government formally consulted with Audit Scotland on this during 2018 and we are continuing to engage with them. Ultimately, the framework will be agreed by the Scottish and UK Governments at a Joint Exchequer Committee.

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<sup>2</sup> [http://www.audit-scotland.gov.uk/uploads/docs/meeting/post/2019/ac\\_190110\\_papers.pdf](http://www.audit-scotland.gov.uk/uploads/docs/meeting/post/2019/ac_190110_papers.pdf) (page 75)

<sup>3</sup> <https://cdn.prgloo.com/media/2a9a7955d9d04c0fa48f60dfc84b69aa>

<sup>4</sup> Both reports can be found on our website: <http://www.audit-scotland.gov.uk/news/scottish-income-tax-report-covers-key-audit-risks>



## Organisational arrangements

14. The Scottish Commission for Public Audit (SCPA) considered Audit Scotland's budget proposals for 2019/20 at its meeting on 12 December 2018. The proposals included an increase of £285,000 to fund people costs (estimated at 4.5 WTE staff) to continue to enhance our capacity for audit work arising from new financial powers. We anticipate a phased increase in our resources to respond to the Parliament's new powers, estimated at the equivalent of an additional 20 WTE staff by 2020/21.
15. During November and December 2018, our internal auditors BDO assessed how we are preparing for our new audit responsibilities and a changing operating environment. This includes the potential impact of financial devolution, devolved social security powers and EU withdrawal. The internal auditors are finalising their report and are expected to report to the Audit Committee on 27 February 2019.

## Conclusion

16. The Board is invited to note the contents of this paper.

## 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.
2. Our overall best company index (BCI) score is 640.3, our highest BCI score to date. This represents an increase of 5.2 points from October 2017. Audit Scotland has also retained its 'One to Watch' status for the tenth year and sits just 19.2 points away from the one-star accreditation threshold.

## Background

3. We first took part in the Best Companies survey in 2009, reporting the results in early 2010. This is our tenth consecutive year of taking part in Best Companies. The survey is one way in which we collect feedback from colleagues. It is one way that we assess the engagement of colleagues and listen to feedback. 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.
4. The survey enables colleagues to participate in a way that ensures anonymity and this latest survey was completed by colleagues in November 2018. Results were available from late-December.

## Context

5. 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 2018 we focused on embedding the organisational development work from 2015-2017 with our shift to Being a Better Organisation. Internal organisational highlights included:
  - early conclusion of our April 2018 pay award negotiations in partnership with the PCS union
  - strong progress in the technical and wider business skills training and development available to colleagues. Including a new on-line portal through which colleagues can review the upcoming programme and make bookings
  - the introduction of Career Development Gateways (CDG) through which colleagues can increase the contribution they can make to our business, grow their skills and develop their careers
  - achieving good results in recruitment across all three of our business groups, including resourcing to support our new audits and auditing responsibilities
  - redesigning our approach to audit quality and professional support.

## Best Companies Results summary

6. Our overall best company index (BCI) score is 640.3, our highest BCI score to date. This represents an increase of 5.2 points from October 2017. Audit Scotland has also retained its 'One to Watch' status for the tenth year and sits just 19.2 points away from the one-star accreditation threshold. Appendix 1 provides more detail.
7. Our Best Company results will be used to aid our recruitment during the year ahead. It offers applicants validation of the statements we make about our culture and wider Employee Value Proposition (EVP).
8. Participation in the survey remains very high with 84 per cent of colleagues taking part (237 out of 281) compared to a Best Company average of below 70 per cent.

9. A special edition of abacus sharing this year's Best Companies results was shared with colleagues in January following presentations to Leadership Group and the Public & Commercial Services (PCS) union.
10. This year we have seen increases in five out of eight factors. My Company and Fair Deal have seen the largest positive increases of 2%, with Fair Deal now seeing a six-year high. Personal Growth has seen a 1% increase on last year, and most notably, has seen a 6% increase on colleagues feeling like there are more opportunities to learn and grow in the organisation. Appendix 1 provides a summary.
11. Wellbeing has dropped 1%, which, although not statistically significant in itself, represents a 3% decrease over the last two years. This remains a strong performance compared to other employers participating in the Best Companies survey. Nevertheless, we recognise the need to monitor work levels and support colleagues so that everyone working at Audit Scotland has a consistently good experience.

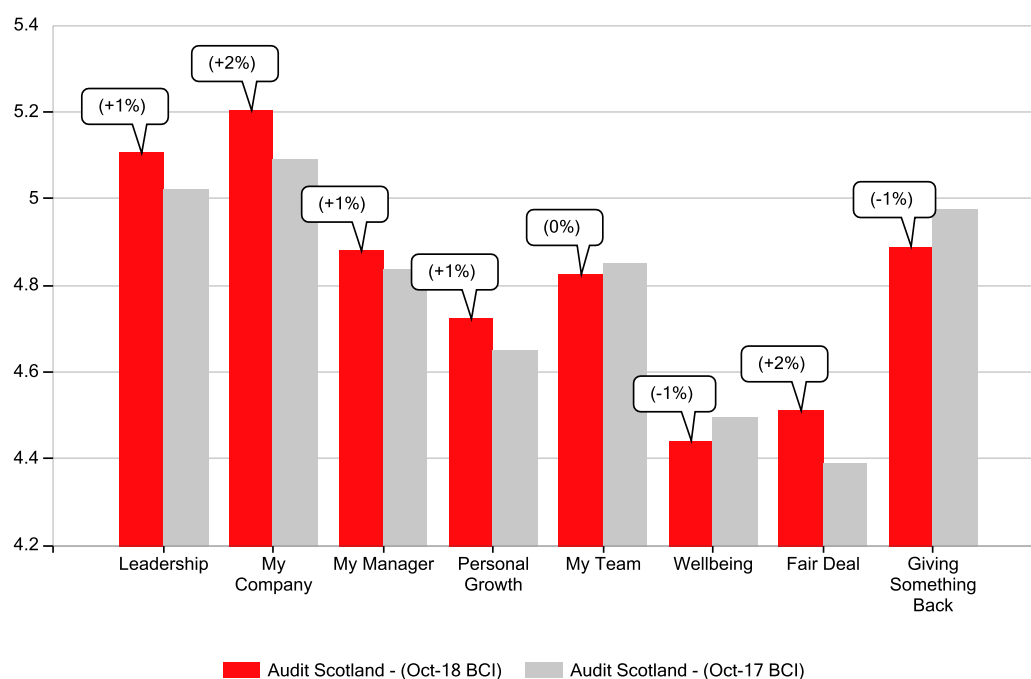
## Next steps

12. Leadership Group members are considering the data alongside other intelligence we already have about our people and the running of our business. This will be further explored within business group management teams and Charlotte Anderson from the HR & OD team is working with colleagues to assist with the deeper data analytics.
13. The HR & OD Manager is working with the Director of Performance Audit & Best Value to schedule further developmental discussions with Leadership Group on the theme of wellbeing, leadership and management. This will be taken forward through the upcoming Leadership Group meetings and the HR & OD Manager is working to integrate the Best Companies dialogue along with other data to help inform our priorities for 2019/20.
14. 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.

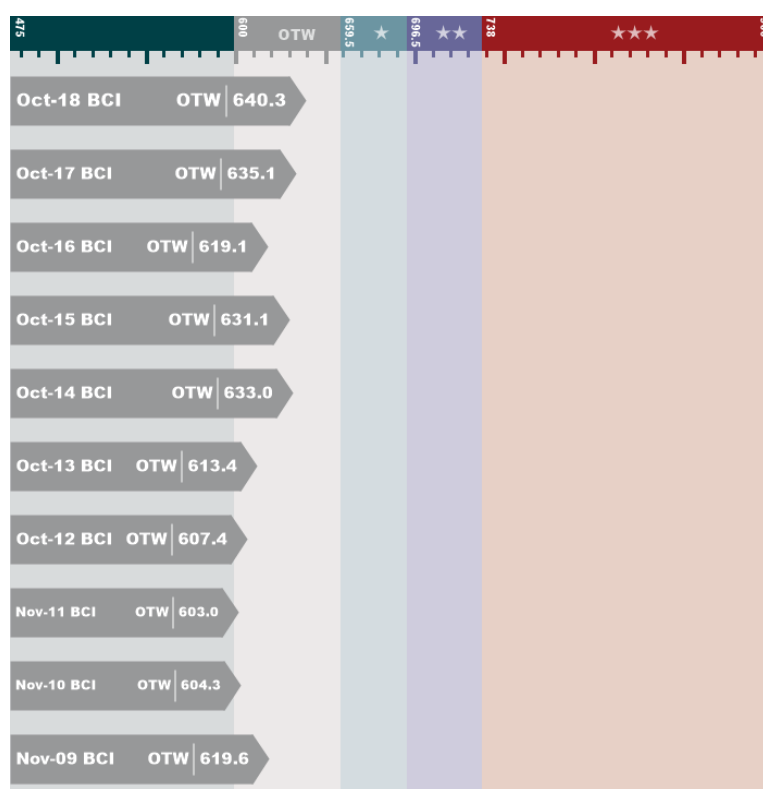
## Recommendations

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

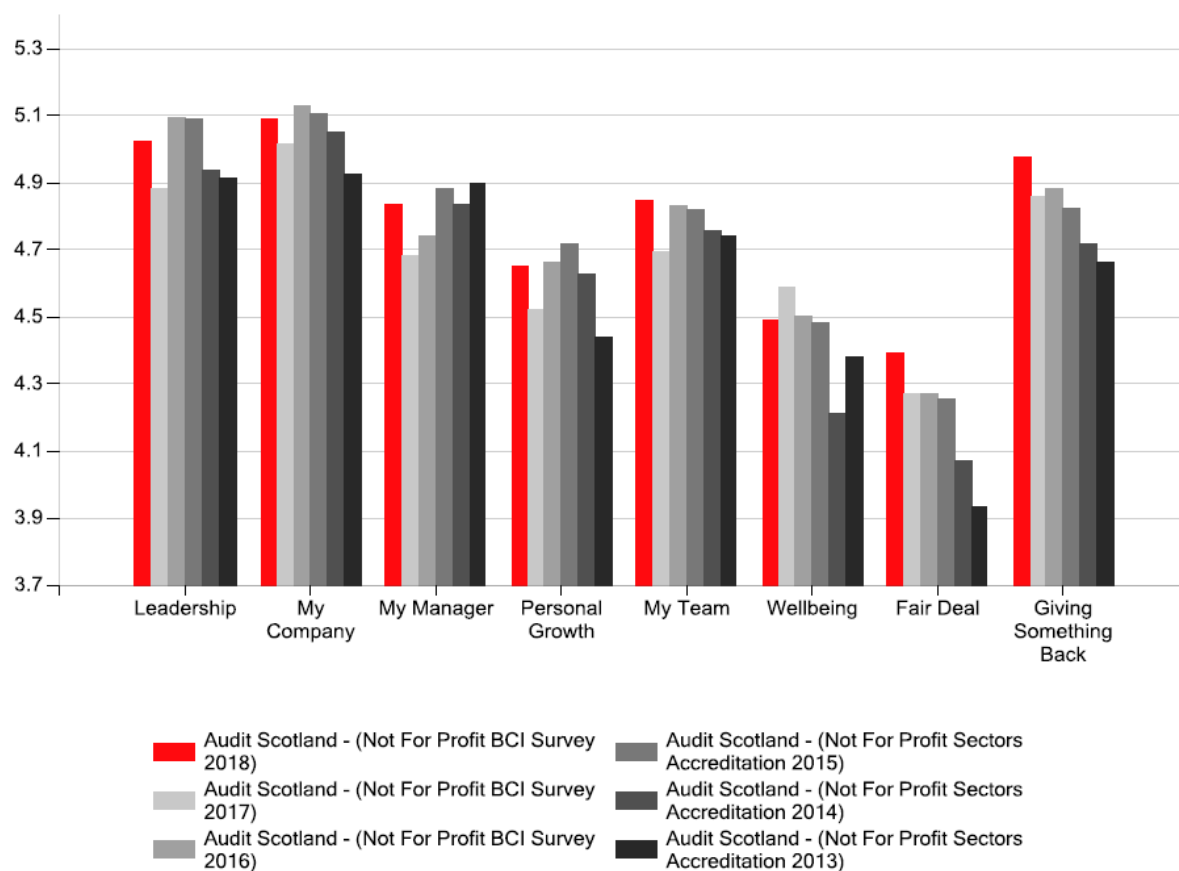
## October 2018 and 2017 - Comparison by factor



## Overall score 2009 – 2018



## Six year trend – by factor



Monday 18 March 2019 at 10.45am

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
  5. Accountable Officer's report – verbal update
  6. Accounts Commission Chair's report – verbal update
  7. Review of minutes: Board meeting 29 January 2019
  8. Review of action tracker
- 

## Strategy and planning

9. Q3 Financial performance report For information
  10. Q3 Corporate performance report For information
  11. Q3 Becoming world class improvement programme report For information
  12. 2018/19 Audit Scotland Annual report For information
  13. 2018/19 Operational budget For approval
  14. Business continuity planning: EU withdrawal For information
  15. Work programme and publication schedule For information
- 

## Conclusion

16. Any other business
17. Review of meeting
18. Date of next meeting: 1 May 2019

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## Items to be taken in private

- |  |                |
|--|----------------|
| <b>19.</b> Medium term financial plan 2019-20 to 2023-24<br>[Item to be taken in private to support the effective conduct of business]   | For discussion |
| <b>20.</b> Preparations for audit procurement: Key milestones and context<br>[Item to be taken in private due to commercial sensitivity] | For approval   |
| <b>21.</b> Corporate plan update 2019/20<br>[Item to be taken in private to support the effective conduct of business]                   | For discussion |

# Minutes

Tuesday 29 January 2019, 10.15am

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

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## Present:

I Leitch (Chair)  
C Gardner  
G Sharp  
H Logan  
A Alexander

## Apologies:

None

## In attendance:

D McGiffen, Chief Operating Officer  
M Walker, Assistant Director, Corporate Performance and Risk  
J Webber, Senior Executive Assistant  
F Kordiak, Director, Audit Services (item 10)  
G Smail, Audit Director (items 10 and 11)  
P O'Brien, Senior Manager, Professional Support (items 10 and 11)  
E Barrowman, Senior Manager, Professional Support (item 11)  
M Roberts, Senior Manager, Performance Audit and Best Value (item 12)  
R Seidel, Audit Manager, Performance Audit and Best Value (item 12)  
D Blattman, HR & OD Manager (item 13)  
C Sweeney, Audit Director, Performance Audit and Best Value (item 13)  
F Diggle, Auditor, Performance Audit and Best Value (item 13)  
S Dennis, Corporate Finance Manager (item 18)  
S Ebbett, Communications Manager (item 19)  
A Clark, Audit Director, Performance Audit and Best Value (item 19)

## 1. Welcome and apologies

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

## 2. Declarations of interest

There were no declarations of interest.

## 3. Decision on items to be taken in private

The members noted that items 18 and 19 would be taken in private to support the effective conduct of business and as the information in relation to the leased cars procurement is commercially sensitive.

## 4. Chair's report

Ian Leitch provided a verbal update on regular meetings with Diane McGiffen and Caroline Gardner on general business matters, the Budget meeting with Scottish Commission for Public Audit on 19 December 2018 and meetings in preparation for the forthcoming Board development session on Friday 8 February 2019.



The members welcomed the update.

## **5. Accountable Officer's report**

Caroline invited the Board to note the large number of Section 22 reports towards the end of 2018 which in turn had led to a busy period of sessions at the Public Audit and Post Legislative Scrutiny Committee.

Caroline advised of forthcoming reporting on Scottish Income tax and of continuing discussions about the audit and accountability framework.

Caroline advised of a recent meeting with the Convenor of the Equality and Human Rights Committee, continued engagement with MSPs and her attendance at the Scottish Government Executive leader meeting on 8 January 2019.

Caroline welcomed the achievement of the Best Companies Survey results reported at Item 13 and highlighted the Audit Scotland Conference on 30 January 2018 which would be discussed at Item 14.

Caroline informed the Board of the announcement of the appointment of Gareth Davies as the new Comptroller and Auditor General at the National Audit Office.

Heather Logan asked whether the increase number of Section 22 reports had led to an increased workload for Audit Scotland and the firms and to what extent this would inform the next audit appointment procurement round. Caroline confirmed more work was required, however there was currently flexibility in the work programme to accommodate the work. She also advised that consideration would be given to assessing how statutory reporting should be reflected in the next procurement round.

The Board welcomed the update.

## **6. Accounts Commission Chair's report**

Graham Sharp invited the Board to note that the Accounts Commission's first meeting of the year on 10 January 2019 had considered the Annual Review and Assurance report from the Controller of Audit and proposed changes to the focus and work of the Strategic Scrutiny Group. Graham advised that the next Accounts Commission meeting on Thursday 7 February 2019 would consider the draft Local Government Overview and the five year rolling work programme.

Graham invited the Board to note the recent publication of the Local Government Financial Overview report in November 2018 and the forthcoming follow up report on Social work in Scotland.

Graham advised of engagement with MSPs, attendance at the Local Government and Communities Committee and a meeting with Dumfries and Galloway Council following the publication of the Best Value report.

The Board welcomed the update.

## **7. Review of minutes**

### **Board meeting, 28 November 2018**

The Board considered the minutes of the meeting of 28 November 2018, which had been previously circulated, and agreed that these were an accurate record.

## **8. Review of actions tracker**

The Board noted the updates provided by the action tracker.

## 9. **SCPA report on Audit Scotland's 2019/20 budget proposal**

Diane McGiffen, Chief Operating Officer, introduced the Scottish Commission for Public Audit (SCPA) report on Audit Scotland's 2018/19 budget paper, which had been previously circulated.

Diane invited the Board to note the fair and supportive report from the SCPA which set out support for the increased staff resourcing and management contingency in light of the new audit responsibilities and continued uncertainty in the operating environment.

The Board noted the report and welcomed the support of the budget proposal expressed by the SCPA.

## 10. **Review of regulator / audit market study update.**

*Fiona Kordiak, Director, Gordon Smail, Audit Director, Audit Services and Paul O'Brien, Senior Manager, Professional Support, joined the meeting*

Fiona Kordiak introduced the report which summarised the review of the Financial Reporting Council (FRC) carried out by Sir John Kingman on behalf of the Department for Business, Energy and Industrial Strategy (the Kingman Review), and the review undertaken by the Competition and Markets Authority (CMA).

Fiona invited the Board to note key points for consideration for the model of Public Audit in Scotland and proposed consultation with other audit agencies on the specific recommendations to consider and inform next year's audit quality activity and reporting.

Alan Alexander welcomed the report and invited consideration of increased openness and transparency by sharing the ICAS quality reports with the audited body and publishing the findings or reports. Fiona advised that this would require further development and discussion with ICAS.

During detailed discussion, the Board agreed there was a need to be alert to complacency in any audit model but noted a number of safeguards in the Public Audit Model in Scotland.

Heather Logan highlighted the need to ensure the consistency and clarity of reporting on audit quality, the need to be alert to any potential conflict issues arising from audit appointments and sought assurance around control mechanisms for additional work and fees. Fiona advised that the Audit Quality and Appointments team summarise the independent ICAS reports which are then referenced in the annual quality report and the quarterly reporting to the Audit Committee and the Accounts Commission. Fiona advised appointments are made by the Auditor General for Scotland or the Accounts Commission, that audit fees are set centrally and where there is additional work there is negotiation with the audited body to agree any additional fee.

Following discussion, Fiona advised that Professional Support will continue to monitor developments to identify any additional measures required as part of the quality review work. She also noted that the rotation, independence and audit fees were all core considerations in the preparation for the next procurement and appointments process which would be taking place over the next two years.

The Board discussed the potential changes to the audit market in light of the reviews and noted the very low levels of non audit work carried out in the public sector in Scotland.

Following discussion, the Board welcomed the update and recognised the need to remain vigilant with continued focus on audit quality and independence.

*Fiona Kordiak left the meeting.*

## 11. Professional Support update

*Elaine Barrowman, Senior Manager, Professional Support, joined the meeting.*

Gordon Smail, Audit Director introduced the Professional Support update paper, which had been previously circulated.

Gordon invited the Board to consider the report which reflected on achievements over the past year and future priorities for the team.

The Board welcomed the report and acknowledged the demand from the organisation to demonstrate audit quality through auditing standards.

Gordon advised that there is a core team of eight in the Professional Support team providing technical support and training to auditors. The Professional Support team work closely with the Audit Quality and Appointments (AQA) team on audit quality through the development of the Code of Audit Practice which auditors have to follow, while respecting AQA's independent role in providing assurance and reporting on audit quality to the Auditor General and Accounts Commission.

The Board explored the professional and contractual requirements for auditors in respect of professional codes, the Code of Audit Practice and supplementary guidance.

Following discussion, the Board acknowledged the development and work of the team in delivering support, advice and guidance and welcomed its future focus on continued team and service development.

*Gordon Smail, Paul O'Brien and Elaine Barrowman left the meeting.*

## 12. New financial powers and constitutional change update

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

Mark Roberts and Rebecca Seidel, introduced the New financial powers and constitutional change update report, which had been previously circulated.

Rebecca Seidel provided a verbal update of further developments following the issue of the report including confidence in the positive identification of tax payers.

Ian Leitch asked about the sense of general preparedness or otherwise of organisations for a no deal EU withdrawal. Mark Roberts advised that audit intelligence coming back from auditors was that the Scottish Government, COSLA and other individual audit bodies demonstrated that contingency planning for a no deal EU withdrawal was underway, in many bodies, and that in some cases this was displacing other work.

Following discussion, the Board welcomed the update.

*Mark Roberts, Senior Manager and Rebecca Seidel, Audit Manager, Performance Audit and Best Value left the meeting.*

## 13. Best Companies survey results

*David Blattman, Human Resources & Organisational Development Manager, joined the meeting.*

Diane McGiffen, Chief Operating Officer, introduced the Best Companies survey results, a copy of which had been previously circulated.

Diane invited the Board to note these were the highest scoring set of results in the ten years Audit Scotland colleagues have participated in the survey. She commented on the 84%

response rate giving the results high reliability. Despite the positive messages overall, initial consideration of the results showed some signs about the impact of pressures of work and resourcing and Diane advised that these would be explored further.

Heather Logan noted the gap between Audit Scotland and 1-star companies and asked what Audit Scotland could learn from others and do differently. Diane advised there is not a single answer and that the Leadership Group recognised that there are a number of areas to improve that individuals, teams, managers are supported and recognising the impact of the ambition and pace of change. Diane also advised of progress on fair deal and increased levels of engagement with trainees following their work to restructure training. On 'giving something back' Audit Scotland's commitment to supporting charitable activity has increased and Diane advised that £14,000 had been raised for the Brain Tumour Charity. Following nominations for Audit Scotland's next corporate charity, colleagues voted and Audit Scotland will be supporting the Scottish Association for Mental Health (SAMH) in 2019.

Following discussion, the Board welcomed the survey results and next steps.

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

#### **14. Audit Scotland conference 2019 update**

*Claire Sweeney, Audit Director and Fiona Diggle, Auditor, Performance Audit and Best Value, joined the meeting.*

Claire Sweeney, Audit Director, Performance Audit and Best Value provided a verbal update on the Audit Scotland 2019 conference.

Claire invited the Board to note that the theme of the conference was trust. She advised that the programme included Professor Sir John Curtice speaking about trust in public services and Sarah Howard the President of CIPFA speaking about trust on public audit in the afternoon.

The Board welcomed the update and acknowledged the appetite of contributors to participate in the conference and breakout sessions.

*Claire Sweeney, Audit Director and Fiona Diggle, Auditor, Performance Audit and Best Value, left the meeting.*

#### **15. Any other business**

There was no further business.

#### **16. Review of meeting**

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

#### **17. Date of next meeting**

It was noted that the next Audit Scotland Board meeting was scheduled for 10.15am on Monday 18 March 2019 in the offices of Audit Scotland, 102 West Port, Edinburgh.

## Items taken in private

### 18. Leased cars procurement

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

Stuart Dennis, Corporate Finance Manager, introduced the Leased Cars Procurement report, a copy of which had previously been circulated.

Stuart invited the Board to consider and approve the recommendation to award the lease car contract to Ogilvie for an initial three year period with the potential to extend for a further three years, as well as approval to discuss additional services that may be required with that supplier. Stuart invited the Board to note that the current contract had been extended as an interim measure in light of the retendering which had been required.

The Board acknowledged the reason for retendering the contract and discussed the merits of closing the scheme at some point in the future. Diane McGiffen advised that this will be reviewed again at key points but noted that affordability would be key.

Following discussion, the Board approved the award of the contract to Ogilvie and agreed additional services could be discussed.

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

### 19. Stakeholder engagement update

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

Simon Ebbett, Communications Manager, introduced the report and presentation and invited the Board to consider the feedback and the future priorities around parliamentary engagement.

The Board considered the positive feedback and the progress made in engaging with Parliament.

Antony Clark advised the stocktake of activity had provided a degree of assurance in terms of the engagement with and support for the Parliament.

Following discussion, the Board welcomed the report and future priorities.

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

| Ref   | FORUM | Agenda Item No | Item Title  | Action Description   | Meeting Date | Due Date   | Responsible                  | Assigned to                  | Complete/Ongoing | Reported Yes/No | Progress Notes   |
|-------|-------|----------------|---|--|--------------|------------|------------------------------|------------------------------|------------------|-----------------|--|
|       |       |                |   |  |              |            |                              |                              |                  |                 |  |
| ASB64 | Board | 5              | Accountable Officer's Report                                | An update report on developments within the Appointments and Assurance and Professional Support teams to be scheduled. | 29/11/2017   | 30/11/2018 | Diane McGiffen/Fiona Kordiak | Diane McGiffen/Fiona Kordiak | Complete         | Yes             | The Board considered a report at its meeting on 30/11/2018.  |
| ASB86 | Board | 17             | Discussion on proposals for Board development activity 2019 | Diane McGiffen to liaise with Judith Strange to take forward arrangements for an early 2019 Board development session. | 31/10/2018   | 28/11/2018 | Diane McGiffen               | Diane McGiffen               | Complete         | Yes             | The Board development session took place on 8 February 2019. |

## Purpose

1. This report presents the financial results for the nine months to 31 December 2018.

## Background

2. The detailed finance performance report for the nine months to 31 December 2018 is provided in Appendix 1 to this paper.

## Discussion

3. In the nine months to 31 December 2018, Audit Scotland's Net Operating Expenditure was £4,467k which was £119k less than budget.
4. In-house income was in total £84k better than budget. 2017-18 audits were £87k better than budget with the positive price variance of £90k being reduced by a negative volume variance of £3k. 2018-19 audits were £9k worse than budget due to a small negative volume variance. Prior year income of £6k is related to charitable trust fees within the local government sector.
5. Fee income earned for audits carried out by external firms net of fees and expenses paid to the firms was £24k better than budget. Income recognition was £232k higher than budget and this was offset by fees and expenses payable to the external firms being £208k higher than budget.
6. Staff costs including agency expenditure was £43k more than budget due to the recruitment of staff to cover new financial powers demands. Current projections indicate that the year-end outturn will be within the allocated budget.
7. Other expenditure £41k better than budget. The main positive variances were recorded in travel and subsistence (£39k), property costs (£25k) and legal, professional and consultancy (£21k) with the main adverse variances appearing in recruitment (£21k), printing and office costs (£19k) and information technology (£17k).
8. More detailed variance analysis and explanation is provided in Appendix 1 attached to this report.

## Recommendation

9. The Board is invited to note the financial results for the 9 months to 31 December 2018.

## Headline Results

The summary financial position to 31 December 2018:

| £000                                | Annual Budget  | Actual         | Budget         | Var.         | % Var.       | Prior Year     | Note |
|-------------------------------------|----------------|----------------|----------------|--------------|--------------|----------------|------|
| Fee Income - In House               | 7,589          | 5,759          | 5,675          | 84           | 1.5%         | 5,687          | 1    |
| Fee Income - Audit Firms            | 4,603          | 3,803          | 3,571          | 232          | 6.5%         | 3,996          | 2    |
| Central Charges                     | 5,453          | 4,090          | 4,090          | 0            | 0.0%         | 4,096          |      |
| Rebate                              | 0              | 0              | 0              | 0            | -            | 0              |      |
| Interest                            | 0              | 3              | 0              | 3            | -            | 7              |      |
| Other Income                        | 0              | 10             | 0              | 10           | -            | 59             | 3    |
| IAS 19 Income                       | 0              | 0              | 0              | 0            | -            | 0              |      |
| <b>TOTAL INCOME</b>                 | <b>17,645</b>  | <b>13,665</b>  | <b>13,336</b>  | <b>329</b>   | <b>2.5%</b>  | <b>13,845</b>  |      |
| Approved auditors                   | 4,125          | 3,403          | 3,195          | (208)        | -6.5%        | 3,526          | 2    |
| Staff salaries and oncosts          | 15,737         | 11,746         | 11,762         | 16           | 0.1%         | 11,277         | 4    |
| Payroll provisions incl. severance  | 0              | 0              | 0              | 0            | -            | 0              |      |
| Agency and secondment costs         | 70             | 126            | 67             | (59)         | -88.1%       | 340            | 4    |
| IAS 19 Pension costs                | 100            | 0              | 0              | 0            | -            | 0              |      |
| Property costs                      | 936            | 618            | 643            | 25           | 3.9%         | 640            |      |
| Travel and subsistence              | 906            | 635            | 674            | 39           | 5.8%         | 653            | 5    |
| Legal, professional and consultancy | 919            | 258            | 279            | 21           | 7.5%         | 218            | 6    |
| Training                            | 483            | 349            | 348            | (1)          | -0.3%        | 312            |      |
| Recruitment                         | 105            | 96             | 75             | (21)         | -28.0%       | 93             | 7    |
| Printing and office costs           | 271            | 199            | 180            | (19)         | -10.6%       | 170            | 8    |
| Information technology              | 458            | 358            | 341            | (17)         | -5.0%        | 285            |      |
| Audit                               | 60             | 44             | 45             | 1            | 2.2%         | 45             |      |
| Depreciation                        | 383            | 277            | 288            | 11           | 3.8%         | 276            |      |
| Other costs                         | 65             | 23             | 25             | 2            | 8.0%         | 23             |      |
| <b>EXPENDITURE</b>                  | <b>24,618</b>  | <b>18,132</b>  | <b>17,922</b>  | <b>(210)</b> | <b>-1.2%</b> | <b>17,858</b>  |      |
|                                     |                |                |                |              |              |                |      |
| <b>NET OPERATING (EXPENDITURE)</b>  | <b>(6,973)</b> | <b>(4,467)</b> | <b>(4,586)</b> | <b>119</b>   | <b>2.6%</b>  | <b>(4,013)</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 December 2018 for the in-house audits:

|                            | 2017-18 Audit Year |           |            | 2018-19 Audit Year |           |          | Prior Years | Total      |
|----------------------------|--------------------|-----------|------------|--------------------|-----------|----------|-------------|------------|
|                            | Volume             |           | Price      | Volume             |           | Price    |             |            |
|                            | WIP %              | £         | £          | WIP %              | £         | £        | £           | £          |
| Local Government           | -                  | -         | +53        | -1.80              | -79       | -        | +6          | -20        |
| Health                     | -                  | -         | -          | +0.93              | +13       | -        | -           | +13        |
| FE                         | +8.06              | +3        | +4         | +0.53              | +1        | -        | -           | +8         |
| Central Government         | -                  | -         | +38        | +4.18              | +42       | -        | -           | +80        |
| Non-statutory              | -0.82              | -6        | -5         | +1.75              | +14       | -        | -           | +3         |
| <b>Total – December 18</b> | <b>-</b>           | <b>-3</b> | <b>+90</b> | <b>-0.11</b>       | <b>-9</b> | <b>-</b> | <b>+6</b>   | <b>+84</b> |

#### Local Government

Local Government audits for 2017-18 are complete with a positive variance to budget of £53k. The positive price variance is due to increased fees being applied to local government bodies with the most significant increases being applied to North Lanarkshire Council, Aberdeenshire Council, Angus Council, North East Scotland Pension Fund and Scottish Borders Council. The start of the 2018-19 local government audits is behind the prior year figure, however, this negative volume variance is reduced overall by the positive positions in Health, Central Government and EAFA. The £6k prior year fee income relates to charitable trust fees for 2016-17 audits at Moray and East Lothian councils.

#### Health

All health audits are complete and within the expected fee. There is a minor positive volume variance for 2018-19 due to being slightly ahead of plan.

#### Further Education (FE)

ASG audit two FE bodies, Dundee & Angus College and Edinburgh College. The two 2017-18 audits are 8.06% better than phased budget with the accounts recognising positive volume and price variances of £3k and £4k. The price variance is due to the agreed fee with Edinburgh College being higher than the expected fee.

#### Central Government

2017-18 Central Government chargeable audits are complete. The positive price variance of £38k 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 Scottish Land Commission. Progress on 2018-19 audits is 4.18% better than budget delivering a volume variance of £42k.

#### Non-statutory

The European Agricultural Fund Account (EAFA) audits for 2017-18 are slightly behind schedule (0.82%) leading to adverse volume (£6k) and price variances (£5k). Work has started on the 2018-19 audit which is 1.75% ahead of plan leading to a favourable variance of £14k.

## 2. Fee income and expenditure – Audit Firms

The positive income variance of £232k should be offset with the adverse expenditure variance of £208k for approved auditors. Effectively the position highlights a net favourable variance of £24k 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 31 December 2018:

|                            | 2017-18 Audit Year |           |             | 2018-19 Audit Year |            |          | Prior Year | Total       |
|----------------------------|--------------------|-----------|-------------|--------------------|------------|----------|------------|-------------|
|                            | Volume             |           | Price       | Volume             |            | Price    | Price      |             |
|                            | WIP %              | £         | £           | WIP %              | £          | £        | £          | £           |
| Local Government           | -                  | -         | +148        | -0.29              | -8         | -        | -          | +140        |
| Health                     | -                  | -         | +35         | +1.80              | +18        | -        | +3         | +56         |
| Water                      | -                  | -         | -           | +20.23             | +28        | -        | -          | +28         |
| FE                         | -2.26              | -9        | +3          | -0.11              | -1         | -        | +12        | +5          |
| Central Government         | -                  | -         | +19         | -4.05              | -16        | -        | -          | +3          |
| <b>Total – December 18</b> | <b>-2.26</b>       | <b>-9</b> | <b>+205</b> | <b>-1.30</b>       | <b>+21</b> | <b>-</b> | <b>+15</b> | <b>+232</b> |

### Local Government

2017-18 audits in the local government sector are complete leading to a positive variance of £148k. 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 and Midlothian Council. For 2018-19 audits the firms are 0.29% behind plan leading to the recognition of a small negative volume variance of £8k.

### Health

All 2017-18 audits are complete which has generated a positive variance of £35k and this is mainly due to agreed fees being higher than expected for 4 health boards (Lothian, Ayrshire & Arran, Highland and Shetland). 2018-19 health audits are 1.80% ahead of plan leading to a positive variance of £18k. The prior year income of £3k is in relation to an additional audit fee for the 2016-17 audit of NHS Health Scotland.

### Water

The favourable volume variance for the 2018-19 audit is due to the firm being ahead of the planned trajectory which was based on prior year actual.

### Further Education (FE)

Progress on 2017-18 audits is 2.26% behind schedule leading to a £9k volume variance which is being reduced by a £3k positive price variance. The main fee increases have been agreed with Lews Castle College and Moray College. For 2018-19 audits there is a minor adverse variance of £1k. The prior year fee income of £12k relates to fee increases agreed by Moray College and Glasgow Kelvin College.

### Central Government

Central government 2017-18 audits are complete leading to a positive variance of £19k which is mainly due to the recognition of agreed fee increases for Crown Estate Scotland and Historic Environment Scotland. 2018-19 audits are currently 4.05% behind plan leading to a £16k negative variance.

### 3. Other Income

Other income is mainly the recovery of costs for a member of ASG staff on an 18-month secondment with Deloitte.

### 4. Staff & Agency Costs

| Business Group                                      | Annual Budget<br>£000 | Actual<br>£000 | Budget<br>£000 | Variance<br>£000 | Actual Average<br>w.t.e. | Budget<br>w.t.e. | Note |
|---|-----------------------|----------------|----------------|------------------|--------------------------|------------------|------|
| ASG staff costs (incl NFP)                          | 8,315                 | 6,318          | 6,203          | (115)            | 158.6                    | 148.7            | a)   |
| ASG agency & secondments                            | 70                    | 67             | 67             | (0)              |                          |                  |      |
| PABV (incl Professional Support) staff costs        | 3,773                 | 2,694          | 2,830          | 136              | 59.9                     | 64.4             | b)   |
| PABV agency & secondments                           | 0                     | 8              | 0              | (8)              |                          |                  |      |
| CSG (incl Audit Quality & Appointments) staff costs | 1,996                 | 1,527          | 1,497          | (30)             | 36.9                     | 35.3             | c)   |
| CSG agency & secondments                            | 0                     | 39             | 0              | (39)             |                          |                  |      |
| Business Support staff costs                        | 649                   | 460            | 487            | 27               | 17.7                     | 18.1             | d)   |
| Business Support agency & secondments               | 0                     | 12             | 0              | (12)             |                          |                  |      |
| Governance & Other staff costs                      | 1,104                 | 747            | 745            | (2)              | 19.1                     | 20.0             | e)   |
| Governance & Other agency & secondments             | 0                     | 0              | 0              | 0                |                          |                  |      |
| <b>Total staff costs</b>                            | <b>15,837</b>         | <b>11,746</b>  | <b>11,762</b>  | <b>16</b>        | <b>292.2</b>             | <b>286.5</b>     |      |
| <b>Total agency &amp; secondments</b>               | <b>70</b>             | <b>126</b>     | <b>67</b>      | <b>(59)</b>      |                          |                  |      |

- a) In the first 9 months of the year the average number of staff employed in ASG has been 9.9 w.t.e. more than the funded budget. The establishment is based on 153.1 w.t.e. with the application of a 3% vacancy/turnover factor reducing the funded w.t.e. to 148.7. Overall the additional cost of employing the increased staffing level (£394k) has been partially funded by the reduction in average actual salary costs per employee (£279k). Current year-end projections indicate that there will be sufficient staff turnover and the receipt of secondment income to deliver within the full year staff budget allocation.
- b) PABV is on average 4.5 w.t.e. below budget (£202k) and this is being reduced by the average actual salary cost being above plan (£66k). The recruitment exercise in May/June led to the majority of vacant positions being filled by September, however, a small vacancy balance together with a small number of leavers since September has led to reduced average w.t.e. The £8k secondment costs relate to a Scottish Government employee working in PABV before they were a successful candidate in the recruitment exercise.
- c) The average staff resource requirement in CSG has been higher than the funded w.t.e. (£66k) mainly due to the application of the 3% vacancy factor. This overspend is currently funded by the favourable variance on actual average salary costs (£36k) and the planned generation of savings within non-payroll expenditure budget headings. Agency costs have been incurred to provide essential cover for a vacancy within Digital Services.
- d) Business support w.t.e. below funded figure (£11k) due to one supernumerary member of staff providing maternity cover to Human Resources from April to October and a manager vacancy at the start of the financial year. In addition to a positive volume variance the actual average salary costs are better than budget (£16k). Agency expenditure covered a vacant post which has now been filled.
- e) The reduced w.t.e. in Governance & Other is due to two non-exec vacancies within the Accounts Commission to the end of July. The overall small overspend is due to the application of spot rate increases effective from April 2018.

### 5. Travel and subsistence

The main reason for the positive variance is due to the savings generated on car lease expenditure. The budget assumed a reduction following the cessation of the scheme to new staff in 2017. The actual number of eligible staff has reduced quicker than planned.

### 6. Legal, professional and consultancy

Overall the underspend position of £21k year to date is mainly due to reduced expenditure within PABV. The budget has been phased based on prior year actuals and the year to date variance includes an element of timing difference.

Included within the favourable year to date position are some areas of overspend which are due to specific requirements for legal advice and professional services.

Legal advice has provided guidance on specialist procurement (car lease contract), general update to terms & conditions and a statutory land tax return.

Professional fees include payment for specialist advice to challenge the business rates uplift and a requirement to upgrade the finance system. The professional advice provided on business rates delivered a rebate on 2017-18 charges and a significant reduction for 2018-19 and future years charges.

**7. Recruitment**

In addition to the recurring annual recruitment of professional trainees and the requirement to fill vacancies as they arise this year has incurred the additional cost of the significant recruitment campaign that was undertaken in May and June. This campaign focused on bringing in a mix of qualified and unqualified staff to backfill vacancies generated through the creation of teams to work on new financial powers.

**8. Printing and office costs**

The main reason for the overspend is attributable to the contract costs for the mobile telephones. The budget was set based on prior year actual expenditure which included a proportion of credit on the contract. This element of credit on the contract has reduced from previous years leading to the adverse variance. The contract is due for renewal early in the new 2019-20 financial year and negotiations will take place to ensure Audit Scotland receives the best value for money option.

**Management Contingency**

The 2018-19 budget includes a contingency allocation of £150k which is controlled by the Management Team. The budget is included within the legal, professional and consultancy subjective heading.

To date no direct allocations have been made from the Management Contingency.

**Capital Expenditure and Funding**

Capital investment is £12k for the nine months to December 2018 with the total available budget for 2018-19 being £175k.

The £12k year to date expenditure is on IT hardware comprising 4 laptops and an Apple Macbook Pro.

Expenditure plans have been discussed with Digital Services and the allocation will be spent in full by the end of the financial year.

**Stuart Dennis**

Corporate Finance Manager

12 February 2019

## Purpose

1. This report provides the Board with an overview of Audit Scotland's performance during quarter three of 2018/19.

## Background

2. Performance reports are considered by the Management Team and the Board on a quarterly basis alongside the quarterly financial performance report and Becoming World Class improvement programme update.
3. The quarter two report was considered at meetings of the Management Team and the Board on 6 November and 28 November 2018 respectively.
4. The performance information is reported under the three strategic objectives of Delivering World Class Audit, making a Difference and Being a Better Organisation.
  - Appendix 1 (pages 3 – 5) provides a one-page summary of performance for each strategic objective.
  - Appendix 2 (pages 6 – 24) provides the detailed performance information.

## Q3 performance summary

5. The Q3 report demonstrates strong performance over all. Performance headlines include:
  - Delivering World Class Audit - we are conducting relevant, timely and high-quality audits.

Publications in Q3 include:

- 40 annual audit reports
- 7 statutory reports (the largest number ever in any quarter)
- 2 overview reports (NHS and Local Government financial overview)
- 2 Best Value Assurance reports
- 1 Performance audit (Health & Social Care Integration update)

The Q1/Q2 audit quality report provided positive assurance on the quality of the audit work across all auditors.

- Making a Difference - we are getting our messages out effectively and delivering new and improved products:
  - substantial parliamentary, mainstream media and social media interest in reports. Compared to Q3 last year; 27% increase in media mentions, 20% increase in downloads and 98% increase in social media engagements
  - extensive engagement with parliament and its committees

- publication of briefing papers on the operation of the fiscal framework and withdrawal from the EU
- Building a Better Organisation - we are managing our workforce effectively and investing in learning and development.

Financial planning and budget management are effective:

- 101.1% of 279.5 establishment in place at the end of the quarter
- absence rate: 1.41%
- net operating cost: £119k less than budget – variance of 2.6% of net operating expenditure budget.

The Best Companies survey was completed by 84% of staff and the results received in Q3 show:

- highest overall score to date and we are now in the top 100 not for profit organisations
- an increase in five of the eight factors with the largest increases in 'my company' and 'fair deal' groupings
- a small decrease in the 'wellbeing' and 'giving something back' factors.

The environmental and sustainability annual report published in Q3 shows we continue to make good progress in reducing our carbon emissions and have already achieved the 2019/20 target.

Despite being slightly above establishment and sustaining a low absence rate we are conscious that there continues to be pressures on colleagues and limited 'spare capacity' to respond to unplanned demands and the increasingly complex and rapidly changing operating environment.

We are currently reviewing and re-prioritising some areas of the strategic improvement programme, particularly some of the digitally enabled projects. This reflects the need to prioritise some areas of work to support 'business as usual' and digital security and also respond to changes to licensing models by external suppliers and potential changes to the electronic working papers audit system.

As a result, we are reviewing and re-phasing some aspects of the performance management framework (PMF) project. The current performance management reporting arrangements will continue to operate as normal in the meantime.

## Recommendations

6. The Board is invited to review the Q3 performance report and consider whether any additional management attention is required.

## Summary of 2018-19 Q3 performance



Delivering  
world-class  
audit

Our objective is to ensure that public audit in Scotland applies the highest professional and ethical standards, is efficient, proportionate and risk based. Audit work should be informed by an excellent understanding of the strategic and operational context and respond effectively to changing circumstances and emerging issues. We must report clearly and authoritatively and follow the public pound wherever it is spent. Audit must promote transparency, accountability and Best Value.


## Headline:

Relevant, high quality audits published on or ahead of schedule and within budget.

| Objectives  | 2017-18 |    |    |    | 2018-19 |    |    |    | Actions |
|---|---------|----|----|----|---------|----|----|----|---------|
|   | Q1      | Q2 | Q3 | Q4 | Q1      | Q2 | Q3 | Q4 |         |
| We conduct relevant and timely audits and report in public. | G       | G  | G  | G  | G       | G  | G  |    |         |
| We make clear and relevant recommendations for improvement  | G       | G  | G  | G  | G       | G  | G  |    |         |
| Audits are of high quality                                  | G       | G  | G  | G  | G       | G  | G  |    |         |
| We systematically improve the quality of our work           | G       | G  | G  | G  | G       | G  | G  |    |         |

## Key performance indicators

|   |   |
|---|---|
| <b>Annual Audit</b> <ul style="list-style-type: none"> <li>40 annual audit reports published in Q3 (12 by Audit Scotland, 28 by Firms)</li> <li>Three audit opinions and seven annual audit reports were delivered later than scheduled – largely due to circumstances out-with the auditor's control. No statutory deadlines were missed.</li> </ul> | <b>Performance/ best value/ overviews/housing benefit/Section 22</b> <ul style="list-style-type: none"> <li>19 reports published in Q3 including:               <ul style="list-style-type: none"> <li>7 Statutory reports</li> <li>NHS overview and Local Government financial overview reports.</li> <li>1 Performance audit, 2 BVARs, 3 Housing Benefit reports</li> <li>4 other reports – including EU withdrawal report</li> </ul> </li> </ul> |
| <b>On budget</b> <ul style="list-style-type: none"> <li>Expenditure on audit work was 0.2% above budget in Q3 – this is within the 5% tolerance range.</li> </ul>   | <b>Quality:</b> <ul style="list-style-type: none"> <li>Q1/Q2 audit quality report provided positive assurance on the quality of the audit work across all auditors</li> </ul>   |

|  |  |
|--|--|
|  Making a difference | Our objective is to maximise the difference our audit work makes to public services in Scotland. |
|--|--|


|                   |   |
|-------------------|---|
| <b>Headlines:</b> | Substantial interest in reports published in Q3 (in terms of downloads, mainstream and social media) and evidence of national and local impact. |
|-------------------|---|

| Objectives  | 2017-18 |    |    |    | 2018-19 |    |    |    | Actions   |
|---|---------|----|----|----|---------|----|----|----|---|
|   | Q1      | Q2 | Q3 | Q4 | Q1      | Q2 | Q3 | Q4 |   |
| <b>We get our messages out effectively</b>                          | G       | G  | G  | G  | G       | G  | G  |    |   |
| <b>We systematically deliver impact through our work</b>            | G       | G  | G  | G  | G       | G  | G  |    | PMF project developing further quantitative KPIs to supplement qualitative assessments. |
| <b>We offer insight and foresight through our audit work</b>        | Y       | Y  | Y  | Y  | Y       | G  | G  |    | PMF project developing KPQs/KPIs on this objective                                      |
| <b>We develop new and improved processes, products and services</b> | G       | G  | G  | G  | G       | G  | G  |    |   |

### Key performance indicators

- 43 Parliamentary engagements including 21 evidence sessions across seven committees.
- 413 media mentions of Audit Scotland and/ or Accounts Commission (a 27% increase on Q3 2017/18).
- 214,509 downloads (an increase of 20% compared to Q3 2017/18).
- 8,571 social media engagements (an increase of 98% compared to Q3 2017/18).
- 95% correspondence responses issued within 30 days, once the ongoing cases are completed this is expected to be 100%.
- Evidence of national impact (actions linked to reports and health and social work) and local impact.
- New products/ services – including; issues paper on EU withdrawal, animations to support key messages on children and young people's mental health report, round table discussions and work with the Youth Panel.



|   |   |
|---|---|
|  | Our objective is to make the best use of our resources so that we can deliver audit work that improves the use of public money. We want to make Audit Scotland a great place to work so that we can attract and retain a highly skilled workforce who provide high- quality audit services. |
|---|---|

|                   |   |
|-------------------|---|
| <b>Headlines:</b> | Positive Best Company Survey results, staff complement slightly above establishment and low rates of absence. Net operating cost 2.6 below budget. We have achieved the carbon emissions target a year ahead of schedule. |
|-------------------|---|

| Objectives  | 2017-18 |    |    |    | 2018-19 |    |    |    | Actions   |
|---|---------|----|----|----|---------|----|----|----|---|
|   | Q1      | Q2 | Q3 | Q4 | Q1      | Q2 | Q3 | Q4 |   |
| <b>We manage our resources effectively</b>  | G       | G  | G  | G  | G       | G  | G  |    | Audit Director led review of audit resourcing arrangements under way.                       |
| <b>We maximise our efficiency</b>   | G       | G  | G  | G  | G       | G  | G  |    |   |
| <b>We manage information and intelligence effectively (internal)</b>                    | A       | A  | A  | A  | A       | A  | A  |    | PMF project will deliver more timely management information and more flexibility re access. |
| <b>We empower and support our people to be engaged, highly skilled and perform well</b> | A       | A  | A  | A  | G       | G  | G  |    | Best Companies survey results discussions in business groups and teams                      |

### Key Performance Indicators

|   |  |
|---|--|
| <p><b>People</b></p> <ul style="list-style-type: none"> <li>Best Companies survey - highest overall score to date and we are now in the top 100 not for profit UK organisations</li> <li>Staff complement (w.t.e): 101.8% of 279.5 establishment at the end of the quarter (96% of 274.9 in Q3 2017/18).</li> <li>Absence rate: 1.41% (1.07% in Q3 2017/18).</li> <li>Resignations YTD: 3.49% (5.32% in Q3 2017/18).</li> <li>L&amp;D events: 46 in-house events covering 455 places.</li> <li>Exams: 78 exams with 85% pass rate for professional trainees.</li> </ul> <p><b>Sustainability</b></p> <p>The environmental and sustainability annual report published in Q3 shows we continue to make good progress in reducing our carbon emissions and have already achieved the 2019/20 target.</p> | <p><b>Resources</b></p> <ul style="list-style-type: none"> <li>Net operating cost: £119k less than budget – variance of -2.6% of net operating expenditure budget.</li> <li>Staff costs: £16k less than budget – variance 0.1%.</li> <li>Agency and secondment costs: £59k more than budget.</li> <li>Capital investment: £12k (ytd) on IT hardware.</li> <li>Property costs: £25 k less than budget – variance of 3.9% on budget.</li> <li>Travel and subsistence expenditure: £39k less than budget – variance of 5.8%.</li> <li>Legal, Professional and consultancy costs £21k less than budget– variance of 7.5%.</li> </ul> |
|---|--|



## We conduct relevant and timely audits and report in public.

| Key Performance Questions            | 2017-18 |    |    |    | 2018-19 |    |    |    | Actions  |
|--------------------------------------|---------|----|----|----|---------|----|----|----|--|
|                                      | Q1      | Q2 | Q3 | Q4 | Q1      | Q2 | Q3 | Q4 |  |
| Are relevant audits being delivered? | G       | G  | G  | G  | G       | G  | G  |    | Q4 and annual reports will provide 2018/19 performance information |
| Are audits delivered on time?        | G       | G  | G  | G  | G       | G  | G  |    |  |
| Are audits delivered on budget?      | G       | G  | G  | G  | G       | G  | G  |    |  |

### Relevant

The increased number of statutory reports, whilst linked to issues or concerns in public bodies, indicates that audit intelligence and risk arrangements are effective in identifying areas requiring further focussed reporting.

The Auditor General and Accounts Commission approved the draft five-year rolling work programme in December. The programme is now subject to formal external consultation by the Accounts Commission and will be published in March. This includes internal and external communications to relevant stakeholders. The work programme appears at item 15 of today's agenda.

Additional outputs published in Q3 included:

- Withdrawal from the European Union - a briefing paper highlighting the key audit issues that we think EU withdrawal presents for the public sector. The briefing includes a series of questions that public bodies may want to ask themselves and also sets out our current plans to reflect EU withdrawal in our audit work.
- Scotland's new financial powers: How the Fiscal Framework is operating in practice this report reflects 2017/18, the first full year of operation of income tax, borrowing and reserve powers, and describes the range of risks that are now affecting the Scottish budget.

### Timely/ in public

In the year to date we are ahead of schedule due to Central Government reports being delivered earlier. We had planned to publish 281 reports by the end of Q3 and published 282.

Seven statutory reports were completed and laid before Parliament in Q3:

- 3 Health s22s: NHS Ayrshire and Arran; NHS Highland; NHS Tayside
- 3 Central government S22s: Community Justice Scotland; Scottish Police Authority; Scottish Public Pensions Agency
- 1 'other' s22: Scottish Social Services Council.

The performance audit and Best Value audits scheduled for completion during Q3 were all completed on time.

In Q3 there were seven bodies where audit opinions/annual audit reports were submitted to Audit Scotland later than the deadline. None missed any statutory deadlines. Late submissions were due to:

- Two audit bodies (Children's and Young People's Commissioner and Scottish Human Rights Commission) signing the accounts in November, after the deadline.

- Four bodies where the Annual Audit report not agreed by the audited bodies (Scottish Government (SG), SG-NDR, SG-Scottish Consolidated Fund and Scottish Social Services Council) until after the deadline
- One body (Sports Scotland) where the signing date was rescheduled due to identified LGPF valuation errors.
- Two impact reports were not delivered as planned in the quarter. The approach to and subject areas for future impact reports has been agreed as part of the new five-year rolling work programme and detailed timescales are currently being developed.

**Audits on budget:** In Q3 the expenditure on audit is 0.2% above budget and within our 5 percent budget tolerance.

|              | 2018/19     |             |            |            |
|--------------|-------------|-------------|------------|------------|
|              | Budget      | Actual      | £ Variance | % Variance |
| <b>ASG</b>   | 10,299,521  | 10,333,617  | 34,096     | 0.33%      |
| <b>PABV</b>  | 1,720,906   | 1,710,771   | -10,135    | -0.59%     |
| <b>Total</b> | £12,020,427 | £12,044,388 | £23,961    | 0.20%      |

In 2018/19, we plan to publish 488 audit plans, audit and performance reports. Variation in the schedule is shown as ✓ = delivered, (XQ) = rescheduled to or from quarter identified in the brackets.

|                                 | Q1  | Q2  | Q3  | Q4   |
|---------------------------------|---|---|---|--|
| Annual Audit Plans – AS (122)   | 2 FE ✓  |   |   | 10 NHS<br>66 LG<br>44 CG                                   |
| Annual Audit Plans – Firms (99) | 19 FE ✓   |   |   | 13 NHS<br>39 LG<br>28 CG                                   |
| Audit – Audit Scotland (123)    | 10 NHS ✓<br>6 CG ✓  | 66 65 LG ✓<br>25 28 CG ✓  | 1 LG (Q2) ✓<br>2 FE ✓<br>9 CG ✓                             | 1 CG   |
| Audit – Firms (99)              | 13 NHS ✓<br>5 CG ✓  | 39 38 LG ✓<br>14 CG ✓   | 1 LG (Q2) ✓<br>18 FE ✓<br>9 CG ✓                            | 1 FE   |
| Performance Audit (7)           | ALEOS ✓<br>Scottish fire and rescue services ✓                                      | Forth Replacement Crossing ✓<br>Children & YP mental health ✓<br>Superfast broadband for Scotland: update ✓ | Health and social care integration: update ✓                | Scotland's new financial powers:<br>Social security (X Q1) |
| Best Value Assurance Report (7) | East Ayrshire Council ✓<br>Fife Council ✓<br>West Dunbartonshire Council ✓          | Glasgow City Council ✓  | Dumfries and Galloway Council ✓<br>East Lothian Council ✓   | South Lanarkshire  |
| Overview Report (5)             | Local government in Scotland: challenges and performance ✓<br>Scotland's Colleges ✓ |   | NHS in Scotland ✓<br>Local Government: financial overview ✓ | Local government in Scotland: challenges and performance   |

## Appendix 2 – Performance detail

|                      |  |   |   |  |
|----------------------|--|---|---|--|
| Housing benefit (8)  | ✓West Dunbartonshire<br>× City of Edinburgh (Q2)   | City of Edinburgh (Q1) ✓<br>East Renfrewshire (Q3) x<br>Housing benefit annual report(Q3)<br>(Q3) x | East Renfrewshire (Q2) ✓<br>Renfrewshire✓<br><del>Glasgow*</del><br>Housing benefit annual<br>report(Q2) ✓  | <del>Porth*</del><br><del>Falkirk*</del><br>Midlothian<br><del>Aberdeenshire</del>                             |
| Statutory (8)        | s102 City of Edinburgh Council ✓<br>s22 Edinburgh College ✓<br>s22 New College Lanarkshire ✓   | s22 Scottish Government<br>Consolidated Accounts✓   | s22 Scottish Police Authority✓<br>s22 NHS Ayrshire and Arran✓<br>s22 NHS Highland✓<br>s22 NHS Tayside✓<br>s22 Community justice✓<br>s22 Scottish Public Pensions<br>Agency✓<br>Scottish Social Services<br>Council✓   |  |
| Other (10)           | National Scrutiny Plan ✓<br>Two Impact reports:<br>Modern Apprenticeships ✓<br>Maintaining Scotland's roads: a<br>follow-up report ✓ | National Fraud Initiative ✓<br>Impact report: Community Planning in<br>Scotland ✓                   | Impact reports:<br>Efficiency of Sherriff courts x(Q4)<br>Scotland's economic growth<br>Higher education X<br>Social work in Scotland✓<br>Issues paper:<br>EU Withdrawal✓<br>Briefing:<br>New financial powers ✓<br>Environment and sustainability<br>report✓ | How Councils Work: <del>managing risk</del><br><del>through internal controls</del><br>Protecting public money |
| <b>Planned (488)</b> | <b>68</b>  | <b>139</b>  | <b>74</b>   | <b>207</b>   |
| <b>Published</b>     | <b>69</b>  | <b>153</b>  | <b>60</b>   |  |

**Housing Benefit** – In December the Accounts Commission considered a report on the proposed approach for HB performance audit. The proposal is to continue risk-assessments but with a greater focus on thematic issues (e.g. over-payments, resource models) to allow greater comparison across councils. We are proposing a phased approach where we would do two to three themed audits along with approximately two audits of individual councils.

### Forward look:

- The timescale for publication of the Social Security performance audit has been revised from Q4 2018/19 to Q1 2019/20 due to the complexity of auditing a new body and social security arrangements alongside the statutory financial audit.
- The Accounts Commission will consider a further report on the proposed approach for HB in Q4 2018/19 after Audit Scotland discussions with DWP.



## We make clear and relevant recommendations for improvement

| Key Performance Questions:  | 2017-18 |    |    |    | 2018-19 |    |    |    | Actions   |
|---|---------|----|----|----|---------|----|----|----|---|
|   | Q1      | Q2 | Q3 | Q4 | Q1      | Q2 | Q3 | Q4 |   |
| <b>Are there practical, clear and relevant recommendations in everything published?</b> | G       | G  | G  | G  | G       | G  | G  |    | Ongoing collation of the number of recommendations made/accepted in the 2017/18 annual reports. |

Audit Quality and Appointments (AQA) coordinated reviews of 45 annual audit reports by Audit Scotland and the Firms (16% of 2017/18 AARs). 40 reviews were carried out by appointed auditors and 5 by ICAS. The reviews considered whether audit the recommendations were

- useful, specific and practicable and focussed on the public interest
- proportionate and take account of the expected costs and challenges of implementation
- included management responses including target dates and responsibility for action where appropriate.

No material areas of concern were identified from the review.

**Examples of significant risks** identified by the audit process (from the Annual Audit Plan and followed up/ reported on in the Annual Audit Report) include:

*Local Government:* A council's group accounts had been prepared using the unaudited accounts of most of its subsidiaries and associates in previous years. Following a 2016/17 audit recommendation the council ensured that audited accounts were obtained more promptly from the group entities. The audited 2017/18 group accounts were based on the audited component accounts and this ensured that the group accounts were both accurate and complete.

*NHS audit body:* The AAR was presented for a second time at the request of the audit committee to consider the wider dimension issues raised in the report. A non-exec member described the report as having 'key messages' (particularly around workforce planning) which she was keen to explore further with the audit body.

### Issues/ risks/ actions:

- Continued encouragement of teams to record and report value added impacts in impact logs and annual audit reports.

### Forward look:

- A review of the total number of recommendations made and accepted in the 2017/18 annual reports to improve quantitative data Q4 2019/20.



**Audit work is of high quality and we are systematically improving the quality of our work**

| Key Performance Questions:                    | 2017-18 |    |    |    | 2018-19 |    |    |    | Actions   |
|---|---------|----|----|----|---------|----|----|----|---|
|   | Q1      | Q2 | Q3 | Q4 | Q1      | Q2 | Q3 | Q4 |   |
| Are we assured about the quality of our work? | G       | G  | G  | G  | G       | G  | G  |    | Adoption of INTOSAI standards for non-financial audit work is under way.                                      |
| Are we improving the quality of our work?     | G       | G  | G  | G  | G       | G  | G  |    | Ongoing refinements to the Audit Quality arrangements including client surveys and issues escalation process. |

#### Quality reviews

- The Q1/Q2 quality report was considered by the Audit Quality Committee, the Audit Committee and the Accounts Commission's FAAC & PAC in Q3. It provided positive assurance on the quality of the audit work across all auditors.
- External reviews – 11 ICAS reviews are under way – results will be reported in March 2019.
- Internal reviews – 11 reviews commenced in Q3, three have been completed – results will be reported in March 2019.

We published the 2018/19 Planning Guidance for 2018/19 audits. The Performance Audit Management Framework was updated to include additional formal sign-off processes at various key stages in the audit. This includes improvements to how sign-off is formally documented and recorded in response to ICAS findings.

In addition:

- Agreement from stakeholders on the adoption of INTOSAI standards for performance audit going forward and discussions with the Welsh, Irish and Norwegian audit offices around the standards
- Issued the new Annual Audit Plan template and started work on the Annual Audit Report (AAR) templates.
- Feedback on quality outcomes presented ASGMT in December 2018.
- Publication of the quarterly technical bulletin and technical guidance note on local authority annual accounts.
- We issued four PABV audit reports to other UK audit agencies for peer review.

#### Training

We delivered three technical training workshops and five technical updates to ASG and six training events for PABV colleagues (inc. finance for non-finance staff).

#### Forward look:

- A report summarising the key issues emerging from the quality reviews will be completed in Q4.
- Quality reviews a further five financial audits, one performance audit and two BVARs will be starting in Q4.
- Client surveys carried out by external consultants commence in Q1 2019/20.



## We get our messages out effectively

| Key Performance Questions:                       | 2017-18 |    |    |    | 2018-19 |    |    |    | Actions |
|--|---------|----|----|----|---------|----|----|----|---------|
|  | Q1      | Q2 | Q3 | Q4 | Q1      | Q2 | Q3 | Q4 |         |
| Are we getting messages getting out effectively? | G       | G  | G  | G  | G       | G  | G  |    |         |

### Getting our messages out

In Q3 we attended 42 Parliamentary engagements including:

- 21 committees (inc. 13 Public Audit and Post Legislative Scrutiny (PAPLS), three Finance and Constitution, one Scottish Commission for Public Audit, one Justice, one Education and Skills, one Health and Sport and one Local government and Communities.
- 13 meetings with MSPs.
- 8 other Parliamentary engagements including meetings with Committee Clerks, the SCPA, SPICe and Inter-Parliamentary Financial Information Network (IPFIN).

The Accounts Commission hosted six engagement events during September and October, with council leaders and chief executives to hear feedback on the audit approach and key issues facing local government. The Commission Secretary met the Equality and Human Rights Advisory Group in October 2018.

### Media

|              | Q1      | Q2      | Q3      | Q4 | YTD     | 17/18   |
|--------------|---------|---------|---------|----|---------|---------|
| Media        | 477     | 268     | 413     |    | 1,158   | 1,340   |
| Downloads    | 215,008 | 191,886 | 214,509 |    | 621,403 | 690,113 |
| Engagements* | 7,286   | 6,420   | 8,571   |    | 22,277  | 20,636  |

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

The top three reports by media coverage in Q3 were NHS in Scotland, NHS Tayside and NHS Highland/NHS Ayrshire and Arran.

- Other reports that were well received by media outlets were the latest Scottish Police Authority report (21 pieces of coverage) and the Local Government Financial Overview (24).
- In keeping with previous years, a sizeable amount of coverage during the quarter related to multiple ongoing issues within Scotland's NHS and the assertion in the overview that it was 'no longer financially sustainable' – a quote used repeatedly to give subsequent health and social care stories context.
- Other areas that drew media attention and referenced historic Audit Scotland work included nursery staffing and provision (demonstrating the enduring ability of our Early Learning and Childcare report's ability to shape the debate), budget discussions, roads and infrastructure stories and deliberations around the integration of the British Transport Police into Police Scotland.

| Month        | Broadcast coverage<br>(radio & tv) | Print Coverage: National<br>(newspapers & online) | Print Coverage:<br>Local | Total      |
|--------------|------------------------------------|---|--------------------------|------------|
| Oct          | 76                                 | 77  | 52                       | 205        |
| Nov          | 20                                 | 54  | 31                       | 95         |
| Dec          | 14                                 | 72  | 17                       | 103        |
| <b>Total</b> | <b>110</b>                         | <b>203</b>  | <b>100</b>               | <b>413</b> |

### Downloads

- The health inequalities report from 2012 was, by some way, the highest performing report, receiving around 6000 downloads. Some older reports are also ranking highly on basic Google search results. For example, the health inequalities report appears around 4th or 5th in a Google search for 'health inequality Scotland' or variations of those words, while our report on the overview of the justice system comes in around 9th if you search for 'justice system Scotland'. It's also possible people are following links to some of these reports from other websites or documents.
- Health reports – the NHS Overview 2018, s22 on NHS Highland and our Health and Social care update – all performed strongly in Q3. Both our Early Learning and Childcare (ELC) report and Mental Health report received consistently high levels of downloads each month.
- The ongoing impact of the ELC report is also reflected in podcast downloads as well – in October it received twice as many downloads (133) as the NHS Overview podcast. This potentially reflects the October publication of the Scottish Government's Early learning and childcare service model for 2020: consultation analysis.

### Social media activity

- Twitter continues to be the most effective social media platform for generating engagement with online audiences without paying for targeted advertising. By contrast, the value of Facebook remains almost solely in its advertising reach as demonstrated with the Glasgow BVAR report. Using a paid-for post, targeting people in the Greater Glasgow area, we were able to take an additional 237 people to the report page over the course of four weeks. Over 8,000 people saw our Facebook post and it cost us £0.21 for every person who clicked the link in the post to get more information about the Glasgow BVAR findings – a good return on investment.
- LinkedIn continues to be of value, particularly in terms of recruitment campaigns, and our audience on WordPress is steady as we look to increase the number of blogs posted by the AGS and colleagues. We continue to grow our main audience on Twitter, and it remains the best platform for taking users to our website.

### Correspondence

Audit Scotland handles a wide range of correspondence from members of the public, elected representatives and organisations. Although we have no statutory duty to investigate issues of concern or respond to correspondence.

| New correspondence cases                     | Q1         | Q2       | Q3  | Q4 | YTD | 17/18 |
|--|------------|----------|-----|----|-----|-------|
| Number of cases                              | 24         | 28       | 22  |    | 74  | 136   |
| Acknowledgement within five working days (%) | 100        | 96       | 100 |    | 99  | 100   |
| Final response within 30 working days        | 92<br>100* | 82<br>89 | 95  |    | 95  | 97    |

\*Note: change in what was reported in Q2. At the time of submitting data, we achieved 82% of responses within 30 days; two of the remaining four responses were issued within the deadline, so this figure now shows as 89%. Two of the four responses deadline were missed due to the complexity of information to be reviewed before we could issue a response.



- One final response is pending (5%) and still currently within our 30-working day deadline.
- No acknowledgements or final responses have been missed this quarter.
- For the same quarter last year, we reported 25 new cases with 100% acknowledgement and 100% final response targets achieved.
- In addition, we had 28 audit enquiries (compared to 32 in Q3 17/18) - relating to queries about our work (e.g. figures within our reports, guidance and access to materials/reports).

**Freedom of Information (FOI), Environmental Information Regulations (EIR) and Complaints**

- There were 13 FOI requests, no EIRs and no complaints in Q3. All FOI requests were dealt with within the statutory 20 working days and 54% were dealt with within seven working days.

**Issues/ risks/ actions:**

- Creation of central resource library for presentations to support efficiency of production and consistency of quality, content and messages.

**Forward look:**

- The new external Plain English editing contract commences in Q4. This provides external review of our draft reports to ensure clarity of messages and effective use of Plain English principles.
- Work under way to develop a new communications & engagement strategy.

|  |  |
|--|--|
|  Making a difference | <b>We systematically deliver impact through our work</b> |
|--|--|

| Key Performance Questions:                              | 2017-18 |    |    |    | 2018-19 |    |    |    | Action  |
|---|---------|----|----|----|---------|----|----|----|---|
|   | Q1      | Q2 | Q3 | Q4 | Q1      | Q2 | Q3 | Q4 |   |
| <b>Is our work delivering impact?</b>                   | G       | G  | G  | G  | G       | G  | G  |    |   |
| <b>Are our recommendations leading to improvements?</b> | Y       | G  | G  | G  | G       | G  | G  |    | Further quantitative measures to be developed to supplement qualitative assessments as part of the PMF project. |

### Examples of where our work has made a positive impact include:

The Impact report for the Accounts Commission's 2016 Social Work in Scotland (SWIS) report was published in December 2018. The impact report highlighted that the SWIS report:

- was considered by a council or IJB committee in 21 council areas
- was well received by stakeholders and gained a good level of media attention which reflected the key messages accurately
- was referenced in nine chief social work officers' reports for 2016/17.

Given the long-term nature of many of the recommendations in the report, progress against these remains ongoing. For example:

- A review of clinical and care governance arrangements in integrated health and social care services is underway.
- The Scottish Government and COSLA have published a national health and social care workforce plan, with recommendations to improve workforce planning. This includes a commitment to produce, workplans for developing workforce planning tools by March 2019.
- There is evidence of some local discussions with communities around the budget setting process, but that more needs to be done to develop longer-term strategies.

The Scottish Government (SG) published its Health and social care medium term financial framework in Q3. This is something our audit reports have been recommending for a number of years. SG also announced changes to the break-even requirements for health boards in line with the recommendations in previous NHS overviews. The SG also published a National Waiting Times Improvement Plan, setting out additional funding to improve waiting times. This again is an area where we have previously focussed audit attention.

#### Local examples of impact include:

- *Local Government:* The audit team identified that the council had wrongly classified several assets as being 'assets under construction'. Construction of these assets had already been completed and some of the assets had already been sold by the Council. This misclassification led to assets with a total value of £4.6 million being wrongly disclosed in the accounts and which required to be corrected.
- *Local Government:* The audit team recommended that Section 95 Officer regularly attend the Audit and Scrutiny Committee in order to improve scrutiny. The council acted on the audit team's recommendation and the Section 95 Officer is now present at every meeting of the committee.
- *IJB:* Due to a lack experience the audit body had to rewrite the management commentary and annual governance statements. The audit team worked closely with client officers to ensure that the final statements fully complied with the legal requirements.

#### Feedback received:

In December we received engagement feedback from MSPs which shows a continuation of the positive levels of awareness and regard that MSPs have of Audit Scotland.

The Equality and Human Rights Commission has advised that it will refer to Audit Scotland's Equality and Human rights Advisory Group as an example of good practice when they meet with Social Security Scotland in February 2019.

We received positive feedback from key stakeholders on the Withdrawal from the European Union key issues paper.

As part of the internal quality review of ASG audits, reviewers meet with the Directors of Finance and Chairs of Audit Committees. We received feedback from six audited bodies in Q3 including:

- audit staff are helpful, approachable and professional in the conduct of their work
- audit staff add value through their willingness to engage with senior management and Audit Committee on a regular basis
- the audit teams provide clarity on technical issues
- Annual Audit Reports are easy to read, balanced and help focus attention on key issues
- there is good communication with Audit Committees.

**Issues/ risks/ actions:**

- Development of quantitative KPIs re recommendations and actions

**Forward look:**

|   |   |
|---|---|
|  Making a difference | We offer insight and foresight through our work |
|---|---|

| Key Performance Questions:   | 2017-18 |    |    |    | 2018-19 |    |    |    | Action  |
|--|---------|----|----|----|---------|----|----|----|---|
|  | Q1      | Q2 | Q3 | Q4 | Q1      | Q2 | Q3 | Q4 |   |
| <b>Are we making information and intelligence available to others?</b> | G       | G  | G  | G  | G       | G  | G  |    | Development of an assessment framework and more systematic approach to measuring progress on this objective as part of PMF project. |

The withdrawal from the European Union key issues paper set out information and intelligence gathered by the EU withdrawal team around this key area of public interest and audit risk.

The Public Accounts Committee Network Event helped key stakeholders in public administration and audit to share knowledge on a range of subjects. Members of the digital audit team attended Paris Digital Week to share learning from our work and gain insights from others across the globe.

We supported insight and foresight by:

- Participating in 19 external working groups/meetings arranged by external organisations.
- Responding to 5 consultations.
- Providing a technical update paper for the Accounts Commission's FAAC.
- Responded to 10 requests for support from other internal business groups e.g. briefing papers (not technical enquiries).

Impact in audited bodies – examples include:

- *Central Government*: Section 22 report on the Scottish Social Services Council's ICT project stated that it 'lacked clarity' and that the ending of a shared services agreement with the Care Inspectorate to pursue a separate ICT strategy lacked good governance and transparent decision-making.
- *Central Government*: Section 22 report on the Scottish Police Authority (SPA) stated that the SPA had improved but that financial concerns remained about its ability to balance its budget and meet longer term strategic objectives.
- *Central Government*: Section 22 report on the Scottish Public Pensions Agency (SPPA) highlighted concerns about a £5.6m million contract to develop an integrated administration and payment system as part of a business transformation programme. The contract was cancelled in 2018 and the SPPA will require additional revenue and capital budget allocations from the Scottish Government over the next five years.
- *NHS*: Section 22 report on NHS Tayside stated that urgent action is needed to address NHS Tayside's financial position amid ongoing changes to its leadership team.
- *NHS*: Section 22 reports on NHS Highland and NHS Ayrshire and Arran highlighted significant financial challenges, which are likely to continue in the years ahead.

#### Issues/ risks/ actions

**Forward look:** Client surveys will commence in Q1 2019/20.



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

| Key Performance Questions:  | 2017-18 |    |    |    | 2018-19 |    |    |    | Action |
|---|---------|----|----|----|---------|----|----|----|--------|
|   | 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  |    |        |

Examples of new improved processes, products and services in Q3 include:

- The Children and young people's mental health performance audit report (September) was accompanied by an animation of the key facts and a video, as part of a broader effort to improve the accessibility of our reports/ messages using alternative formats.
- The withdrawal from the European Union issues briefing paper (October) was the first such output we have published for sharing our intelligence in an area of broad public and audit concern.
- We revised the audit quality web page bringing together information on the public sector audit model in Scotland, annual quality reports, the Code of Audit Practice, the audit quality framework, blogs and the QA arrangements and resources
- The cross-organisation shorter reporting working group considered options to shorten and refocus performance audit and Best Value reports to ensure they are clear, concise and effectively convey the key messages arising from our audit work. The recommendations of the group will be considered by management and audit teams during Q4.
- The first residential weekend of the Audit Scotland Youth Panel took place in Q3. The aim of 'Inform100' is to help improve how we involve young people more in identifying topics and in our audit work.
- We published our first British Sign Language plan including a video interpretation in October.

### Emerging issues:

We hosted a roundtable discussion on financial resilience to discuss the emerging risk areas identified including:

- the expiration of the statutory flexibility on equal pay and severance
- loans fund repayments
- the treatment of equal pay sums as pensionable pay
- the potential understatement of information on leases and reducing the number of section 106 charities.

The Auditor General and Accounts Commission's rolling 5-year programme was provisionally approved in December, the annual refresh ensures the programme continues to reflect areas of key audit risks, as well as the strategic priorities of the AGS and the Accounts Commission.

### Issues/ risks/ actions

### Forward look:

- Risk interrogation on innovation to Management Team and Audit Committee – Feb 2019
- Assessment of bids on data enabled audit as part of the NIAO led Gov Tech in – Feb 2019



## We manage our resources effectively and maximise efficiency

| Key Performance Questions:                | 2017-18 |    |    |    | 2018-19 |    |    |    | Action |
|---|---------|----|----|----|---------|----|----|----|--------|
|   | Q1      | Q2 | Q3 | Q4 | Q1      | Q2 | Q3 | Q4 |        |
| Are we managing our resources effectively | G       | G  | G  | G  | G       | G  | G  |    |        |
| Are we maximising efficiency?             | G       | G  | G  | G  | G       | G  | G  |    |        |

### Resource management

In the nine months to December 2018:

- Audit Scotland's Net Operating Expenditure was £4,467, £119k less than budget.
- Capital investment totalled £12k, with the total available budget for 2018/19 being £175k.
- Staff costs £16K (0.1%) less than budget.

### Net operating (expenditure) to December 2018

|          | Q1      | Q2      | Q3      | Q4 | 17/18   |
|----------|---------|---------|---------|----|---------|
| Actual   | (1,180) | (2,165) | (4,467) |    | (8,514) |
| Budget   | (1,237) | (2,269) | (4,586) |    | (9,157) |
| Variance | -4.6%   | -4.6%   | -2.6%   |    | -7.0%   |

### Staff

The average number of staff in the quarter was 99.5% of the establishment

The number at the end of the quarter was 101.8% of establishment, this is as a result of 14 new starts in Q3 (inc. 10 professional trainees).

|  | Q1    | Q2    | Q3    | Q4 | 17/18 |
|--|-------|-------|-------|----|-------|
| 2018/9 establishment w.t.e:                        | 279.5 | 279.5 | 279.5 |    | 274.9 |
| Average number of staff employed in 2018/19 w.t.e: | 271.9 | 274.2 | 278.0 |    | 271.9 |
| No. of staff at end of quarter w.t.e:              | 270.3 | 278.3 | 284.4 |    | 272.0 |

**Staff and Agency costs** – The total staff costs in the nine months to December 2018 are below budget.

|                            | Annual Budget<br>£000 | Actual<br>YTD | Budget YTD | Variance | Actual Average<br>WTE | Budget<br>WTE |
|----------------------------|-----------------------|---------------|------------|----------|-----------------------|---------------|
| Total Staff costs          | 15,837                | 11,746        | 11,762     | 16       | 292.2                 | 286.5         |
| Total agency & secondments | 70                    | 126           | 67         | (59)     |                       |               |

Expenditure on audit agency staff is slightly below budget. Additional expenditure has primarily been to provide service desk cover in Digital Services.

**Legal, professional and consultancy**

The underspend position of £21k year to date is mainly due to reduced expenditure within PABV. The budget has been phased based on prior year actuals and the year to date variance includes an element of timing difference.

**Estate** - costs in the year to December 2018 are £25k (3.9%) lower than budget and lower than previous years spend of £640k.

| £000 YTD         | Q1  | Q2  | Q3  | Q4  | 17/18 |
|------------------|-----|-----|-----|-----|-------|
| Actual spend     | 208 | 392 | 618 |     | 938   |
| Budget           | 215 | 427 | 643 |     | 930   |
| Prior year spend | 211 | 418 | 640 | 938 |       |

**Costs of travel** - Travel costs in the year to December 2018 were £39k lower than budget and 19k lower than last year. The main reason for the positive variance is due to the savings generated on car lease expenditure. The budget assumed a reduction following the cessation of the scheme to new staff in 2017. The actual number of eligible people has reduced more quickly than expected.

| £000 YTD         | Q1  | Q2  | Q3  | Q4  | 17/18 |
|------------------|-----|-----|-----|-----|-------|
| Actual spend     | 227 | 455 | 635 |     | 866   |
| Budget           | 230 | 452 | 674 |     | 922   |
| Prior year spend | 204 | 428 | 654 | 866 |       |

**Capital Expenditure and Funding** - Capital investment for the nine months to December 2018 was £12k on IT hardware. The total available budget is £175k and expenditure plans include purchasing new IT equipment in Q4 to best align with the introduction of the new SharePoint and office 365 software. The allocation will be spent in full by the end of the financial year.

**IT network up time**

| IT Network                   | Q1       | Q2      | Q3      | Q4 | 17/18 |
|------------------------------|----------|---------|---------|----|-------|
| IT uptime (%)                | 99.14    | 99.38   | 99.73   |    | 99.6  |
| Working hours lost           | 1992.5   | 1432.1  | 681.45  |    | 3758  |
| Average time lost per person | 6.69 hrs | 4.77hrs | 2.13hrs |    | 660   |

Most of the downtime this quarter was due to repeated failures of Virtual Host 6 which has been locking up after patching. We have replaced the network card and migrated affected virtual machines to another host to try and resolve this issue.

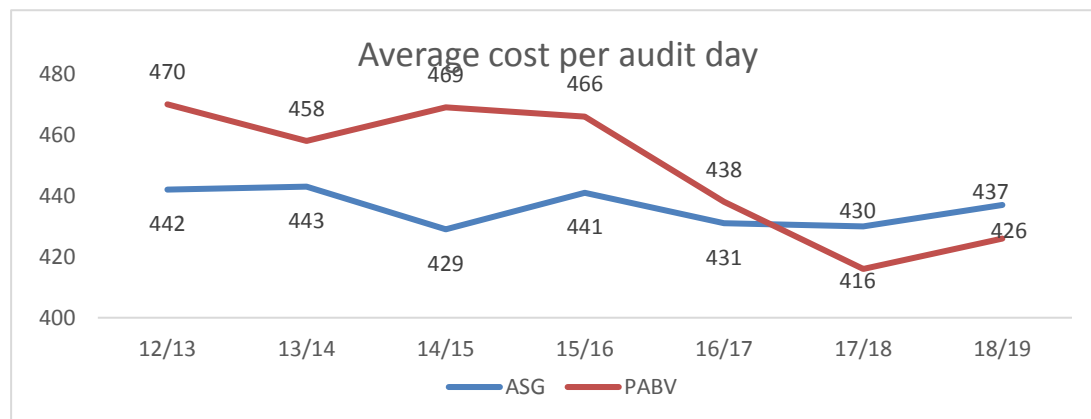
**IT Incident management summary**

- 99.38% (1459/1450) of incidents were accepted within the response time SLA.
- 95.75% (1459/1397) of requests were closed within the fix time SLA.
- An average of 4.6 incidents were logged per user.

**Productivity**

Business group productivity remains broadly consistent with productivity/ planning assumptions.

|      | 18/19% |    |    |    | 17/18% |    |    |    |
|------|--------|----|----|----|--------|----|----|----|
|      | Q1     | Q2 | Q3 | Q4 | Q1     | Q2 | Q3 | Q4 |
| ASG  | 60     | 73 | 60 |    | 57     | 74 | 59 | 67 |
| PABV | 70     | 70 | 65 |    | 76     | 74 | 67 | 76 |



At the end of Q3 the cost per audit day for ASG is £437 and PABV £426. The average cost per audit day 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 at the start of each new financial year.

The **environmental and sustainability annual report** was published in Q3.

We continue to make good progress in reducing our carbon emissions and are ahead of our 2019/20 target to reduce our annual carbon emissions to no more than 292 tCO<sub>2</sub>e. We have achieved an overall 32 per cent reduction in our carbon footprint compared to our 2014/15 baseline year, and a 56 per cent reduction against our 2008/09 baseline. We reduced:

- our energy consumption - a 26 per cent reduction in emissions compared to our 2014/15 baseline
- total kilometres travelled by 35 per cent compared to our 2014/15 baseline.
- our waste emissions by 54 per cent compared to our 2014/15 baseline.

**Issues/ risks/ actions:**

- New car lease contract award – Jan 2019
- Medium Financial Plan (MFTP) drafted and consultation ongoing. MFTP will inform the 2020/21 budget development process.

**Forward look:**





## We manage information and intelligence effectively (internal)

| Key Performance Questions:  | 2017-18 |    |    |    | 2018-19 |    |    |    | Actions               |
|---|---------|----|----|----|---------|----|----|----|-----------------------|
|   | Q1      | Q2 | Q3 | Q4 | Q1      | Q2 | Q3 | Q4 |                       |
| Are we managing information and intelligence effectively (Internal) | Y       | Y  | Y  | Y  | Y       | G  | G  |    | PMF project under way |

### Examples of managing information and intelligence during Q3:

- Extensive internal communications through iShare, Yammer, Abacus on a wide range of subjects including; public audit, audit quality, new financial powers, charitable activity, Best Companies, digital security and the annual staff conference
- Refresh of the five-year rolling work programme
- Programme of Brexit communications - including Brexit information sessions for colleagues in partnership with our employment lawyers Anderson Strathern. The sessions provided an overview of the implications of the latest UK Government proposals for EU nationals living in the UK, as well as helping identify what additional support and advice might be available.

### Issues/ risks/ actions:

- Annual conference – Jan 2019
- Introduction of SharePoint online - ongoing
- PMF project being re-phased based on review of options and proposals and as part of a re-prioritisation of the programme of improvement projects.

### Forward look:

- Annual Assurance process begins in Q4



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

| Key Performance Questions:  | 2017-18 |    |    |    | 2018-19 |    |    |    | Actions                                    |
|---|---------|----|----|----|---------|----|----|----|--|
|   | Q1      | Q2 | Q3 | Q4 | Q1      | Q2 | Q3 | Q4 |  |
| Are our people empowered and engaged?                                     | G       | G  | G  | G  | G       | G  | G  |    | Team discussions re Best Companies results |
| Are our people highly skilled?  | G       | G  | G  | G  | G       | G  | G  |    |  |
| Are people performing well?   | Y       | Y  | Y  | Y  | G       | G  | G  |    | 3D discussions Jan - March                 |
| 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  |    |  |

#### Empowered and engaged During Q3 we:

- The Best Companies survey ran 22 Oct – 9 Nov and the headline factor scores were shared with colleagues before Christmas. Full results were shared at the beginning of Q4 through a special edition abacus. Key messages from the survey are:
  - we are now in the top 100 not for profit UK organisations, achieved our highest overall score to date and maintained 'ones to watch' status
  - an increase in five of the eight factors
  - largest increases are in 'my company' and 'Fair deal' groupings
  - slight decreases in the 'wellbeing' and 'giving something back' factors
  - 84 percent response rate.



- We continued delivering information/awareness sessions to the business groups and super teams on the L&D portal and learning opportunities more widely. Discussion groups formed part of these sessions, and feedback generated from the business groups will be shared with the PDGG, and ideas for further improvement progressed where relevant.

### Career Paths

- In October 2018 we recruited nine new ICAS trainees and one school leaver.
- One further colleague progressed through a Career Development Gateway in Q3. This takes us to 21 submissions to date, with 13 people progressing through a gate (62%).
- The third CDG panel training session took place on the 5 October (9 colleagues), taking us to a total of 34 trained panellists. There are no further CDG panel training sessions scheduled at the moment, but the HR&OD team will keep this under review and schedule if required.
- Two Manager CDG coaching clinics and three Employee CDG clinics took place between the 13 and 21 November 2018 to support colleagues and increase awareness of the CDG process

### Wellbeing

- NHS Healthy Working Lives sessions on mental health training for managers were promoted through the L&D portal and ishare.
- The wellness checks were launched in Q3 and 160 colleagues have booked sessions for January and February 2019.

### Absence levels - Absence levels remain low and in line with previous years.

|                               | Q1<br>days | Q2<br>days | Q3<br>days | Q4<br>days | ytd days |
|-------------------------------|------------|------------|------------|------------|----------|
| <b>Audit Scotland - 18/19</b> | 1.28       | 0.76       | 1.41       |            | 3.45     |
| 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     |
| Audit Scotland - 15/16        | 0.89       | 0.98       | 1.49       | 2.05       | 5.62     |

### Staff turnover - All leavers are lower than the same quarter last year (3.41) but higher (1.08) than in Q1 2018-19

| 2018/19        | Q1   | Q2   | Q3   | Q4 | YTD  | 17/18 | CIPD benchmark |
|----------------|------|------|------|----|------|-------|----------------|
| Resignations % | 1.08 | 0.70 | 1.71 |    | 3.49 | 6.75  | 5.5            |
| All Leavers %  | 1.08 | 2.82 | 3.77 |    | 7.67 | 12.79 | 13.6           |

### Exam results: In Q3 there were 78 exams taken and 66 passes (85%).

|              | Q1  | Q2 | Q3 | Q4 | YTD | 17/18 |
|--------------|-----|----|----|----|-----|-------|
| Exams taken  | 3   | 20 | 78 |    | 101 | 121   |
| Exams passed | 3   | 16 | 66 |    | 85  | 106   |
| % pass rate  | 100 | 80 | 85 |    | 84  | 88    |

**Career paths and secondments**

| Vacancies filled | 18/19 YTD | 17/18 |
|------------------|-----------|-------|
| Internal         | 10        | 15    |
| External         | 15        | 21    |
| Total            | 25        | 36    |

| Secondments | 18/19 YTD | 17/18 |
|-------------|-----------|-------|
| New         | 0         | 0     |
| Existing    | 2         | 7     |

**Highly skilled** - L&D events are summarised below.

|                            | Q1     |           | Q2     |           | Q3     |           | Q4     |           | YTD    |           | 17/18  |           |
|----------------------------|--------|-----------|--------|-----------|--------|-----------|--------|-----------|--------|-----------|--------|-----------|
|                            | Events | Attendees | Events | Attendees | Events | Attendees | Events | Attendees | Events | Attendees | Events | Attendees |
| Health & Safety            | 1      | 1         | 3      | 15        | 1      | 1         |        |           | 5      | 17        | 1      | 25        |
| Knowledge Cafes            | 2      | 15        | 0      | 0         | 6      | 107       |        |           | 8      | 122       | 12     | 266       |
| Learning & Development     | 1      | 6         | 1      | 7         | 5      | 39        |        |           | 7      | 52        | 8      | 64        |
| Management Development     | 4      | 41        | 2      | 24        | 2      | 30        |        |           | 8      | 95        | 8      | 54        |
| Organisational Development | 2      | 20        | 3      | 24        | 16     | 93        |        |           | 21     | 137       | 26     | 496       |
| Technical Training         | 12     | 227       | 2      | 33        | 16     | 185       |        |           | 30     | 445       | 31     | 469       |
| Total                      | 22     | 310       | 11     | 103       | 46     | 455       |        |           | 79     | 868       | 86     | 1,374     |

**Issues/ risks/ actions:****Forward look:**

- Best Companies results will be discussed in business group, management and team meetings during Q4.
- The wellness checks are taking place in Q4 and the aggregated results of these checks will be reported to the HSW Committee in April 2019.
- The PDGG and L&D Consultant will be drafting the L&D Plan for 2019/20 and consulting with a range of colleagues to ensure it captures the business priority development required for the year ahead. Scheduling of development will begin in Q4 and the final plan will be published as part of the Annual L&D Report

## Purpose

1. To invite the Board to consider the progress made to date on the Becoming World Class (BWC) improvement programme and the planned actions.

## Background

2. The BWC strategic improvement programme is a key enabler for achieving our vision to be a world class audit organisation. On 14 November the Audit Committee considered a report on the [strategic improvement programme](#). The report set out how the development objectives in the [Corporate Plan](#) will be achieved through a combination of core audit work, working groups forums and professional leads and development projects.
3. The quarterly update reports provide a summary of recent activity and the future plans and milestones in key areas of work.

## Progress on the BWC improvement programme

4. We continue to make good progress on the programme over all. Headlines since the last report include:
  - Delivering World Class Audit:
    - Audit Quality – further development and delivery of the Audit Quality Framework, including internal and external quality reviews development of the audit quality issues escalation process, adoption of INTOSAI standards for non-financial audit client engagement surveys.
    - New financial powers and constitutional change – development of audit approaches and workplans for fiscal devolution, social security and audit guidance on Brexit preparedness. The Audit and Accountability Framework has now been agreed.
  - Being a Better Organisation:
    - Highest score ever in the Best Companies survey results and we are in the top 100 UK not for profit organisations.
    - Audit Director led development work on improving the flexibility of resourcing.
    - Ongoing support for learning and development and extensive programme of wellness checks.
  - Making a Difference:
    - Revised five year rolling work programme for the Auditor General and the Accounts Commission.
    - Extensive parliamentary engagement and positive feedback from MSPs.
    - Digital audit – assessment of bids for the data enabled audit GovTech project led by the NIAO.
5. The appendix provides more detailed information on each of the BWC workstreams.
6. We are currently reviewing and re-prioritising some areas of the strategic improvement programme, particularly some of the digitally enabled projects. This reflects the need to prioritise some areas of work

to support 'business as usual' and digital security and also respond to changes to licensing models by external suppliers and potential changes to the electronic working papers audit system.

7. Management Team is considering the programme at its meeting on 12 March 2019 and a verbal update will be provided at the Board meeting on 18 March 2019.

## **Recommendations**

8. The Board is invited to note the progress made in Q3 and the next steps and milestones.




Our objective is to ensure that public audit in Scotland: • applies the highest professional and ethical standards • is efficient, proportionate and risk based • is informed by an excellent understanding of the strategic and operational context • responds effectively to changing circumstances and emerging issues • reports clearly and authoritatively • follows the public pound wherever it is spent • promotes transparency, accountability and Best Value.

| Project/ initiative/ product             | Status update  | Next steps  |
|--|--|---|
| Implementing the Audit Quality Framework | <p>The Audit Quality Committee continues to meet every two months. The last meeting was on 20/12/18.</p> <p>The <a href="#">annual planning guidance</a> for 2017/18 was agreed by Management Team (MT) on 25/09/18.</p> <p>The <a href="#">Q1/Q2 Audit Quality Report</a> was considered by the Audit Committee at its meeting on 14/11/18 and the Accounts Commission's PAC and FAAC meetings on 22/11/18. The report highlighted positive assurance in terms of audit quality, timeliness, compliance with the ethical standards for non-audit services. It also reported that improvements had been made in response to issues identified in the Q1/Q2 report.</p> <p>Ongoing development of the Audit Quality Framework include:</p> <ul style="list-style-type: none"> <li>• Board approval of a revised ethical standards policy</li> <li>• Revised non-audit services policy statement</li> <li>• Revised appointments process</li> <li>• Adoption of INTOSAI standard for non-financial audit work</li> <li>• Revision of the audit quality webpage which brings together information on the public sector audit model in Scotland, annual quality reports, the Code of Audit Practice, the AQF, blogs and the QA arrangements and resources</li> <li>• Staff survey on quality – issued by professional support in February 2019</li> <li>• Appointment of external consultants carry out the client surveys.</li> </ul> | <p>The key milestones are:</p> <ul style="list-style-type: none"> <li>• Client surveys – survey work commences Q1 2019/20.</li> <li>• Audit issues escalation process the completion date has been revised from January to June 2019 to reflect experience of recent cases and take account of other audit agency working practices.</li> <li>• The Q3/Q4 quality report will be presented to the Audit Committee in May along with the draft Annual Audit Quality Report.</li> <li>• The Audit Quality annual report will be presented to the Audit Scotland Board in June 2019.</li> <li>• KPIs - A revised suite of indicators will be introduced in 2019/20.</li> </ul> |

| Project/ initiative/ product  | Status update   | Next steps  |
|---|---|---|
| <p>New financial powers and constitutional change (NFPCC) including EU withdrawal</p> | <p>The Audit Committee considered an internal audit report on how we are preparing for our new audit responsibilities in a changing operating environment at its meeting on 27 February 2019. The audit provided a substantial level of assurance.</p> <p>Workforce planning for 2019/20 is underway, which includes additional funding for work in response to NFP&amp;CC.</p> <p>The Audit and Accountability Framework between the UK and Scottish governments has now been agreed</p> <p><b>Financial devolution</b></p> <p>The Scottish Exchequer team is developing its work programme for 2019, which includes work on financial sustainability and fiscal risk in the context of the Scottish Parliament's increasing financial powers. The team produced briefing papers on the 2019/20 Scottish Budget for the AGS and Accounts Commission in January 2019. We also supported the Finance and Constitution Committee's budget scrutiny by participating in a round-table evidence session on 19 December 2018.</p> <p><b>Social security</b></p> <p>The social security team continues to develop its audit approach, inc engagement with the new Social Security Scotland agency and the NAO. The part-year annual audit of Social Security Scotland (for 2018/19) will be conducted during 2019. The team expect to publish a performance audit examining how effectively the Scottish Government is managing the delivery of the devolved social security powers in spring 2019. The social security financial audit plan was agreed in February 2019</p> <p><b>EU withdrawal</b></p> <p>We continue to assess and plan for the potential organisational implications of EU withdrawal. In December 2018, we issued guidance to auditors to help them assess how audited bodies are preparing. We are using various channels to share up-to-date information and seek the views of colleagues. We are also engaging with external stakeholders, including a round-table discussion with public bodies in November 2018. An update on</p> | <p>The key milestones are:</p> <ul style="list-style-type: none"> <li>• The Social Security and Scottish Exchequer teams continue to develop their audit approaches and work programmes and consider the resource requirements for audit work in 2019/20. Key milestones include: <ul style="list-style-type: none"> <li>○ Agree assurance arrangements for social security with NAO – ongoing.</li> <li>○ Agree Scottish Exchequer team work programme – March 2019.</li> <li>○ Next in the series of our performance audits on the Scotland Act – May 2019.</li> <li>○ First (1/2 year) Social Security annual audit report – June/July 2019.</li> </ul> </li> <li>• To agree what audit work we will do in response to EU withdrawal in 2019/20 – April 2019.</li> </ul> |




| Project/ initiative/ product | Status update  | Next steps |
|------------------------------|--|------------|
|                              | Business Continuity arrangements re EU withdrawal is on the agenda for today's meeting of the Board. |            |

|  |   |
|--|---|
|  <p>Being a better organisation</p> | <p>Our objective is to make Audit Scotland a great place to work so that we can attract and retain a highly skilled workforce. We want to make the best use of our resources so that we can deliver audit work that improves the use of public money.</p> |
|--|---|

| Project/ initiative/ product   | Status update  | Next steps   |
|--|--|--|
| Resourcing   | <p>Key actions since the last report include:</p> <ul style="list-style-type: none"> <li>• Management Team summit discussion on organisational capacity and flexibility – Jan 2019.</li> <li>• Audit Scotland people focus group discussion on resourcing – February 2019.</li> <li>• PABV cluster resourcing work ongoing.</li> <li>• Joint ASG/PABV review work on resourcing models ongoing.</li> </ul> | <p>Key actions/ milestones are:</p> <ul style="list-style-type: none"> <li>• Discussion on updated medium-term financial strategy with Leadership Group and revised strategy to Management Team and Board to inform budget planning process.</li> <li>• Review of work programme cluster resourcing – Dec – March 2019.</li> <li>• Implementation of cluster-led monitoring of work programme delivery – from April 2019.</li> <li>• Engagement with Business Groups re: Joint ASG/PABV review work on corporate resourcing model(s) – March/April 2019.</li> <li>• Review and options appraisal work to improve corporate resourcing– April/May 2019.</li> <li>• Further engagement with MT re: corporate resourcing model(s) – May/June 2019.</li> </ul> |
| <p>How we work together</p> <ul style="list-style-type: none"> <li>• Job Design</li> <li>• Reward &amp; Recognition</li> <li>• Performance Appraisal</li> <li>• Wellbeing</li> </ul> | <p>Management Team summit discussion on our people &amp; Building a Better Organisation took place in Nov 2018 including agreement on priorities for 2019.</p> <p>The Best Companies Survey ran for three weeks in Oct/Nov 2018 and the final response rate was 84% (level with highest rate so far). High level results were shared with colleagues in</p>  | <p>The key actions are:</p> <ul style="list-style-type: none"> <li>• Continue to share and discuss Best Companies results in business groups and teams.</li> <li>• Outcomes of 2019 wellness checks shared at the April HSW Committee meeting.</li> </ul>  |

| Project/ initiative/ product  | Status update  | Next steps   |
|---|--|--|
|   | <p>December, and we saw our highest score to date. Audit Scotland is now in the top 100 Not for Profit Best Companies list. Bookings for the Wellness checks went live in Q3 and over 160 colleagues have booked an appointment.</p> <p>Three performance coaching clinics took place in Feb 2019.</p> <p>The Human Resources and Remuneration Committee will consider update reports on pay, BaBO and recruitment and selection at its meeting on 18/03/19.</p> | <ul style="list-style-type: none"> <li>Integrating our approach to wellbeing within our learning and development strategy and plan for 2019/20.</li> <li>Pay negotiations for the April 2019 pay award.</li> </ul>   |
| <p>How we learn and develop</p> <ul style="list-style-type: none"> <li>planning careers</li> <li>developing skills</li> <li>professional training scheme</li> </ul> | <p>The 2018/19 L&amp;D Strategy and Plan continues to be implemented, with a final review in March 2019.</p> <p>In Q3 we have promoted L&amp;D/ the L&amp;D portal at Superteam and business group/ team meetings.</p> <p>CDG employee and manager coaching sessions took place in November 2018.</p> <p>3D completion statistics continue to be considered in quarterly meetings between HR and business group people leads.</p>                                | <p>The key actions/ milestones are:</p> <ul style="list-style-type: none"> <li>Final review of L&amp;D strategy and plan in March 2019.</li> <li>Refreshing the L&amp;D portal to include online learning.</li> <li>Introduction of a new online L&amp;D booking system (to replace Eventbrite).</li> <li>Continuing to make sure our onboarding process is a success, in particular for individual new starters.</li> <li>A second Train the Trainer workshop in March 2019 to support Peer to Peer training in April.</li> </ul> |
| Strategic leadership  | <p>Themed MT summit meetings continue to take place as do themed Leadership Group meetings (including site visit to Wheatley Group and guest speakers).</p> <p>Approach to 360 feedback for Leadership Group agreed</p> <p>Review of coverage and alignment of professional lead roles and areas has concluded.</p>  | <p>The key milestones are:</p> <ul style="list-style-type: none"> <li>LG 360 roll out to LG – January to June 2019</li> <li>ongoing Leadership Group meetings.</li> </ul>  |
| Performance management and business intelligence  | <p>We are currently reviewing the approach to and phasing of this project in light of technical, licensing and resourcing issues. Management Team considered update reports in December 2018 and February 2019. Development work is being re-phased in the context of linked digital project priorities.</p>   | <p>The key milestones are:</p> <ul style="list-style-type: none"> <li>Revised improvement programme – March 2019.</li> </ul>   |

| Project/ initiative/ product | Status update  | Next steps  |
|------------------------------|--|---|
| SharePoint Online            | <p>O365 project has delivered cloud-based versions of Outlook, Office 2016 products and OneDrive.</p> <p>Some team sites have been migrated to the cloud.</p> <p>Structure design and build is ongoing (including retention periods, metadata etc.).</p> | <p>The key milestones are:</p> <ul style="list-style-type: none"> <li>• Delivery and file transfer phase Feb – Dec 2019.</li> </ul> |

|   |  |
|---|--|
|  | <p>Our objective is to maximise the difference our audit work makes to public services, the people that they serve, the outcomes that those people experience and the use of public money.</p> |
|---|--|

| Project/ initiative/ product      | Status update   | Next steps   |
|-----------------------------------|---|--|
| World Class Programme Development | <p>The refreshed five year rolling work programme was considered and approved by the AGS and Accounts Commission in December, subject to Accounts Commission consultation with local government stakeholders. The consultation outcome was reported to the Commission in February, with no changes required to the programme.</p>   | <p>The key milestones are:</p> <ul style="list-style-type: none"> <li>• Development of internal and external communications material – Feb/March 2019.</li> <li>• Work programme launch – 26 March 2019.</li> <li>• PAPLS briefing on work programme – 28 March 2019.</li> <li>• Internal and external communications – March/April 2019.</li> </ul> |
| Communications and engagement     | <p>Communications are currently working with representative groups from Audit Services, Best Value, Performance Audit and Corporate Services to develop a new Communications and Engagement Strategy. Workstreams are looking at: linking with the corporate plan; data and design; publications and formats; the wider public sector communications environment in Scotland; and social media.</p> | <p>The key milestones are:</p> <ul style="list-style-type: none"> <li>• report the analysis/ findings to the board – May 2019.</li> <li>• Draft strategy for Board approval – September 2019.</li> </ul>   |

| Project/ initiative/ product                   | Status update  | Next steps  |
|--|--|---|
| Strategic approach to Parliamentary Engagement | We continue to work closely with the Parliament and its committees through our audit work and by support the scrutiny of the budget. In addition to our ongoing support for the Public Audit and Post-legislative Scrutiny Committee the key focus of our activity since the last update has been supporting parliamentary committees participate in budget scrutiny in line with the new budget scrutiny process recommended by the Budget Process Review Group (BPRG). We have also received positive feedback from MSPs on the effectiveness of Audit Scotland and the impact that our work has in supporting effective parliamentary scrutiny.   | <p>The key milestones are:</p> <ul style="list-style-type: none"> <li>• Evidence sessions and scrutiny support – ongoing</li> <li>• Internal Parliamentary Engagement Group meeting – 27 February 2019.</li> <li>• Joint stocktake on parliamentary scrutiny support with Parliament Clerks and SPICe – 25 and 29 March 2019.</li> <li>• Review of Parliamentary Engagement Strategy – Summer 2019.</li> <li>• Sharing of good practice and development of 2020 budget scrutiny strategy – Autumn 2019.</li> <li>• Second Round BPRG budget scrutiny activity – Autumn/Winter 2019 and then ongoing.</li> </ul> |
| Digital Audit                                  | <p>The <a href="#">Digital Audit Strategy</a> contains a variety of commitments under three main streams of work:</p> <p>Auditing digital</p> <ul style="list-style-type: none"> <li>• New <a href="#">Digital e-Hub</a> published</li> </ul> <p>Digital auditing</p> <ul style="list-style-type: none"> <li>• Refinements to audit analytics in ASG and staff workshop on SG technical assurance framework – Dec 2018.</li> <li>• Bid assessments for the NIAO led GovTech audit analytics project.</li> </ul> <p>Digital capacity and resilience</p> <ul style="list-style-type: none"> <li>• Ongoing review of digital audit capacity.</li> <li>• Ongoing meetings with the other UK agencies and topics for collaboration and lead agencies agreed.</li> </ul> | <p>The key milestones are:</p> <p>Auditing digital – rolling work programme includes:</p> <ul style="list-style-type: none"> <li>• Digital progress in CG and health (reporting early 2019/20).</li> <li>• Digital progress in LG (reporting early 2020/21).</li> <li>• Digital services (learning or justice tba) (reporting 2021/22).</li> </ul> <p>Digital auditing/ capacity - Audit analytics</p> <ul style="list-style-type: none"> <li>• NIAO led GovTech analytics project (phase 1 Dec 2018 – Jul 2019).</li> </ul>  |
| Follow -up and impact                          | In October we received an <a href="#">internal audit report</a> on follow up and impact which concluded substantial assurance re design and operational effectiveness.   | <p>The key milestones are:</p> <ul style="list-style-type: none"> <li>• Revised five year rolling work programme to be published March 2019.</li> </ul>   |

| Project/ initiative/ product | Status update   | Next steps                                      |
|------------------------------|---|---|
|                              | Impact reporting formed part of the refresh of the five-year rolling work programme – the timing of impact reports being scheduled  |   |
| Innovative audit products    | <p>On 27 February 2019 the Audit Committee considered a risk interrogation (RI) on innovation. The RI covered the innovations and improvements introduced over the course of the last three years, the controls in place to mitigate risk and future plans.</p> <p>New products/ services include:</p> <ul style="list-style-type: none"> <li>• Briefing papers on <a href="#">new financial powers</a> and <a href="#">EU withdrawal</a></li> <li>• <a href="#">Children and young people's mental health</a> – video and key facts animation</li> <li>• Work with the Audit Scotland Youth Panel</li> </ul> | Ongoing delivery of new products and processes. |

## Purpose

1. This paper invites the Board to consider and approve the proposed structure of the annual report.

## Background

2. The Audit Scotland annual report is split into three main sections:
  - Performance Report – narrative about the activities and performance during the year, including case studies and summaries from supporting annual reports about aspects of our operations, such as sustainability and international work.
  - Accountability Report – narrative and data about our governance and remuneration, as well as the independent auditor's report.
  - Financial Statements – our statements and notes to the accounts.
3. In 2017/18, the Performance Report was split into an Overview: containing a welcome and high level performance figures; Performance analysis, Our work; and Financial position. This structure does not mirror the three priorities of our 2018-21 Corporate Plan of: Delivering world-class audit. Making a difference and Being a better organisation. In reviewing the 2017/18 annual report, we've also found that several case studies and summaries of supporting annual reports appeared at points in the narrative that weren't coherent and, in some cases, placed there simply because there was nowhere else for them.

## 2018/19 report

4. The annual report team have adjusted the report's structure. In particular, we have split the Performance Report section into Introduction and Our Year sections. We recommend the following structure:

### Introduction

- Welcome (Chair and AGS)
- Who we are
- Our year (infographic summary – headline facts and figures)
- Our finances (infographic summary – headline facts and figures)

### Our Year

- Delivering World Class Audit
- Making A Difference
- Being a Better Organisation

## Accountability Report (as 2018/19)

## Financial Statements (as 2018/19)

5. This structure will allow narrative content, case studies and summaries in the previous Performance Report to be more coherently placed and aligned with the three organisational priorities. Features such as the welcome and summary graphics will fit well in a short introduction section.
6. The Accountability Report and Financial Statements remains unchanged. However, presentationally, we propose to list only the sections and not the subcontents. This will make the structure more immediately obvious and emphasise the narrative elements.

## Recommendations

7. The Board is invited to approve the proposed structure of the of the 2018/19 Audit Scotland annual report.

## **Purpose**

1. This report invites the Board to approval the 2019/20 operational budget.

## **Background**

2. Audit Scotland's 2019/20 SCPA budget submission was prepared in the summer of 2018 and the Commission took evidence on our proposal at a session held on 12 December 2018.
3. The SCPA recommended that the Scottish Parliament approve our budget proposal and that it is incorporated within the 2019/20 Scottish Budget Bill.
4. A review of the original budget submission has resulted in there being no requirement to make any amendments in creating a 2019/20 operational budget.
5. Appendix 1 to this report is the budget proposal approved by the Board on 28 September 2018 for submission to the SCPA.
6. Audit Scotland Management Team discussed this report at their meeting on 5 March 2019.

## **Net expenditure requirement**

7. The total revenue expenditure budget of £25,394k is funded by £17,980k fee income and £7,414k from the Scottish Consolidated Fund (SCF). SCF funding has increased by £441k from the 2018/19 budget, a real terms increase of 4.6%. This increase includes additional funding of £285k to meet new financial powers resourcing requirements.
8. People costs represent 66% of our expenditure budget and the budget requirement in 2019/20 is an increase of £900k. The main reasons for the increase are annual pay growth, employer pension contributions and additional staffing for new financial powers work.
9. Other expenditure has reduced overall by £124k. The main changes are an increase of £150k to management contingency and the removal of £200k for the costs associated with the biennial national fraud initiative exercise.
10. The fee income budget for the financial year has increased by 1.9% with the average fee increase for 2018/19 audits increasing by 1.6% from 2017/18 fees.

## **Capital requirement**

11. The capital budget for 2019/20 is £150k, a reduction of £25k from 2018/19.
12. Investment will continue to support our rolling information technology programme with £75k planned for hardware and £75k for software.

## **2019/20 uncertainties**

13. The budget proposal was developed on the assumption of an orderly UK withdrawal from the European Union on 29 March 2019.
14. At the SCPA evidence session on 12 December 2018 the budget proposal highlighted this fact and that there might be a requirement to seek in-year discussion with the SCPA should there be a disorderly withdrawal.



- 15.** Contingency planning for a disorderly withdrawal has taken place highlighting the possible financial implications detailed below:
- Loss of EAFA fee income.
  - Impact on resources in public sector bodies and slippage in their accounts timetable leading to audit resourcing issues.
  - Cash flow issues if audited bodies focus resources elsewhere leading to fee invoice payment slippage.
  - Increase in cost of goods/services due to supply chain pressures.
- 16.** Negotiations have commenced with staff representatives on a proposed pay policy for 2019/20 and any significant deviation from the pay award assumptions in the budget will need to be assessed from an affordability perspective.
- 17.** Any volatility in the financial assumptions (e.g. discount rates) used to estimate IAS 19 defined benefit pension costs could have a negative impact on the costs to be included in the annual accounts.

## **Recommendation**

- 18.** The Board is requested to approve the 2019/20 operational budget.

# Report



2019/20 Budget

Corporate Finance Manager

Item 16

28 September 2018

## Purpose

1. This report presents information on the draft budget proposal for 2019/20 and cost projections for the four following financial years.

## Background

2. Based on the written agreement between the Scottish Commission for Public Audit (SCPA) and Audit Scotland the submission of detailed budget proposals to the SCPA is required no later than the first week in December.
3. In the past three years the SCPA has taken oral evidence on our budget proposals in late December and it is anticipated that this will be the position for the 2019/20 budget proposal.
4. The impact of New Financial Powers (NFP) and constitutional change continues to be a key element of our budget submission with 2019/20 being year two of our planned increase in staff resources to meet future demand.
5. The Management Team discussed the budget assumptions and proposals on 4 September.

## Assumptions

6. **NFP and constitutional change** – this is year 2 of the business case for additional resources to meet the increased audit work arising from NFP and constitutional change. The 2018/19 budget included an allocation of £480k and the budget proposal for 2019/20 increases by £285k to a total of £765k. In total the additional resource required based on mid-point assumptions and on applying cost of living pay awards is projected to increase to £1,273k by 2021/22. Any potential resource implications following the UK's exit from the European Union are being considered and at this stage the budget for 2019/20 does not include any specific allowance for this. Further information on NFP and constitutional change developments is provided in Appendix 1, pages 12 to 22 of this report.
7. **Performance and Best Value Audits** – the programme of work for 2019/20 will be agreed by the Accounts Commission for Scotland and the Auditor General for Scotland. It is assumed that the audit workload will remain the same with the detailed programme and content of work determined through consultation with stakeholders.
8. **Quality** – following the introduction of the new Audit Quality Framework in 2017/18 audit quality is a cornerstone of the work we do. All work needs to be of the highest standard meeting international audit standards as well as the requirements of the Auditor General and the Accounts Commission as set out in the Code of audit practice. The 2018-19 budget allocated an additional £250k to the core Audit Quality and Appointments budget to support the enhanced quality regime. This budget proposal continues to set aside a budget of £250k to meet our audit quality commitment.
9. **Workforce** – the movement in establishment from the 2018/19 budget is 4.5 w.t.e. The increase is attributable to the work arising from NFP and constitutional change and is an increase of 0.5 w.t.e. from the projected 2019/20 figures used in the 2017/18 business case. Further workforce increases are planned in 2020/21 (4 w.t.e.) and 2021/22 (3.5 w.t.e.) to meet the increased demand of NFP and constitutional change. Full details of the proposed changes are provided in schedule 2 of this report.
10. **Pay** – following the removal of the cost of living pay cap in 2018/19 the budget assumes a 2% increase based on long term CPI targets and a scenario used by the Scottish Government in their 5-year Financial Strategy report published in May 2018. Staff who are not at the top of their grades will receive progression

payments as agreed under the reward arrangements introduced in April 2017. A 1% movement in the cost of living pay award alters the pay bill by £160k.

- 11. Pensions** - the results of the actuarial valuation were provided to employers in November 2017. The contribution rates have been set for 2018/19 to 2020/21. In addition to contribution rates of 17.7% (2018/19), 18.2% (2019/20) and 18.7% (2020/21) an annual lump sum contribution of £76,800 is required for past service deficits. We continue to be in the employer contribution stability mechanism and the projections for 2021/22 to 2023/24 assume an increase of 0.5% each financial year with the lump sum continuing at the current level.
- 12. National Insurance and Apprenticeship Levy** - based on the current employer rates in force for 2018/19.
- 13. Vacancy Factor** – the draft budget applies a vacancy/turnover factor of 2% to pay budgets to Audit Services Group, Performance Audit & Best Value, Corporate Services Group and Business Support.
- 14. Auditor remuneration (firms)** – increases to auditors' remuneration is linked to the cost of living increases for our own staff and is effective for the next audit year. A 2% increase has been assumed for 2019/20 audits based on the cost of living assumption applied for our staff from April 2019.
- 15. Property** – the budget assumes continued occupation of the existing offices in Edinburgh, Glasgow and Inverness. The provision of a budget for a north-east base at Aberdeenshire Council continues. The budget proposal includes the outcome of the rent review negotiations for the office in Glasgow and the Edinburgh office is due a rent review in April 2020.
- 16. Travel & Subsistence** – the reduction in budget is mainly due to the cessation of the car lease scheme to new staff in 2017/18. This adjustment reflects the staff that have left the organisation and were members of the car lease scheme. It is projected that there will be small decreases each year within this budget heading.
- 17. Legal & Professional Fees** – reduction in budget for 2019/20 mainly due to the removal of the £200k budget allocation to participate in the biennial national fraud initiative exercise.
- 18. Information Technology** – the proposed budget assumes that the current levels are sufficient to meet future demands. Additional pressures in respect of data security, software development and time recording system licences will be met from savings identified from existing IT communications budgets. The increased use of cloud technology reduces the demand for capital and miscellaneous revenue hardware requirements have reduced.
- 19. Management Contingency** – the contingency budget for 2018/19 is £150k, 0.6% of the total expenditure budget. As we are unable to hold reserves and there is a requirement to break even each year this budget proposal recommends increasing the contingency budget to £300k (1.2% of total expenditure) to mitigate the potential budgetary pressures highlighted in more detail on pages 5 and 6 of this report.
- 20. Capital Expenditure** – the proposed £150k in 2019/20 is a reduction of £25k from the 2018/19 allocation as we move to make more use of cloud technology. Adopting this policy reduces the need for hardware, in particular server replacement. Schedule 5 attached to this paper provides further details of capital investment projections for 2019/20 to 2023/24.

## Initial Budget Proposals

- 21.** Information on the draft budget, workforce and cost projections is provided in the schedules attached to this report.
- 22. Schedule 1** on page 7 provides an analysis of establishment projections for each cost centre. Information is provided on the operational establishment for 2018/19, proposals for the 2019/20 budget and projections each year to 2023/24.
- 23. Schedule 2** on page 8 provides an analysis of establishment projections by staff grade.
- 24. Schedule 3** on page 9 is an analysis of expenditure to be met from fees and the SCPA.

- 25. Schedule 4** on page 10 analyses the movement from the 2018/19 budget to the draft budget proposals for 2019/20.
- 26. Schedule 5** on page 11 details the capital investment programme for 2019/20 and projections to 2023/24.

## Fee Implications

- 27.** Based on the proposed expenditure budget the projected income charges to audited bodies by financial year is provided in Table 1 below:

**Table 1 – Proposed Income budget for fees charged to audited bodies**

|   | Actual  | Actual  | Budget  | Budget  |
|---|---------|---------|---------|---------|
|   | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|   | £000    | £000    | £000    | £000    |
| Local Authorities                               | 11,531  | 11,565  | 11,372  | 11,636  |
| NHS bodies                                      | 3,584   | 2,999   | 2,871   | 2,866   |
| Further education colleges                      | 540     | 515     | 522     | 541     |
| Scottish Government depts. and sponsored bodies | 2,827   | 2,811   | 2,880   | 2,939   |
| Total income from charges to audited bodies     | 18,482  | 17,890  | 17,645  | 17,982  |
| % cash increase in fees from 2018/19 budget     |         |         |         | 1.9%    |

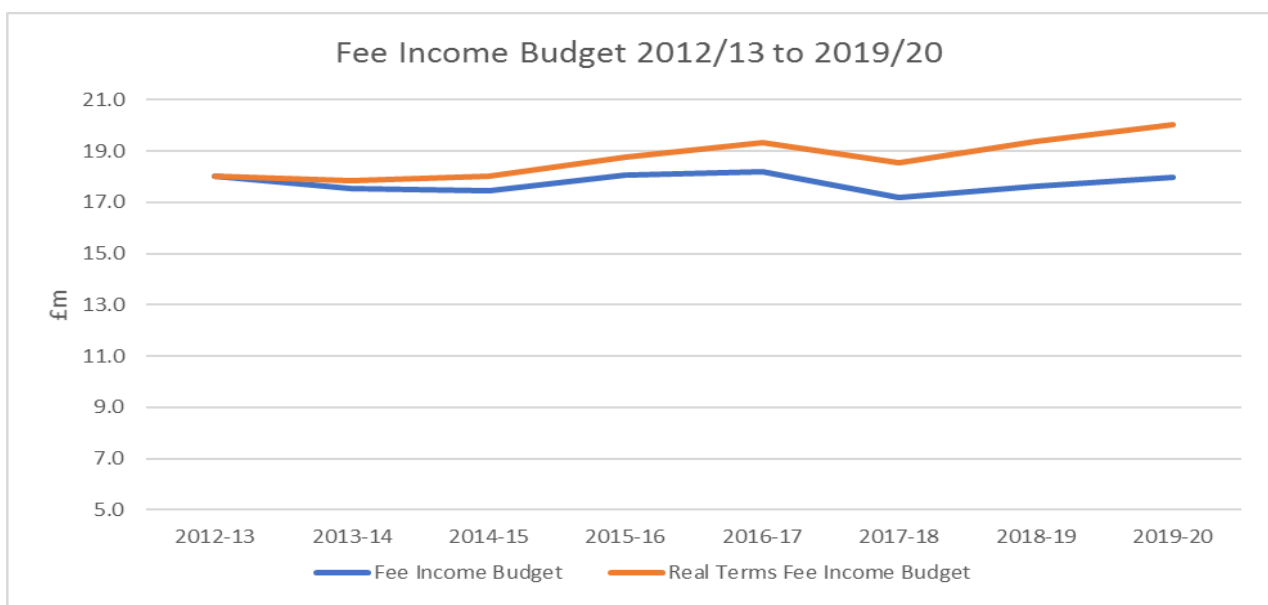
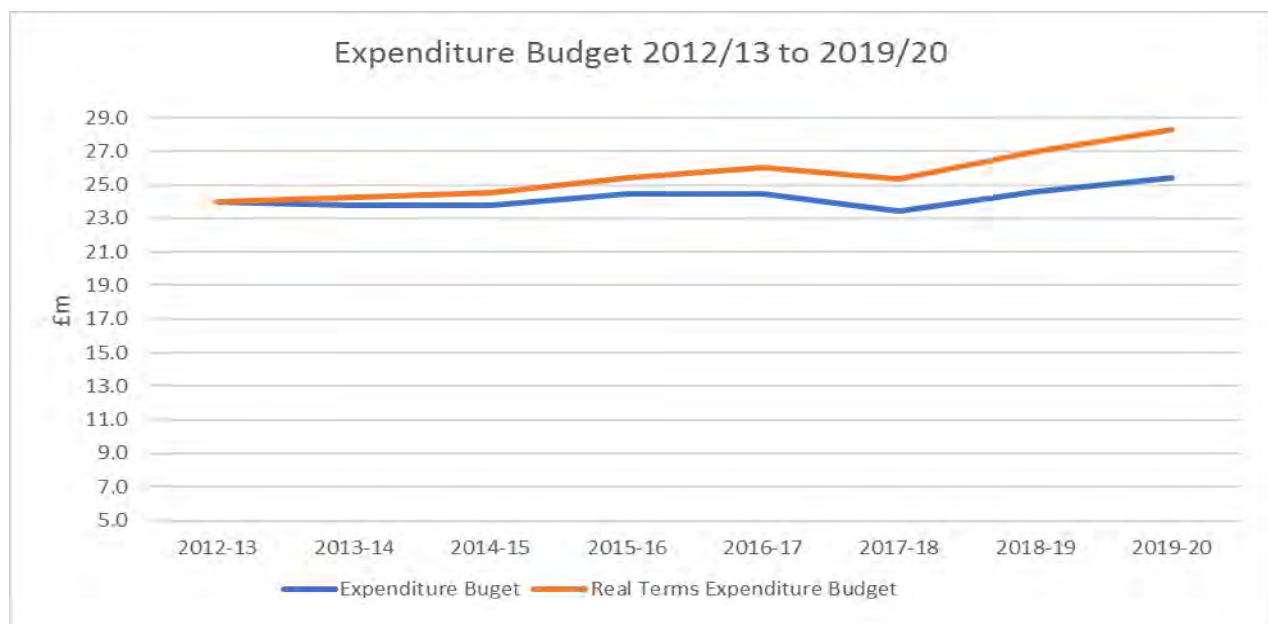
- 28.** The fee income budget represents an average increase of 1.9% in the fees budget for the financial year 2019/20 when compared to the 2018/19 budget, an overall increase in real terms of 0.3%. When compared to the 2016/17 actual income there is an average cash decrease of 2.7%, a real terms reduction of 7.6%.
- 29.** Table 2 details the proposed fees for 2018/19 audits which is an overall increase in average fees of 1.6%, a small real terms increase of 0.1% on 2017/18 charges.
- 30.** The fee movements shown in Table 2 are based on achieving a break-even position for the 2019/20 financial year in all sectors. There is a variation in the increases applied to sectors due to the application of the agreed cost apportionment methods across sectors because of the funding and fee review carried out in 2016.

**Table 2 – Proposed Audit fees for 2018/19 audits**

|   | Average change on<br>2017/18 charges | Real terms<br>change |
|---|--------------------------------------|----------------------|
| Local Authorities                               | +2.0%                                | +0.5%                |
| NHS bodies                                      | 0.0%                                 | -1.5%                |
| Further education colleges                      | +2.0%                                | +0.5%                |
| Scottish Government depts. and sponsored bodies | +1.9%                                | +0.5%                |
| <b>Overall average</b>                          | <b>+1.6%</b>                         | <b>+0.1%</b>         |

## Budget Comparison

- 31.** Assuming a base year of 2012/13 the 2019/20 expenditure budget proposal effectively represents a real terms budget reduction of £2.9 million (11%). From 2012/13 to 2019/20 expenditure budgets have experienced total cumulative reductions in real terms of £10.9 million over this period.
- 32.** Efficiencies have enabled the delivery of cash and real terms reductions in fees to audited bodies with the proposal for 2019/20 based on a fee income budget of £18.0 million, which in real terms is a budget reduction of £2.0 million (11%) from a base year of 2012/13. In real terms from 2012/13 to 2019/20 the fee income budgets have experienced total cumulative reductions of £7.9 million.
- 33.** These figures provide a general indication of the current budget proposal compared to 2012/13, however, during this period there have been public sector pay award caps and numerous changes to the public sector landscape that will have influenced expenditure and fee budgets. Examples include the merger of Police Boards and Fire Boards, creation of Integrated Joint Boards and merger of Further Education colleges.
- 34.** The graphs below highlight the actual budgets compared to real terms figures.



35. Parliamentary funding required in the 2019/20 budget proposal is £7.4 million, an increase of £0.4 million from 2018/19. The main reasons for the increase relate to year 2 of NFP and constitutional change funding and an increase to management contingency. These increases are partially offset by the removal of the national fraud initiative funding, which is a biennial exercise undertaken on behalf of the public sector in Scotland.
36. The Parliamentary funding requirement in the 2012/13 budget was £7.0 million and in real terms the 2019/20 budget proposal is effectively a reduction of £0.9 million (11%).
37. During the period 2012/13 to 2019/20 significant efficiencies have been identified and delivered while maintaining high quality service delivery. Examples include the external audit firms' procurement, property rationalisation and business re-structuring to meet the demands of an agile organisation. There has been significant change in the public sector landscape from 2012/13 and we will continue to identify opportunities to deliver efficiencies that demonstrate value for money as part of the annual budget process.

## Potential Short/Medium Term Budgetary Pressures

### 38. Pay Awards

The budget assumes cost of living pay awards at 2% per annum. Pay awards will reflect the market conditions in the public sector and are a key component in the proposed fees that are charged to public bodies. Expected fees are issued in December each year based on the budget assumptions and if the actual pay award is more than the budget assumption we will need to find savings from within the approved budget to break even.

### 39. UK withdrawal from EU

The uncertainty surrounding the UK's withdrawal from the European Union is likely to have an impact on the budget. It is difficult to quantify at this stage but in the short term it is possible that the cost of goods/services might increase putting pressure on budgets. It is expected that the EU withdrawal will affect public sector workforce planning, funding streams and lead to regulatory uncertainty in certain areas. Audits could therefore become more challenging which could lead to resourcing issues to successfully complete audits within the required deadlines. In the longer term there could be recruitment issues as well as financial market volatility that could lead to employer pension contributions increasing above assumed levels.

### 40. Audit firms' discounts

The discounts currently received from the firms for audit work is contracted to continue until the 2020/21 audit year. Based on 2017/18 audits the average discounts received by sector are as follows:

- |                      |      |
|----------------------|------|
| • Local Government   | 0.86 |
| • Health             | 0.85 |
| • Central Government | 0.88 |
| • Further Education  | 0.97 |

Approximately two thirds of financial audit work are undertaken in-house with one third undertaken by audit firms. The procurement strategy for the next award exercise will determine any change in the current allocation of work. If there are changes then this will have a potential impact on in-house staff resources. Also, there is the possibility of changes to the discounts offered, which will have significant implications on fees to audited bodies. Based on the discounts highlighted above the budget projection for 2019/20 assumes a total discount of £615k. The full impact of any changes will appear in the 2021/22 financial year.

#### **41. EAFA Fee Income**

Currently the European Agricultural Fund Account (EAFA) audits require significant resource which generates fee income of £874k. This budget proposal predicts that following EU withdrawal the requirement

to audit EAFA will continue in the short to medium term. In the longer term it is assumed that any UK/Scottish replacement scheme will require audit though at this stage it is too early to determine the level of resource required though it is expected that any new arrangement will be less labour intensive. Depending on the timing of any change it is possible that there could be a period where we have excess staff resource for which no or reduced fee income is being received. At this stage we are not able to quantify this within the future projections though the situation will be closely monitored and assessed.

If the UK Government is unable to negotiate a deal on leaving the EU this is likely to change the position in the short term leading to a significant impact on the scope of the audit and ultimately a risk in achieving the projected fee income in 2019/20. This is a significant budget risk and we will continually monitor the situation. In the short term we will need to identify how we will fund this pressure until staff turnover brings us to an affordable establishment. Included in the £874k EAFA funding is an allocation of overheads and pooled costs totalling £97k, which will impact on the next round of fees as they will need to be allocated across other bodies.

#### **42. IAS 19 Pension costs**

The requirement to account for IAS 19 pension liabilities as at the end of the financial year leads to uncertainty as the funding requested by us in the Spring Budget Revision is based on the Actuary's projections included in their IAS 19 pension calculation report for the previous year's annual accounts. Every effort is made to minimise this risk, however, as the funding required is agreed in December each year this leaves a 3-month period subject to uncertainty with potential discount rate changes resulting in increased costs with no matched funding.

#### **43. Early closure of accounts**

If in the longer term, there are proposals to change the current statutory deadlines for laying of annual accounts this will have significant resource implications for us and it is also anticipated that there will be an impact on the recognition of work in progress in the first year of implementation. We will need to ensure that we highlight the issues prior to any proposals being taken further forward.

### **Next Steps**

44. Subject to Board approval a budget proposal report will be prepared for the SCPA.

### **Action**

45. The Board is asked to review and discuss the contents of this paper and approve the budget proposal for submission to the SCPA.

## 2019/20 Draft Budget

## Establishment by Cost Centre

|   | 18/19<br>Operational<br>Budget | 19/20 Draft<br>Budget | 20/21<br>Projection | 21/22<br>Projection | 22/23<br>Projection | 23/24<br>Projection |
|---|--------------------------------|-----------------------|---------------------|---------------------|---------------------|---------------------|
| Commission Members                        | 12.00                          | 12.00                 | 12.00               | 12.00               | 12.00               | 12.00               |
| Board                                     | 3.00                           | 3.00                  | 3.00                | 3.00                | 3.00                | 3.00                |
| Auditor General                           | 1.00                           | 1.00                  | 1.00                | 1.00                | 1.00                | 1.00                |
| Commission Secretary                      | 1.00                           | 1.00                  | 1.00                | 1.00                | 1.00                | 1.00                |
| Management Team                           | 2.96                           | 2.96                  | 2.96                | 2.96                | 2.96                | 2.96                |
| Audit Services Group                      | 146.10                         | 146.10                | 146.10              | 146.10              | 146.10              | 146.10              |
| PABV (incl Professional Support)          | 66.40                          | 66.40                 | 66.40               | 66.40               | 66.40               | 66.40               |
| Corporate Services (incl Audit Assurance) | 36.60                          | 36.60                 | 36.60               | 36.60               | 36.60               | 36.60               |
| Facilities & Business Support             | 18.62                          | 18.62                 | 18.62               | 18.62               | 18.62               | 18.62               |
| NFP & constitutional change               | 8.00                           | 12.50                 | 16.50               | 20.00               | 20.00               | 20.00               |
| <b>Total</b>                              | <b>295.68</b>                  | <b>300.18</b>         | <b>304.18</b>       | <b>307.68</b>       | <b>307.68</b>       | <b>307.68</b>       |



## 2019/20 Draft Budget

## Establishment by Grade

|                                     | 18/19<br>Operational<br>Budget | 19/20 Draft<br>Budget | 20/21<br>Projection | 21/22<br>Projection | 22/23<br>Projection | 23/24<br>Projection |
|-------------------------------------|--------------------------------|-----------------------|---------------------|---------------------|---------------------|---------------------|
| Commission Members                  | 12.00                          | 12.00                 | 12.00               | 12.00               | 12.00               | 12.00               |
| Board                               | 3.00                           | 3.00                  | 3.00                | 3.00                | 3.00                | 3.00                |
| Auditor General                     | 1.00                           | 1.00                  | 1.00                | 1.00                | 1.00                | 1.00                |
| Commission Secretary                | 1.00                           | 1.00                  | 1.00                | 1.00                | 1.00                | 1.00                |
| Directors                           | 2.96                           | 2.96                  | 2.96                | 2.96                | 2.96                | 2.96                |
| Assistant Directors                 | 13.00                          | 13.00                 | 13.00               | 13.00               | 13.00               | 13.00               |
| Band 3                              | 36.40                          | 36.40                 | 36.40               | 36.40               | 36.40               | 36.40               |
| Band 2B                             | 31.12                          | 31.12                 | 31.12               | 31.12               | 31.12               | 31.12               |
| Band 2A                             | 74.10                          | 78.60                 | 82.60               | 86.10               | 86.10               | 86.10               |
| Band 1C                             | 57.48                          | 57.48                 | 57.48               | 57.48               | 57.48               | 57.48               |
| Band 1B                             | 19.00                          | 19.00                 | 19.00               | 19.00               | 19.00               | 19.00               |
| Band 1A                             | 8.62                           | 8.62                  | 8.62                | 8.62                | 8.62                | 8.62                |
| Trainees                            | 34.00                          | 34.00                 | 34.00               | 34.00               | 34.00               | 34.00               |
| Modern Apprentice / Student Trainee | 2.00                           | 2.00                  | 2.00                | 2.00                | 2.00                | 2.00                |
| <b>Total</b>                        | <b>295.68</b>                  | <b>300.18</b>         | <b>304.18</b>       | <b>307.68</b>       | <b>307.68</b>       | <b>307.68</b>       |

## 2019/20 DRAFT BUDGET - YEAR ON YEAR COMPARISON

## EXPENDITURE TO BE MET FROM FEES AND SCPA

|                                     | Actual  |         | Operational    | Draft          | Projection |         |         |         |
|-------------------------------------|---------|---------|----------------|----------------|------------|---------|---------|---------|
|                                     | 2016-17 | 2017-18 | 2018-19 Budget | 2019-20 Budget | 2020-21    | 2021-22 | 2022-23 | 2023-24 |
|                                     | £k      | £k      | £k             | £k             | £k         | £k      | £k      | £k      |
| Direct Costs                        |         |         |                |                |            |         |         |         |
| Salaries and on costs               | 14,824  | 15,037  | 15,232         | 15,839         | 16,383     | 16,852  | 17,294  | 17,712  |
| Pensions in payment                 | 23      | 27      | 25             | 25             | 25         | 26      | 27      | 27      |
| Pension adjustments                 | 871     | 1,831   | 100            | 100            | 100        | 100     | 100     | 100     |
|                                     | 15,718  | 16,894  | 15,357         | 15,964         | 16,508     | 16,978  | 17,420  | 17,839  |
| Agency Staff                        | 176     | 256     | 70             | 75             | 80         | 80      | 80      | 80      |
| Secondments to Audit Scotland       | 205     | 132     | 0              | 0              | 0          | 0       | 0       | 0       |
| VERA provision                      | 177     | 1       | 0              | 0              | 0          | 0       | 0       | 0       |
| NFP & constitutional change         |         |         | 480            | 765            | 1,030      | 1,273   | 1,299   | 1,325   |
| TOTAL                               | 16,276  | 17,282  | 15,907         | 16,804         | 17,618     | 18,331  | 18,799  | 19,244  |
| Approved Auditors                   |         |         |                |                |            |         |         |         |
| Fees                                | 4,760   | 4,039   | 3,851          | 3,909          | 3,987      | 4,067   | 4,148   | 4,231   |
| Expenses                            | 226     | 316     | 275            | 280            | 286        | 291     | 297     | 303     |
| TOTAL                               | 4,987   | 4,355   | 4,125          | 4,189          | 4,273      | 4,358   | 4,445   | 4,534   |
| Indirect Costs                      |         |         |                |                |            |         |         |         |
| Rent & Rates                        | 550     | 519     | 525            | 511            | 532        | 537     | 544     | 551     |
| Accommodation Costs                 | 346     | 419     | 410            | 393            | 420        | 406     | 410     | 417     |
| Travel & Subsistence                | 863     | 866     | 906            | 867            | 861        | 849     | 837     | 825     |
| Legal & Professional Fees           | 614     | 445     | 771            | 579            | 779        | 579     | 779     | 579     |
| Management Contingency              | 0       | 0       | 150            | 300            | 300        | 300     | 300     | 300     |
| Printing & Stationery               | 141     | 121     | 148            | 132            | 132        | 132     | 132     | 132     |
| Training incl. conferences          | 484     | 430     | 483            | 481            | 482        | 483     | 483     | 483     |
| Recruitment                         | 109     | 128     | 105            | 130            | 130        | 130     | 130     | 130     |
| Postage & Distribution (Comms)      | 37      | 26      | 44             | 38             | 38         | 38      | 38      | 38      |
| Insurance                           | 72      | 80      | 79             | 79             | 79         | 79      | 79      | 79      |
| Information technology              | 413     | 414     | 458            | 444            | 444        | 444     | 444     | 444     |
| Audit Fees - Internal               | 29      | 28      | 30             | 30             | 30         | 30      | 30      | 30      |
| Audit Fees - External               | 27      | 27      | 30             | 30             | 30         | 30      | 30      | 30      |
| Other                               | 80      | 65      | 63             | 65             | 65         | 65      | 65      | 65      |
| Depreciation                        | 354     | 372     | 383            | 323            | 286        | 258     | 248     | 219     |
| TOTAL                               | 4,120   | 3,939   | 4,586          | 4,401          | 4,607      | 4,360   | 4,549   | 4,322   |
| Other Income                        |         |         |                |                |            |         |         |         |
| Bank Interest                       | 36      | 7       | 0              | 0              | 0          | 0       | 0       | 0       |
| Secondment Income                   | 136     | 57      | 0              | 0              | 0          | 0       | 0       | 0       |
| Pension fund income (IAS19)         | -626    | -893    | 0              | 0              | 0          | 0       | 0       | 0       |
| Other income                        | 4       | 1       | 0              | 0              | 0          | 0       | 0       | 0       |
| TOTAL                               | -450    | -828    | 0              | 0              | 0          | 0       | 0       | 0       |
| Amount to be met from fees and SCPA | 25,832  | 26,404  | 24,618         | 25,394         | 26,499     | 27,050  | 27,793  | 28,100  |
| Movement from prior year budget £k  |         |         |                | 776            | 1,105      | 551     | 744     | 307     |
| Movement from prior year budget %   |         |         |                | 3.2%           | 4.5%       | 2.2%    | 3.0%    | 1.2%    |

## ANALYSIS OF BUDGET MOVEMENT FROM 2018/19 TO DRAFT 2019/20

|   | £k   | £k     |
|---|------|--------|
| 2018/19 Budget met from Fees and SCPA         |      | 24,618 |
| Analysis of budget change                     |      |        |
| 2% Pay Award                                  | 323  |        |
| Incremental Progression                       | 80   |        |
| Employer Pension Contribution increase        | 62   |        |
| Vacancy factor reduction                      | 102  |        |
| Other Direct Costs                            | 37   |        |
| New Financial Powers                          | 285  |        |
| NFI   | -200 |        |
| Management Contingency                        | 150  |        |
| Depreciation                                  | -60  |        |
| Approved Auditors                             | 64   |        |
| Travel & Subsistence                          | -39  |        |
| Accommodation                                 | -31  |        |
| Recruitment                                   | 25   |        |
| Miscellaneous                                 | -22  |        |
| Total budget change                           |      | 776    |
| 2019/20 Proposal to be met from Fees and SCPA |      | 25,394 |

## 2019/20 DRAFT BUDGET - CAPITAL PROJECTIONS

|                       | 2018/19<br>£k | 2019/20<br>£k | 2020/21<br>£k | 2021/22<br>£k | 2022/23<br>£k | 2023/24<br>£k |
|-----------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <u>IT investments</u> |               |               |               |               |               |               |
| Chrome books          | 25            |               |               |               |               |               |
| Mobile Phones         | 100           |               |               | 100           |               |               |
| Firewall box          | 25            |               |               |               |               |               |
| Software              | 25            | 75            | 40            | 25            | 75            | 75            |
| Printers              |               |               | 70            |               |               |               |
| Hardware              |               | 75            | 40            | 25            | 75            | 75            |
|                       | 175           | 150           | 150           | 150           | 150           | 150           |

## Purpose

1. This report provides an update on the business continuity planning arrangements for potential disruption arising from EU withdrawal and in particular a 'no deal' exit.

## Background

2. By common consent the current uncertainty surrounding the departure from the EU is significant and unprecedented and the situation is changing on almost a daily basis. Management Team and the Board have received regular updates on how EU withdrawal might impact on public sector bodies and on Audit Scotland.
3. The magnitude and nature of any disruption cannot be accurately predicted at this stage however, this does not negate the need to put plans in place to deal with different scenarios. In the event of severe disruption Audit Scotland will implement its Business Continuity (BC) arrangements.
4. Each year the Audit Committee reviews and approves Audit Scotland's BC arrangements. These consist of a business continuity policy and guide, major incident plan and recovery plans, all of which are revised and updated regularly. The BC arrangements were last reviewed and approved by the Audit Committee in November 2018.
5. The BC arrangements cover a range of scenarios, including loss of building or services for a period. We have been building on these arrangements to plan for potential disruption arising from EU withdrawal, including a 'no deal' departure.

## Business continuity planning arrangements

6. EU withdrawal is currently a standing item on the agenda for the weekly Management Team meetings. A working group has been carrying out planning and development work to support Management Team's considerations.
7. The main areas of focus have been:
  - Scenario planning, including identifying a range of scenarios and responses, in terms of:
    - disruption to the public bodies we audit
    - disruption to Audit Scotland's operations
    - the nature, scale and duration of disruption
    - 'trigger points' which might require action in terms of audit work and organisational priorities.
  - Preparedness planning, with a particular focus on the potential for short term disruption:
    - internal and external communications -where a communications plan is in place covering key messages, key stakeholders and communications channels
    - maximising flexibility, including enhanced digital services to support remote working and effective communication
    - engagement with key stakeholders
    - ensuring core support functions can operate effectively including, the Comptroller and Auditor General function, Finance, Communications, Human Resources and Digital Services

- how colleagues can use their time productively in the event of significant disruption.
- Reviewing and refining the arrangements in place to support Management Team, should the Business Continuity Plan (BCP) be activated and the Disaster Management Team (DMT) come into operation. The BCP defines a disaster as: ‘any incident which seriously affects business operations, to the detriment of the services that Audit Scotland delivers to its clients’. Here our focus has been on:
  - reviewing and updating membership of the DMT (DMT comprises Management Team and the Communications Manager)
  - establishing two support teams; one focussed on external monitoring and engagement with public sector organisations and one to support internal operational arrangements
  - ensuring resilient and flexible digital communications to support effective DMT discussion and decision making where members of the DMT are in different locations.
- 8. The BCP states that ‘it is the responsibility of the DMT member to decide whether the plan should be activated and, if necessary, to do so. On activation of the plan a member of the DMT is to notify the Audit Scotland Board members.’
- 9. The DMT is responsible for providing overall direction of the recovery operations . It must ascertain the extent of the problem or damage, activate the plan and monitor and report recovery progress. Specific responsibilities include:
  - Activation and deactivation of the BCP.
  - Liaising with emergency services.
  - The management of other Business Continuity Teams.
  - Evaluation of the extent of the problem and the potential consequences.
  - External public relations.
  - Monitoring recovery and assuring achievement of the plan.
  - Control of emergency expenditure.

## Recommendation

10. The Board is invited to consider and discuss the business continuity arrangements in place and those under development.

## Purpose

1. This report updates the Board on the reports and other outputs that we plan to publish during 2019/20 and 2020/21 on behalf of the Auditor General and the Accounts Commission. It also provides a summary of the longer-term five-year rolling work programme.

## Background

2. The Auditor General for Scotland (AGS) and Accounts Commission (AC) recently agreed the refreshed rolling work programme for the next five years. This includes a two-year programme of confirmed work and a further three years of indicative work. Further information on the programme including the high level scope of the audits planned for 2019/20 and 2020/21 can be found on our website: [www.audit-scotland.gov.uk/our-work/future-work/our-work-programme](http://www.audit-scotland.gov.uk/our-work/future-work/our-work-programme)<sup>1</sup>.

## Rolling work programme 2019/20 to 2023/24

3. The programme includes overview reporting, performance audit, Best Value, How Councils Work, impact reporting, statutory reporting and the Shared Risk Assessment of councils. All of these pieces of work either build on or complement the core annual audit work that takes place in each audited body every year. Flexibility has been built into the programme to allow Audit Scotland to undertake investigatory work and respond quickly to new and emerging audit risks on behalf of the AGS and AC, working where appropriate with partner audit firms.
4. In developing and refreshing the programme, careful consideration has been given to ensure that the audit work reflects:
  - the Auditor General and Accounts Commission strategic audit priorities
  - Audit Scotland's four audit dimensions as outlined in the Code of Audit Practice: value for money; governance and transparency; financial management; and financial sustainability
  - significant changes in the public sector policy environment, such as Scotland's New Financial Powers, changes to education governance, the Scottish Government's Enterprise and Skills Review, and the UK's decision to leave the European Union
  - new and emerging risks and issues informed by our audit intelligence and monitoring of public sector audit risks
  - the need to balance ongoing areas of interest (including follow-up work) with potential new pieces of audit work.
5. Within the programme we have sought to provide a balance of work that provides coverage across the areas outlined in paragraph 4. This includes a mixture of one-off pieces of work (e.g. revenue financing of assets and waste management), longer-term audit programmes (e.g. new financial powers; health and social care, early learning and childcare), thematic work (e.g. digital; prevention; and workforce planning) and audit activity to follow up on the impact of previous audits.

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<sup>1</sup> Please note: the content and layout of the website will be updated with details of the refreshed work programme when it is 'launched' on the 26<sup>th</sup> March.

6. The programme includes several additional outputs linked to the ongoing programme development work undertaken by our three policy clusters – Health, care and communities (HCC); Justice, education and lifelong learning (JELL); and Public finances, investment and economic development (PIE). These are being taken forward during 2019/20 and 2020/21 and take the form of internal briefings, published public briefings, and round tables. This programme development work covers areas such as:
- Community empowerment;
  - Cybersecurity;
  - Drug and alcohol services
  - Scottish Government Enterprise and Skills Review
  - Local economic development
  - Teacher workforce planning
7. The five-year rolling programme is set out within appendix 1. Arrangements are in place for regular engagement with both the AGS and AC to ensure the programme is in line with their expectations. The AGS and AC consult with key stakeholders as part of the annual refresh of the programme, with this engagement informing the final proposals. Audit Scotland also consults its Equality and Human Rights Advisory Group (EHRAG) to ensure that equality considerations are taken into account appropriately when planning and delivering our audit work. Ongoing engagement with the EHRAG will take place with individual teams as audits are scoped to ensure that equality issues are reflected in the delivery of the work programme. The feedback from the most recent consultation and engagement process was positive, providing assurance that the programme is proportionate and focussed on the right areas.

### **Publication schedule 2019/20 through to 2020/21**



8. Audit Scotland plans to publish in the region of 60 outputs over the course of the next two years on behalf of the AGS and AC, plus any additional statutory reports as required. The outputs are listed in appendix 2 along with indicative publication dates. The list does not include any corporate publications, impact reports or Annual Audit Reports arising from the financial audit of public bodies. It does not at this stage include any public outputs arising from our programme development work, such as the areas listed at paragraph 6 of this report. Should any of this work progress to published outputs they will be added into the overall publication schedule as appropriate.




### **Recommendations**

9. The Board is invited to note the approved five-year work programme and indicative publication schedule for the next two years.



## Appendix 1- Rolling work programme 2019/20 to 2023/24

|   | 2019/20  | 2020/21  | 2021/22  | 2022/23   | 2023/24   |
|---|--|--|--|---|---|
|  | <ul style="list-style-type: none"> <li>NHS in Scotland (AGS)</li> <li>Scotland's colleges (AGS)</li> <li>Local government financial overview (AC)</li> <li>Local government overview: challenges and performance (AC)</li> </ul>   | <ul style="list-style-type: none"> <li>NHS in Scotland (AGS)</li> <li>Scotland's colleges (AGS)</li> <li>Local government financial overview (AC)</li> <li>Local government overview: challenges and performance (AC)</li> </ul>   | <ul style="list-style-type: none"> <li>NHS in Scotland (AGS)</li> <li>Scotland's colleges (AGS)</li> <li>Local government financial overview (AC)</li> <li>Local government overview: challenges and performance (AC)</li> </ul>   | <ul style="list-style-type: none"> <li>NHS in Scotland (AGS)</li> <li>Scotland's colleges (AGS)</li> <li>Local government financial overview (AC)</li> <li>Local government overview: challenges and performance (AC)</li> </ul>  | <ul style="list-style-type: none"> <li>NHS in Scotland (AGS)</li> <li>Scotland's colleges (AGS)</li> <li>Local government financial overview (AC)</li> <li>Local government overview: challenges and performance (AC)</li> </ul>  |
|  | <ul style="list-style-type: none"> <li>Enabling digital government (AGS)</li> <li>Finances of Scottish universities (AGS)</li> <li>NHS workforce 2: community-based workforce (AGS)</li> <li>Social Security (AGS)</li> <li>City Deals (Joint)</li> <li>Early learning and childcare (Joint) – impact and follow up</li> <li>EU withdrawal *</li> <li>Revenue financing of assets: the NPD and Hub models (Joint)</li> <li>Scottish Public Pensions Agency follow-up (AGS)</li> </ul> <p>*scope and timing of work still to be agreed.</p> | <ul style="list-style-type: none"> <li>Social Security (AGS)</li> <li>Skills – planning and investment (ASG)</li> <li>Commonwealth Games legacy (Joint)</li> <li>Waste management (Joint)</li> <li>Outcomes for children with additional support needs (Joint)</li> <li>Social care sustainability (Joint)</li> <li>Digital progress in local government (AC)</li> <li>Supporting economic growth: the role of local authorities (AC)</li> </ul> | <ul style="list-style-type: none"> <li>Development of Scotland's new agriculture and fishing policy (AGS)</li> <li>Fair access to higher education (AGS)</li> <li>Social Security (AGS)</li> <li>City Deals 2 (Joint)</li> <li>Community justice (Joint)</li> <li>Digital services: learning or justice (Joint OR AGS)</li> <li>Early learning and childcare series (Joint)</li> <li>Improving outcomes for looked after children &amp; young people (Joint)</li> <li>Workforce planning post-EU withdrawal (joint)</li> <li>Local government (AC)***</li> </ul> | <ul style="list-style-type: none"> <li>Digital in health (AGS)</li> <li>Social Security (AGS)</li> <li>Supporting economic growth: Enterprise and Skills Review (AGS)</li> <li>Housing for an older population (Joint)</li> <li>Mental health (Joint)</li> <li>Progress in addressing child poverty (Joint)</li> <li>Replacing Structural Funds (Joint)</li> <li>Strategic capital investment (Joint or AGS)</li> <li>Local government (AC)***</li> </ul> | <ul style="list-style-type: none"> <li>Climate change plan (AGS)</li> <li>Digital: progress against digital strategy (AGS)</li> <li>Public energy company (AGS)</li> <li>Scottish investment bank (AGS)</li> <li>Social Security (AGS)</li> <li>Support to rail services (AGS)</li> <li>Health and social care 3 (Joint)</li> <li>Local government (AC)***</li> </ul> |
|   | <ul style="list-style-type: none"> <li>Educational outcomes (Joint)**</li> <li>Affordable housing (Joint)**</li> </ul> <p>**report early 20/21</p>   |  | <p>*** programme of audits focusing on 'core' local government services (e.g. leisure, libraries, burials, regulatory services, community transport)</p>   |   |   |

|   | 2019/20   | 2020/21   | 2021/22  | 2022/23   | 2023/24  |
|---|---|---|--|---|--|
|    | <p>7 Best Value Assurance Reports (BVARs):</p> <ul style="list-style-type: none"> <li>• Clackmannanshire Council Progress</li> <li>• Highland Council</li> <li>• Midlothian Council</li> <li>• North Lanarkshire Council</li> <li>• Perth and Kinross Council</li> <li>• Scottish Borders Council</li> <li>• South Lanarkshire Council</li> <li>• Stirling Council</li> </ul> | <p>7 Best Value Assurance Reports (BVARs):</p> <p>To be confirmed following the 2019/20 shared risk assessment process.</p> <p>Best Value assessments also feature in the annual audit reports of the remaining 25 councils.</p>  | <p>6 Best Value Assurance Reports (BVARs):</p> <p>To be confirmed following the 2020/21 shared risk assessment process.</p> <p>Best Value assessments also feature in the annual audit reports of the remaining 26 councils.</p>   | <p>End of five-year audit appointment cycle.</p> <p>Next steps to be confirmed in 2021.</p>   | <p>New appointment cycle.</p> <p>Approach to Best Value audit in councils to be agreed.</p>  |
|    | <p>There will be no How Councils Work in 2019/20</p>  | <p>It is assumed that one HCW audit will take place in 2020/21.</p>   | <p>The approach to How Councils Work beyond 2020/21 is to be agreed by the Accounts Commission.</p>  | <p>The approach to How Councils Work beyond 2020/21 is to be agreed by the Accounts Commission.</p>   | <p>The approach to How Councils Work beyond 2020/21 is to be agreed by the Accounts Commission.</p>  |
|  | <ul style="list-style-type: none"> <li>• NHS workforce planning (AGS)</li> <li>• Transport Scotland's ferry services (AGS)</li> <li>• Self-Directed Support follow up (Joint)</li> <li>• Equal Pay in councils (AC)</li> <li>• Roads Maintenance (Joint)</li> </ul>   | <ul style="list-style-type: none"> <li>• Forth replacement crossing (AGS)</li> <li>• Scottish Fire and Rescue Service: an update (AGS)</li> <li>• Superfast Broadband for Scotland (AGS)</li> <li>• Children and young people's mental health (Joint)</li> <li>• Councils' use of arms-length organisations (AC)</li> </ul> | <ul style="list-style-type: none"> <li>• Enabling digital government (AGS)</li> <li>• Finances of Scottish universities (AGS)</li> <li>• NHS workforce 2: community-based workforce (AGS)</li> <li>• Skills: planning and investment (ASG)</li> <li>• Scotland's City Region and Growth Deals (Joint)</li> <li>• EU withdrawal</li> <li>• Revenue financing of assets: the Non-profit distributing (NPD) and Hub models (Joint)</li> </ul> | <ul style="list-style-type: none"> <li>• Commonwealth Games (Joint)</li> <li>• Educational Outcomes (Joint)</li> <li>• Waste management (Joint)</li> <li>• Housing (Joint)</li> <li>• Outcomes for children with additional support needs (Joint)</li> <li>• Social care sustainability (Joint)</li> <li>• Digital progress in local government (AC)</li> <li>• Supporting economic growth: the role of local authorities (AC)</li> </ul> | <ul style="list-style-type: none"> <li>• Development of Scotland's new agriculture and fishing policy (AGS)</li> <li>• Fair access to higher education (AGS)</li> <li>• City Deals 2 (Joint)</li> <li>• Community justice (Joint)</li> <li>• Digital services: learning or justice (TBC)</li> <li>• Early learning and childcare series (Joint)</li> <li>• Improving outcomes for looked after children &amp; young people (Joint)</li> <li>• Workforce planning post-EU withdrawal (Joint)</li> <li>• Accounts Commission performance audit (AC)</li> </ul> |

## Appendix 2- Indicative publication schedule 2019/20 through 2020/21

The table below summarises reports and other outputs that we plan to publish during the next two years. Indicative publication timescales are included.

| Publication   | AGS / AC / Joint | Indicative publication |
|---|------------------|------------------------|
| Local government overview – performance and challenges                        | AC               | 21 March 2019          |
| South Lanarkshire Council BVAR  | AC               | 28 March 2019          |
| Public health briefing  | Joint            | April 2019             |
| Scottish Government Enterprise and Skills review – briefing paper             | AGS              | 4 April 2019           |
| How Councils Work: Safeguarding Public Money                                  | AC               | 11 April 2019          |
| Stirling Council BVAR   | AC               | 25 April 2019          |
| <i>Provisional</i> – College s22 statutory reports                            | AGS              | April 2019             |
| Social Security 2019  | AGS              | 2 May 2019             |
| A guide to the GMS contract in Scotland                                       | AGS              | 9 May 2019             |
| North Lanarkshire Council BVAR  | AC               | 23 May 2019            |
| Scotland's colleges 2019  | AGS              | 30 May 2019            |
| Scottish Public Pensions Agency (SPPA) update                                 | AGS              | 18 June 2019           |
| Enabling Digital Government   | AGS              | 20 June 2019           |
| Clackmannanshire Council BVAR follow-up                                       | AC               | 27 June 2019           |
| Midlothian Council BVAR   | AC               | 4 July 2019            |
| National scrutiny plan  | AC               | 11 July 2019           |
| Community Empowerment briefing  | Joint            | July 2019              |
| Cyber security briefing   | AGS              | July 2019              |
| Revenue financing of assets: the Non-profit distributing (NPD) and Hub models | Joint            | 8 August 2019          |
| Perth and Kinross Council BVAR  | AC               | 22 August 2019         |
| NHS Workforce 2   | AGS              | 29 August 2019         |
| S22 Scottish Government (SG) Consolidated Accounts                            | AGS              | September 2019         |
| Finances of Scottish Universities   | AGS              | 19 September 2019      |
| <i>Provisional</i> – Health s22 statutory reports                             | AGS              | October 2019           |
| Scottish Borders Council BVAR   | AC               | 24 October 2019        |
| NHS in Scotland 2019 overview   | AGS              | 31 October 2019        |
| Scotland's City Region and Growth Deals                                       | Joint            | 14 November 2019       |
| Local government in Scotland – a financial overview                           | AC               | 28 November 2019       |
| Highland Council BVAR   | AC               | 5 December 2019        |
| <i>Provisional</i> Central government S22 Statutory reports                   | AGS              | Throughout 2019        |

| Publication   | AGS / AC / Joint | Indicative publication |
|---|------------------|------------------------|
| <i>Provisional</i> Local government S102 Statutory reports  | AC/CoA           | Throughout 2019        |
| Early learning and childcare impact and follow-up   | Joint            | January 2020           |
| Local government in Scotland 2019 – challenges and performance  | AC               | Spring 2020            |
| New financial powers and constitutional change – Social Security 2020   | AGS              |                        |
| <i>Provisional</i> – Colleges s22 statutory reports   | AGS              |                        |
| Educational outcomes  | Joint            | Summer 2020            |
| Affordable Housing  | Joint            |                        |
| Commonwealth games follow-up  | Joint            |                        |
| National Scrutiny Plan  | AC               |                        |
| Economic growth: the role of local authorities  | AC               |                        |
| Digital in local government   | AC               |                        |
| Scotland's colleges overview 2020   | AGS              |                        |
| National Fraud Initiative in Scotland   | Audit Scotland   |                        |
| Social Care sustainability  | Joint            | Autumn 2020            |
| S22 Scottish Government Consolidated accounts   | AGS              |                        |
| <i>Provisional</i> – Health S22 Statutory reports   | AGS              |                        |
| NHS in Scotland overview  | AGS              |                        |
| Skills planning and investment  | AGS              | Winter 2020            |
| Local government in Scotland – a financial overview   | AC               |                        |
| Improving outcomes for children with additional support needs   | Joint            |                        |
| Waste management  | Joint            |                        |
| Teacher workforce briefing  | Joint            |                        |
| <i>Provisional</i> Central government S22 Statutory reports   | AGS              | Throughout 2020/21     |
| <i>Provisional</i> Local government S102 Statutory reports  | AC               |                        |
| 7 Best Value Assurance Reports (BVARs): To be confirmed following the 2019/20 shared risk assessment process. | AC               |                        |
| How Councils Work (topic and timing tbc)  | AC               |                        |

Wednesday 1 May 2019 at 10.15am

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

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

## Standing items

4. Chair's report – verbal update
  5. Accountable Officer's report – verbal update
  6. Accounts Commission Chair's report – verbal update
  7. Review of minutes: Board meeting 18 March 2019
  8. Review of action tracker
- 

## Strategy and planning

9. Information security management policy For approval
  10. Data protection policy For approval
- 

## Conclusion

11. Any other business
  12. Review of meeting
  13. Date of next meeting: 5 June 2019
- 

## Items to be taken in private

14. Draft 2018/19 Annual report and accounts For approval  
[Item to be taken in private to support the effective conduct of business, intended for future publication]
  15. Equality outcomes and mainstreaming progress report For approval  
[Item to be taken in private to support the effective conduct of business, intended for future publication]
-

- |  |                |
|--|----------------|
| <b>16.</b> Corporate plan update 2019/20<br>[Item to be taken in private to support the effective conduct of business,<br>intended for future publication] | For approval   |
| <b>17.</b> Draft Communication and engagement strategy TBC<br>[Item to be taken in private to support the effective conduct of<br>business]                | For discussion |
| <b>18.</b> Preparations for audit procurement: Outline project approach<br>[Item to be taken in private due to commercial sensitivity]                     | For discussion |

Wednesday 1 May 2019 at 10.15am

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

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

## Standing items

4. Chair's report – verbal update For information
  5. Accountable Officer's report – verbal update For information
  6. Accounts Commission Chair's report – verbal update For information
  7. Review of minutes: Board meeting 18 March 2019 For approval
  8. Review of action tracker For information
- 

## Strategy and planning

9. Audit and Accountability framework update For information
  10. EU Withdrawal – verbal update For information
- 

## Business management

11. Information security management policy review For approval
  12. Data protection policy For approval
  13. 2018/19 Accounting policies, key accounting estimates and judgements For approval
  14. Equality outcomes and mainstreaming progress report For approval
  15. Strategic improvement programme 2019-2021 and the Performance management framework project For information
  16. Review of audit market - update For information
- 

## Conclusion

17. Any other business

- 18. Review of meeting
- 19. Date of next meeting: 5 June 2019

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### Items to be taken in private

- |   |                |
|---|----------------|
| <b>20.</b> Draft Corporate plan update 2019/20<br>[Item to be taken in private to support the effective conduct of business, intended for future publication]                 | For approval   |
| <b>21.</b> Communication and engagement strategy review<br>[Item to be taken in private to support the effective conduct of business]   | For discussion |
| <b>22.</b> Preparations for audit procurement: project update<br>[Item to be taken in private to support the effective conduct of business and due to commercial sensitivity] | For discussion |



Monday 18 March 2019, 10.45am

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

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## **Present:**

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

## **Apologies:**

None

## **In attendance:**

Diane McGiffen, Chief Operating Officer  
Martin Walker, Assistant Director, Corporate Performance and Risk  
Joy Webber, Senior Executive Assistant  
Stuart Dennis, Corporate Finance Manager  
Simon Ebbett, Communications Manager  
Anthony Clark, Audit Director, Performance Audit and Best Value  
Elaine Boyd, Associate Director, Audit Quality and Appointments  
Owen Smith, Senior Manager, Audit Quality and Appointments

### **1. Welcome and apologies**

The Chair welcomed members and attendees to the meeting of the Audit Scotland Board, the agenda and papers for which had been published on Audit Scotland's website on Wednesday 13 March 2019.

### **2. Declarations of interest**

There were no declarations of interest.

### **3. Decision on items to be taken in private**

The Board agreed the items to be taken in private.

### **4. Chair's report**

Ian Leitch provided a verbal update of meetings with Diane McGiffen on general business matters and of meetings with the Scottish Commission for Public Audit on succession planning for Audit Scotland's Board in 2020 including the potential to co-opt new members.

The Board welcomed the potential for the co-option of new members to enable a smooth transition in advance of their formal appointment.

### **5. Accountable Officer's report**

Caroline Gardner invited the Board to note recent Public Audit and Post Legislative Scrutiny committee (PAPLS) sessions including the joint evidence session with the National Audit Office (NAO) on Scottish income tax and the session on the Scottish Social Services Council. She also updated the Board on PAPLS post legislative scrutiny work on The Control of Dogs (Scotland) Act 2010 and its consideration of the coverage of Freedom of Information legislation.

Caroline advised that the Audit and Accountability framework was issued on 27 February 2019 and a report to the Board is scheduled for 1 May 2019.

Caroline invited the Board to note that the UK Government has opened a consultation following the recommendations within the recent Kingman report around the process of establishing a new regulatory body. Caroline also invited the Board to note the NAO have issued an updated Code of Audit Practice for consultation.

The Chair and Alan Alexander noted Audit Scotland's contribution to the Audit and Accountability Framework and asked whether Audit Scotland will be responding to the forthcoming consultation. Caroline advised that submissions were made to both the CMA and Kingman reviews and confirmed that Fiona Kordiak will consider the consultation on regulation and make a decision on whether to respond in early course.

Caroline advised of her appointment as professional assessor for the State of Jersey in its recruitment of an Auditor General.

Caroline advised members of the positive feedback following the Audit Scotland conference on 30 January 2019 and thanked the Chair and Graham Sharp for their participation.

Caroline invited members to note that since the report advising of the results from the Best Companies survey in January 2019, Audit Scotland had received the award for being a Top 100 Best 'Not for profit' organisation to work for.

The Board welcomed the update.

## **6. Accounts Commission Chair's report**

Graham Sharp invited the Board to note that at its last meeting on 7 March 2019 the Accounts Commission had considered the Best Value assurance report for South Lanarkshire Council and received a briefing on drugs and alcohol services.

Graham advised that the Accounts Commission Strategy seminar had taken place on 12 and 13 March 2019 where it had considered challenges facing local government and had welcomed the value of meeting in a less formal setting. Graham advised there were a number of outputs from the strategy session which would be considered at the meeting of the Accounts Commission on 11 April 2019 and that these would be shared with the Board in due course. In addition, the Board noted the Accounts Commission will consider the Best Value Assurance report for Stirling Council at its meeting in April.

Graham invited members to note the forthcoming publication of the local government overview report together with the guidance note on how Councils work to safeguard public money following on from previous guidance issued for ALEOs.

The Board welcomed the update.

## **7. Review of minutes: Board meeting 29 January 2019**

The Board considered the minutes of the meeting of 29 January 2019, which had been previously circulated, and agreed that these were an accurate record.

## **8. Review of actions tracker**

The Board noted the updates provided by the action tracker.

Diane McGiffen invited members to consider the outcome from the Board development session on 8 February 2019. The members agreed they would welcome a further discussion once the outputs arising had been circulated.

**Action ASB87: Diane McGiffen to circulate the output from the Board development session on 8 February 2019. (April 2019)**

## 9. Q3 Financial performance report

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

Stuart Dennis, Corporate Finance Manager, introduced the Q3 Finance performance report, which had been previously circulated.

Stuart invited members to note the financial performance report for the period to 31 December 2018 and welcomed any questions.

Graham Sharp sought assurance around how management accounting monitors the cost and efficiency of audit work. Stuart advised this is based around the number of audit days planned and where there is an increase in the number of days worked which might impact on the audit fee, this is reviewed by Audit Quality and Appointments. In terms of setting an audit fee, Stuart advised that this is done by estimating the number of days required to do the audit work taking account of the previous year's audit as well as opportunities to bring efficiencies into play. Graham asked if it was possible to compare the number of days for audit work undertaken in-house to the Firms. Diane McGiffen advised that the Audit Services management team review resourcing and planned work in progress on a monthly basis and confirmed that the Firms operate on an output-based contract. Diane informed the Board that Audit Scotland undertakes a reconciliation exercise at the end of each audit year. The members agreed it would be helpful to gain a sound understanding of the fee setting as part of the procurement strategy in advance of the next appointment round together with benchmarking undertaken with other agencies and audit providers.

Alan Alexander asked whether the Management Contingency budget was sufficient and Stuart confirmed it was.

The Board welcomed the report.

**Action ASB88: 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)**

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

## 10. Q3 Corporate performance report

*Martin Walker, Assistant Director joined the meeting.*

Martin Walker introduced the Q3 Corporate performance report, which had been previously circulated.

Martin invited the Board to note the good performance reported overall and highlighted the increase in statutory reporting, the level of social media coverage, the new products provided by way of briefings on New financial powers and Audit Scotland's best ever Best companies survey results. In addition, Martin advised that Audit Scotland was currently operating below its carbon emission target.

Graham Sharp asked how Audit Scotland can deliver continued improvement. Martin advised corporate performance is considered at the Performance Risk Management Group before reporting to Management Team each quarter with a review annually to change targets where required.

Heather Logan noted the references to the Performance Management Framework and asked whether it was acceptable to have this captured as an action given its current status. She also noted that Audit Scotland were operating over establishment and performance status was green overall but queried where the pressure to meet demand was being felt. Martin advised that while the metrics are all green there are hotspots in some areas of the organisation to deliver outputs. Diane McGiffen advised that the increased number of statutory reporting was a factor together with the impact of recruitment and onboarding and the time lag for new colleagues to reach full capacity.

Heather queried the value of investment in social media for audit reporting. Martin advised that this had provided an additional communication channel for the Accounts Commission to extend visibility and engagement in local communities and that continued investment will be considered as part of the refresh of the Communications and Engagement Strategy.

Heather asked about our investment in the Youth Panel and Diane McGiffen advised that the meetings had been organised by Youth Scotland which typically take place on a Saturday. Audit Scotland support these meetings as part of our commitment to the International Year of Young People with panel members attending from around Scotland.

Following discussion, the Board welcomed the report.

## 11. Q3 Becoming world class improvement programme report

Martin Walker introduced the Q3 Becoming world class improvement programme report, which had been previously circulated.

Martin invited the Board to note the good progress reported overall and highlighted that some of the digitally enabled projects were being re-prioritised and rescheduled. He advised that Management Team had considered a report on 12 March 2019 which considered the projects underway together with the key risks to deliver which included three upgrades to existing systems.

The Board noted that the objectives of the Performance Management Framework (PMF) project remain the same but that the timeline has moved to reflect the availability of the new time recording and HR systems with the PMF coming later in 2019.

Heather Logan asked about Key Performance Indicators and Martin advised of a wide range of measures in place. The PMF would replicate those measures and allow for more timely and efficient reporting. Martin advised a further report was due to be considered by Management Team in April 2019 and agreed to share with members the report considered by Management Team on 12 February 2019 which reported on the PMF and the report discussed with Management Team on 12 March 2019 on the projects overall.

Diane McGiffen provided assurance to the Board of the robustness of performance reporting currently with the objective for the PMF built around a shared vision of the business groups to deliver more real time data reporting. She invited the Board to note that Audit Scotland haven't committed any expenditure beyond the consultancy work as there are several interdependencies, including suppliers issuing upgrades to current systems and changes to licences which had driven the need to rephrase the project.

The Board welcomed the update.

**Action ASB89: Martin Walker to circulate the reports considered by Management Team on 12 February 2019 and 12 March 2019 to members for their information. (March 2019)**

## 12. 2018/19 Audit Scotland Annual report

*Simon Ebbett, Communications Manager joined the meeting.*

Simon Ebbett, Communications Manager, introduced the 2018/2019 Audit Scotland annual report, which had been previously circulated.

Simon Ebbett invited the Board to consider, comment and approve the proposed structure of the 2018/19 Audit Scotland annual report.

The Board considered the refinement of the proposed structure for Audit Scotland's annual report and approved the format for this year.

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

### **13. 2018/19 Operational budget**

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

Stuart Dennis, Corporate Finance Manager, introduced the 2018/2019 Operational budget report, which had been circulated previously.

Stuart Dennis invited the Board to approve the 2019/20 operational budget.

The Board welcomed the report and approved Audit Scotland 2019/20 Operational budget.

### **14. Business continuity planning: EU withdrawal**

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

Martin Walker and Simon Ebbett introduced the Business continuity planning: EU withdrawal report, which had been previously circulated.

Martin Walker provided an overview of preparedness planning and communications and invited the Board to consider and discuss the business continuity arrangements in place and those under development.

The Board welcomed the assurance around Audit Scotland's preparedness to respond to issues arising from the EU withdrawal, given the scenario planning undertaken to consider the impact of major disruption to public bodies and the requirement for the audit function to continue.

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

### **15. Work programme and publication schedule**

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

Antony Clark, Audit Director, Performance Audit and Best Value, introduced the Work programme and publication schedule, which had been previously circulated.

Antony invited the Board to note the approved five year work programme and indicative publication schedule for the next two years.

Heather Logan asked if there were increased outputs compared with the previous two years. Antony advised they were broadly similar with 60 outputs.

The Board welcomed the report.

*Antony Clark left the meeting.*

### **16. Any other business**

There was no further business.

### **17. Review of meeting**

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

### **18. Date of next meeting**

It was noted that the next Audit Scotland Board meeting was scheduled for 1 May 2019 in the offices of Audit Scotland, 102 West Port, Edinburgh.

## Items taken in private

### 19. Medium term financial plan 2019-20 to 2023-24

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

Stuart Dennis introduced the Medium term financial plan 2019-20 to 2023-24 report, which had been previously circulated. Stuart invited the Board to note this report is a tool to provide a view of the potential risks and challenges to the medium term financial plan.

Alan Alexander had a number of comments and acknowledged that the amount of detailed monitoring required will be quite challenging. Alan asked whether pension costs could be quantified. Stuart advised that there is an annual valuation and forecast for the following year used to inform Audit Scotland's funding request to the Scottish Commission for Public Audit. The Board noted the potential impact of a changeable discount factor can have a significant impact on any funding required and the potential effect of the EU withdrawal on markets may also have an impact. The Board also noted that the biggest variance to financial planning is the pay bill.

The Board discussed whether it would be prudent for Audit Scotland to make a case for holding reserves or requesting additional funding given the level of uncertainty and recognising the potential loss of EAFA audit work. Caroline Gardner advised that the UK government had indicated that it would still require audit work, but it is unlikely to be at the same level as is currently the case. The Board noted that previous budget submissions have highlighted these risks with the SCPA.

Alan Alexander queried whether the report would go into the public domain and Stuart advised that the purpose of this report is to provide assurance to the Board of the planning underway and that it informs the budget submission process each year, which is in the public domain.

Alan Alexander also asked if Audit Scotland had compared the professional qualification of ICAS with other providers to see if this represents good value for money. Diane McGiffen confirmed Audit Scotland had previously used CIPFA and feedback on the quality of delivery from trainees had informed the options appraisal. She advised that the ICAS qualification is more transferable and this is attractive to candidates and noted that the Human Resources and Remuneration is currently reviewing the ICAS scheme to gather evidence of performance and we will include a comparison with CIPFA when reporting.

The Board welcomed the report and the proposal to review the medium term financial plan each year with any urgent business scheduled as required.

*Stuart Dennis left the meeting.*

### 20. Preparations for audit procurement: Key milestones and context

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

Diane McGiffen introduced the Preparations for audit procurement: key milestones and context report, a copy of which had been previously circulated.

Diane invited the Board to note the briefing on the previous procurement exercise, consider the options set out at Appendix 3 and approve the outlines scope and proposed timetables for the three inter-linked projects:

- 2020 Code of Audit Practice
- Procurement strategy
- Audit tender and appointments.

Diane drew the Board's attention in particular to the options set out in paragraph 24 of Appendix 3 on the options for developing a steering group for the projects or allocating time at existing Board and Accounts Commission meetings.

The Board discussed the timetable for the projects and whether the timescales could be shortened. Diane advised that the lessons learned report from the previous procurement exercise had highlighted the need to provide early and ongoing engagement with key stakeholders over a longer period and that the proposed timeline reflected that lesson.

Graham Sharp asked how the timetable reflected the appointment of a new Auditor General. Caroline Gardner advised that the Scottish Parliament is planning for the appointment process and that Audit Scotland is developing a transition plan. She advised that the new Auditor General may be designated at least three months before taking up post, and so could be involved in discussions at that stage, and that her term of office runs until 30 June 2020. Diane also advised that, as set out in paragraph 4 of the report, there is other turnover at Board level in 2020, so the timetable for the projects has been developed to capitalise on current knowledge and experience.

Graham Sharp asked about involvement in the drafting of the Code of Audit Practice and Elaine confirmed that once the timetable and governance arrangements were in place, there would be ongoing involvement for Graham and the Commission in the development of the Code, as set out in the report.

The Chair invited the Board to approve the project timetables and creation of a project steering group as set out in the report. The Board approved both recommendations, with Graham Sharp reserving his position pending further consultation with members of the Accounts Commission.

*Elaine Boyd, Associate Director and Owen Smith, Senior Manager, Audit Quality and Appointments, left the meeting.*

## **21. Corporate plan update 2019/20**

Martin Walker introduced the Corporate plan update 2019/20, which had been previously circulated.

Martin Walker invited the Board to consider and approve the proposed refresh of the Corporate Plan for 2019/20.

The Board welcomed the report and approved the proposed refresh of the Corporate Plan for 2019/20.

| Ref   | FORUM | Agenda Item No | Item Title   | Action Description   | Meeting Date | Due Date   | Responsible    | Assigned to    | Complete/Ongoing | Reported Yes/No | Progress Notes  |
|-------|-------|----------------|--|--|--------------|------------|----------------|----------------|------------------|-----------------|---|
|       |       |                |  |  |              |            |                |                |                  |                 |   |
| ASB87 | Board | 8              | Review of action tracker                             | Diane McGiffen to circulate the output from the Board development session on 8 February 2019.  | 18/03/2019   | 01/05/2019 | Diane McGiffen | Diane McGiffen | Complete         | No              | The outputs from the Board Development session on 8 February were circulated with the Board papers for the meeting on 1 May 2019. |
| 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              | A verbal update will be provided at Item 8 of today's meeting.  |
| ASB89 | Board | 11             | Q3 Becoming world class improvement programme report | Martin Walker to circulate the reports considered by Management Team on 12 February 2019 and 12 March 2019 to members for their information.                 | 18/03/2019   | 01/05/2019 | Martin Walker  | Martin Walker  | Complete         | No              | The report which appears at Item 15 of today's agenda provides an update and summarises the reports to Management Team.           |



**Purpose**

1. This report highlights the implications of the framework for audit and accountability for devolved matters agreed by the UK and Scottish Governments.

**Background**

2. For the last two years, HM Treasury and the Scottish Government have been working to agree a framework setting out arrangements for the audit and accountability of devolved matters. The framework was agreed at the end of February 2019.<sup>1</sup> It is an annex to the wider Fiscal Framework agreement.
3. The Scottish Government formally consulted with Audit Scotland on a draft framework and engaged with us throughout its development. The Auditor General for Scotland (AGS) gave evidence to the Public Audit and Post-Legislative Scrutiny Committee (PAPLSC) on the draft framework in February 2018, and suggested areas where the framework could be strengthened to better support the interests and responsibilities of the Scottish Parliament. After inviting views from other committees on the proposed arrangements, PAPLSC wrote to the Cabinet Secretary for Finance and the Constitution and the Chief Secretary to the Treasury in April 2018 to highlight concerns that the draft framework did not fully satisfy the Parliament in its scrutiny of devolved matters.<sup>2</sup>
4. The Scottish Government shared a copy of the final agreed framework with the AGS and PAPLSC on 27 February 2019. The Cabinet Secretary highlighted that he believes the framework will be effective in facilitating auditors' work in helping the UK and Scottish Parliaments hold public bodies to account. He also outlined his concerns that the framework does not fully address some points raised by PAPLSC and Audit Scotland, particularly arrangements for Audit Scotland's access to UK public bodies.<sup>3</sup>
5. The AGS also wrote to PAPLSC to set out her views on the final framework. The AGS noted that most of the concerns she had previously identified have been addressed or partly addressed in the final framework. She highlighted that she will "continue to work constructively with the National Audit Office to implement the framework in a way that will meet the needs of the Scottish Parliament as far as possible, but it is possible that this could lead to a situation where I am unable to secure the audit activity that I, or the Scottish Parliament, think necessary to support the Parliament's responsibilities."<sup>4</sup>

**The framework**

6. The final framework sets out the nature and extent of accountability the Scottish Parliament can expect in relation to services provided by UK public bodies in devolved areas. This includes the collection of Scottish Income Tax by HMRC, VAT assignment by HM Treasury, and aspects of social security administration undertaken by the Department for Work and Pensions (DWP).
7. The framework notes that national auditors (AGS and the Comptroller and Auditor General) have complete discretion in how they carry out their functions and are free to determine their work programme independently. It states that national auditors can make arrangements between themselves to undertake

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<sup>1</sup> <https://www.gov.scot/binaries/content/documents/govscot/publications/publication/2019/03/scottish-devolution-framework-audit-accountability/documents/scottish-devolution-framework-audit-accountability/scottish-devolution-framework-audit-accountability/govscot%3Adocument>

<sup>2</sup> [https://www.parliament.scot/S5\\_Public\\_Audit/Inquiries/20180405\\_Letter\\_to\\_Cab\\_Sec-Chief\\_Secretary\\_to\\_the\\_Treasury.pdf](https://www.parliament.scot/S5_Public_Audit/Inquiries/20180405_Letter_to_Cab_Sec-Chief_Secretary_to_the_Treasury.pdf)

<sup>3</sup> [https://www.parliament.scot/S5\\_Public\\_Audit/General%20Documents/Letter\\_to\\_PAPLS\\_-\\_27\\_Feb.pdf](https://www.parliament.scot/S5_Public_Audit/General%20Documents/Letter_to_PAPLS_-_27_Feb.pdf)

<sup>4</sup> [https://www.parliament.scot/S5\\_Public\\_Audit/General%20Documents/Audit\\_accountability\\_AGS\\_to\\_PAPLSC.pdf](https://www.parliament.scot/S5_Public_Audit/General%20Documents/Audit_accountability_AGS_to_PAPLSC.pdf)

work to ensure they can support their respective Parliament's needs and responsibilities. The framework notes that, in the unlikely event of disagreement, national auditors should discuss this with the relevant Parliament that requires the audit assurance.

8. The principles-based approach adopted in the framework expands the opportunities for cross-border auditing in devolved areas that involve UK bodies. The AGS's access to UK bodies in relation to devolved matters remains subject to agreement with the Comptroller and Auditor General (C&AG). The approach set out in the framework relies on the C&AG and the AGS agreeing effective audit arrangements where these are not already set out in statute or a pre-existing Memorandum of Understanding.
9. The framework includes a commitment to review its effectiveness alongside the wider review of the fiscal framework in 2021.

## Implications

10. The framework confirms that, 'where functions are devolved to the Scottish Parliament and a new public body is established to deliver these, that body will be brought within the existing accountability and audit framework, within the scope of the Auditor General for Scotland'. This recognises the arrangements applied to bodies such as Revenue Scotland, Crown Estate Scotland and Social Security Scotland.
11. Where UK public bodies provide devolved functions as part of their overall responsibilities, the AGS and the C&AG will need to agree the audit work to be undertaken in relation to devolved functions, and who should do this. Such an arrangement already operates in relation to the administration of Scottish Income Tax by HMRC. This is set out in a Memorandum of Understanding, which is due to be reviewed in advance of starting this year's work in late summer 2019. We have held initial discussions with the National Audit Office (NAO) on this.
12. We are currently undertaking the first financial audit of Social Security Scotland. We have been working closely with the NAO to agree and formalise audit arrangements for aspects of this work, to obtain assurance over areas administered by DWP, in line with the principles in the audit and accountability framework. This work is well advanced, with an exchange of letters expected in the weeks ahead.
13. Our initial focus has been to seek agreement with the NAO in areas required to support existing work programmes and commitments. In time, we anticipate we will initiate discussions about further auditing in cross-border areas. This is likely to be necessary in support of future work programmes that reflect the interests of the Scottish Parliament in areas such as the continued administration of aspects of devolved social security by DWP and VAT assignment. Auditing VAT is likely to pose particular challenges because of the methodology used to assign a share of VAT to the Scottish budget, which is based on estimates.
14. We are building the skills and capacity necessary to undertake this audit work, in line with our budget proposals to the Scottish Commission for Public Audit. This includes drawing on the skills and experience of the NAO in auditing these areas. Our engagement on the financial audit of social security provides an opportunity for our audit team to learn from NAO colleagues and widen and refine their skills base.
15. The framework is permissive, insofar as it enables Audit Scotland and the NAO to agree audit arrangements that support accountability for devolved matters to the Scottish Parliament. This might involve the NAO undertaking audit work at a UK body, joint work or potentially direct work by Audit Scotland. There remains a risk that, if such agreement could not be reached in specific areas, it would not be possible to secure the audit activity that the AGS, or the Scottish Parliament, think necessary. In such cases the framework anticipates that the C&AG would discuss his views with the Scottish Parliament.
16. We will provide further updates on our engagement with the NAO in relation to the application of the audit and accountability framework as part of our regular New Financial Powers and Constitutional Change progress reports.

## Conclusion

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

## Purpose

1. This report invites the Board to review and approve the updated Information Security Management policy.

## Background

2. This policy is the overarching 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. This 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 18 March 2019 and the Management Team on 2 April 2019.
4. In addition to KITGG approval, it is important that this policy is approved by both Management Team and the Audit Scotland Board as this reflects leadership and commitment, as specified in the ISO 27001:2013 standard.
5. The review and approval process of the policy demonstrates our continued commitment and compliance with the standard.

## Policy changes

6. The following changes have been applied to the policy, they are highlighted as tracked changes and include:
  - references to the General Data Protection Regulation have been changed to cover all relevant data protection regulations
  - references added for processes where information security risks are escalated to KITGG, Management Team and the Board and
  - minor wording changes.
7. In addition, some changes have been made to the diagram in appendix 1, the diagram, these include:
  - references to the Data Protection Policy
  - inclusion of additional procedures and logs maintained as part of the ISMS
  - references to Corporate Governance, where procedures are the responsibility of the Corporate Governance team and
  - references to the selection of user guides which are available to colleagues through the new Digital Services SharePoint site.

## Recommendations

8. The Board is invited to consider the updates made to the policy and approve policy as part of the annual policy review process.

## Information Security Management Policy

|                |                          |                  |            |
|----------------|--------------------------|------------------|------------|
| Version:       | 1.54                     | Status:          | For review |
| Author/Owner:  | Digital Services Manager | Approval/Review: | Board      |
| Approval Date: |                          | Review Date:     | 1 May 2019 |

### 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 ~~supporting~~ 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. produce, maintain and test business continuity plans to ensure the availability of its information and information systems
  - 4.2. treat information security as a business-critical issue
  - 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 ~~the General Data Protection Regulation~~ and implement privacy by design in all information systems

- 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. continue to improve ~~its~~ information security management
- 4.10. 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.

## Responsibilities

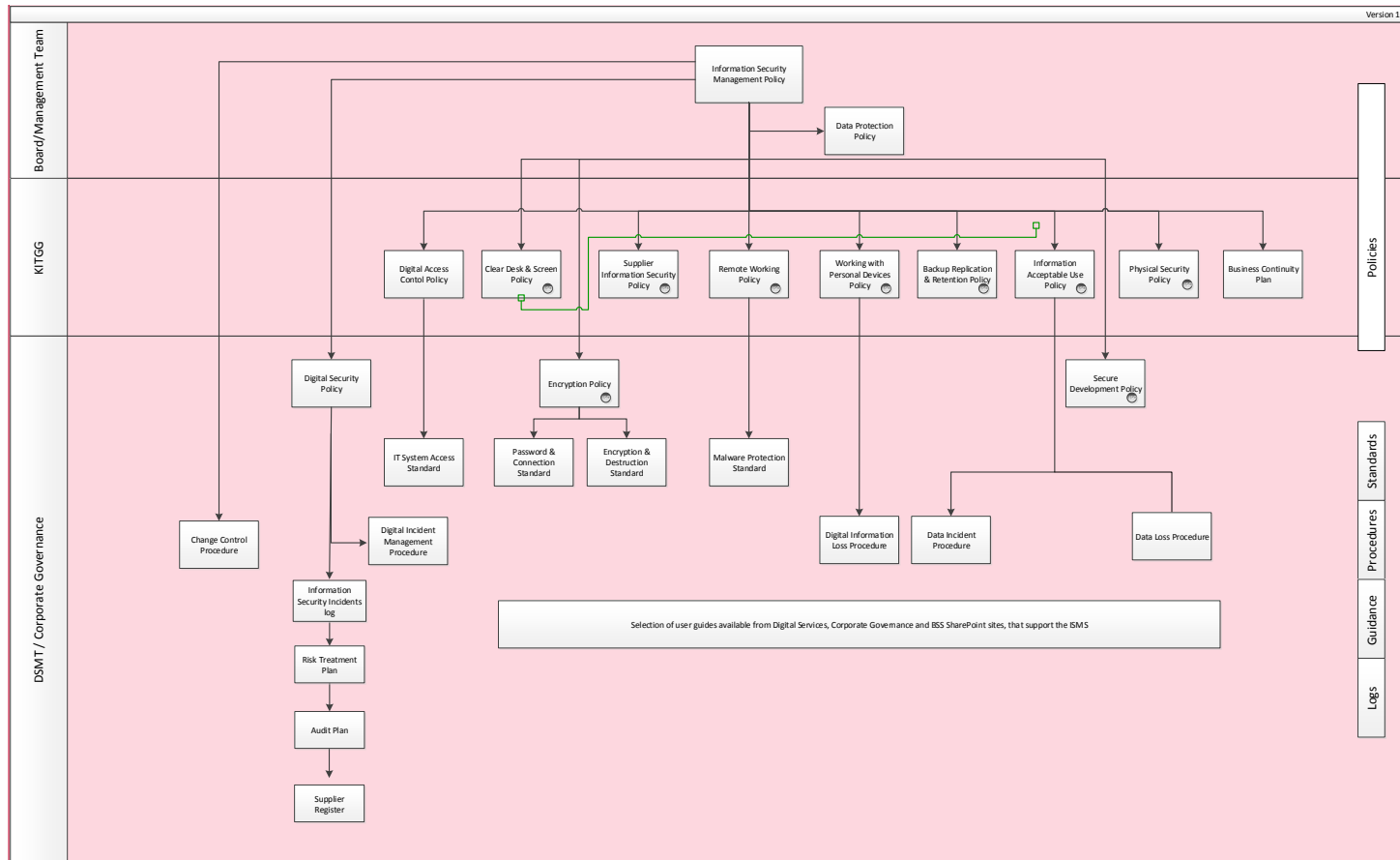
- 5. Audit Scotland's Board through its Audit Committee has oversight of risks, including information risks.
- 6. Audit Scotland's Accountable Officer, with support from the Management Team, has overall responsibility for ensuring this policy is effectively implemented and delivered.
- 7. Audit Scotland's Senior Information Risk Officer (SIRO) is the Chief Operating Officer, who is responsible for the overall management of the organisation's information risks.
- 7. A monthly Cyber security update is scheduled with the SIRO and a member of DSMT ensures the latest updates are provided to Senior Management demonstrating leadership and commitment to ISO 27001:2013 and the ongoing support for Audit Scotland to achieve Cyber Essentials Plus certification.
- 8. 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. In addition to the SIRO monthly update, a 6-monthly update on Digital Security is provided to Management Team.
- 9. 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, and both providing assurance.
- 10. 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.
- 11. The KITGG will ensure all information security policies and our performance in meeting their requirements is monitored and reviewed on an annual basis.

12. The Digital Services Management Team (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.
13. The Corporate Governance Manager is responsible for updating Audit Scotland's Data Protection Policy, managing data subject access requests and providing advice to staff.
14. Information Asset Owners must understand what information is held by their business area, and approve the permissions required to access it.
15. All Managers will be responsible for implementing and communicating appropriate information security policies, guidance and procedures.
16. 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.

## 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.  |
| <u>1.5</u> | <u>18/03/19</u> | <u>Digital Services Manager</u> | <u>Annual effectiveness review by KITGG 18/03/19 and Management Team on 02/04/19. Minor changes made to policy. Appendix 1 diagram updated to reflect policy name changes, additional procedures and reference to available user guides.</u> |

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



Commented [NP1]: Additional Procedures included in diagram

Guidance documents box added to highlight that a range of guides are available to staff

Changed DSMT to DSMT & Corporate Governance to reflect owners

Data Protection Policy added



## Purpose

1. This report updates the Board on the annual review of our Data Protection Policy and proposes amendments to the policy for approval.

## 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 that this would be reviewed on an annual basis.
3. Since the approval of the policy the Information Commissioner's Office (ICO) has issued seventeen guidance updates in respect of the legislation.
4. In line with review timescales, the Data Protection Policy was reviewed during April 2019 and updated to reflect new ICO guidance. The refreshed draft policy is appended to this report. The Knowledge, Information and Technology Governance Group (KITGG) and Management Team considered the revised Data Protection Policy and approved the proposed amendments.
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 April 2020 to ensure it remains fit for purpose.

## Policy changes

6. The following changes have been applied to the policy:
  - minor wording changes to reflect new terminology utilised by the ICO
  - an additional principle for the processing of personal data and
  - more detailed guidance on the particular rights of the individual.

## Recommendations

7. The Board is invited to note the amendments and approve the updated Data Protection Policy.

# Data Protection Policy

|                          |                              |              |            |          |    |
|--------------------------|------------------------------|--------------|------------|----------|----|
| Owned and maintained by: | Corporate Governance Manager |              |            |          |    |
| Approved from:           | May 2019                     | Next review: | April 2020 | Version: | 14 |

## 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 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. 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.
5. As Data Controllers, we are committed to processing personal data (information) lawfully, fairly and in a transparent manner.
6. 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 Auditor Generals, clients, suppliers, correspondents, complainants, people covered by the audit process and others with whom we communicate.
7. 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:
  - 7.1. ensuring that all personal information is processed lawfully and in compliance with current data protection legislation;
  - 7.2. ensuring that our digital systems are secure, and that personal information will be stored securely;
  - 7.3. 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);

- 7.4. designing systems, processes and methods of working that protect personal information entrusted to us (privacy by design and default);
  - 7.5. undertaking data protection impact assessments as necessary for major new projects or when considering new software;
  - 7.6. 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;
  - 7.7. implementing effective systems for handling security breaches and data losses;
  - 7.8. ensuring that when we use a data processor that a written contract is in place so that both parties understand their responsibilities and liabilities;
  - 7.9. ensuring that any data processor we use also implements appropriate technical and organisational measures;
  - 7.10. 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;
  - 7.11. understanding that encryption can be an appropriate technical measure to ensure that we process personal data securely;
  - 7.12. ensuring that we keep our encryption solution(s) under review in the light of technological developments.
8. 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

- 9. 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'*.
- 10. It applies only to living individuals and covers their personal information held on physical or digital medium.

## Data protection principles

- 11. 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:
  - 11.1. Lawfulness, fairness and transparency;
  - 11.2. Purpose limitation;

- 11.3. Data minimisation;
  - 11.4. Accuracy;
  - 11.5. Storage limitation;
  - 11.6. Integrity and confidentiality (security); and
  - 11.7. Accountability
12. 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.
13. To comply with the seven data protection principles, we will:
- 13.1. process personal information lawfully, fairly and in a transparent manner in relation to the data subject;
  - 13.2. only collect personal information for specified, explicit and legitimate purposes and not further process it in a manner that is incompatible with those purposes;
  - 13.3. 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;
  - 13.4. 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;
  - 13.5. 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;
  - 13.6. 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
  - 13.7. 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

14. We will only disclose personal information to:
- 14.1. those who are entitled to the information;
  - 14.2. any authority we are required to do so by law e.g. HMRC; and

- 14.3. anyone to whom we are required to disclose it, such as individuals seeking to access their own personal data.

## Rights of the individual

- 15. The GDPR provides the following rights for individuals which we as an organisation must be cognisant of:
  - 15.1. 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.
  - 15.2. 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.
  - 15.3. 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.
  - 15.4. 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.
  - 15.5. 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.
  - 15.6. 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.
  - 15.7. 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.

- 15.8. 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

16. 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

17. 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

18. We are committed to full staff awareness and training in Data Protection, Information Security, Freedom of Information and Environmental Information Regulations legislation and its implications for our work. We are committed to maintaining effective systems for handling personal data to meet our obligations under this legislation.
19. Guidance on the application of data protection is available on [ishare](#).

## Misuse of personal information

20. 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                             |

## **Purpose**

1. This report seeks Board approval for the Accounting policies, key accounting estimates and judgements to be included within the Notes to the 2018-19 accounts.

## **Background**

2. Audit Scotland financial regulations require accounting policies to be set consistent with appropriate guidance and all accounting procedures and records will be consistent with any form of accounts prescribed. Accounting policies will be approved by the Board as detailed in the Scheme of delegation 3.4.
3. The content of this report was considered by Management Team on 2 April 2019.

## **Changes from 2017-18**

4. The Appendix details the proposed Statement of accounting policies to be included in the Notes to the accounts for 2018-19.
5. There are two main changes from 2017-18 and they relate to b) New accounting standards not yet effective and f) Operating income.
6. IFRS 16 – Leases is a new accounting standard not yet effective. It is expected that the FReM will adopt this standard from 1 April 2020 and initial assessment indicates that we hold significant leases in respect of property and cars. We would therefore expect to recognise in the Statement of Financial Position a right of use asset and a liability for future lease payment commitments.
7. Operating income relates directly to the audit activities of Audit Scotland and falls within the scope of IFRS 15 - Revenue from Contracts with Customers. IFRS 15 has been adopted by the FReM with effect from 1 April 2018 and the new standard is consistent with the basis we previously accounted for income.

## **Recommendation**

8. The Board is invited to approve the 2018-19 Accounting policies, key accounting estimates and judgements.



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# Notes to the accounts

## 1. Statement of accounting policies

The accounts have been prepared in accordance with the accounts direction issued by Scottish ministers under section 19(4) of the Public Finance and Accountability (Scotland) Act 2000 and also in accordance with the Financial Reporting Manual (FReM) applicable for the year. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of Audit Scotland for the purpose of giving a true and fair view has been selected. The accounting policies adopted by Audit Scotland are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

### a) Basis of accounting

The accounts have been prepared under the historical cost convention. In accordance with the principles of resource accounting, the gross funding received from the Scottish Consolidated Fund is recorded directly within the General Fund and is not included in the operating income received in the year in the Statement of Comprehensive Net Expenditure.

In common with similar public bodies, the future financing of Audit Scotland's liabilities will be met by future grants of Supply and the application of future income, both to be approved annually by the Scottish Parliament. The approval of amounts for 2019/20 has already been given and there is no reason to believe that future approvals will not be forthcoming. Accordingly, it is considered appropriate to adopt a going concern basis for the preparation of these financial accounts.

### b) New accounting standards not yet effective

Audit Scotland disclose accounting standards not yet applied and assesses the possible impact that initial application would have on the financial statements. There is one standard not yet effective that will have an impact on Audit Scotland's accounts which is IFRS 16 Leases. This standard requires all significant leases to be recognised in the Statement of Financial Position.

#### **IFRS 16 - Leases**

It is expected that this standard will be adopted by the FReM with effect from 1 April 2020. Initial assessment of the new standard on leases indicates that Audit Scotland significant leases relate to property and cars. We expect that there will be a requirement to recognise in the Statement of Financial Position a right of use asset and a liability for future lease payment commitments.

### c) Non-current assets

The minimum level of capitalisation for a non-current asset is £5,000 for individual or group purchases. Non-current assets are held at fair value. Depreciated historic cost has been used as a proxy for fair

value due to the low value and short life of the assets held. All property occupied by Audit Scotland is leasehold.

#### **d) Depreciation**

Depreciation has been provided at a rate calculated to write off cost in equal annual instalments over the estimated useful lives of assets. Asset cost is written off as follows:

|                        |                           |                     |
|------------------------|---------------------------|---------------------|
| Leasehold premises     | remaining period of lease | (from 1 - 10 years) |
| Furniture and fittings | 5 years                   |                     |
| Computer equipment     | 3 - 5 years               |                     |
| Software               | 3 - 5 years               |                     |

#### **e) Amortisation of rent-free periods**

The benefit of rent-free periods on leases of premises is amortised over the period of the lease or over the period to a lease break point when this is the most probable end of lease, whichever is the shorter.

#### **f) Operating income**

IFRS 15 Revenue from Contracts with Customers has been adopted by the FReM with effect from 1 April 2018. Operating income relates directly to the audit activities of Audit Scotland and falls within the scope of IFRS 15. However, the income recognition criteria introduced by IFRS 15 is consistent with how Audit Scotland previously accounted for income and there is no impact of the new standard on opening balances.

Operating income comprises fees for financial audit that are recognised on the basis of work undertaken for the year and charges for other work which are recognised evenly throughout the year.

#### **g) Work in progress**

Work in progress is valued on the basis of a proportion of the agreed auditor remuneration earned by the balance sheet date less an allowance for any foreseen losses. This calculation is based on an assessment of the amount of audit work completed by the balance sheet date as a proportion of the total expected amount of audit work. Payments received on account of work in progress in excess of or below the value of carrying out the relevant work are included in creditors or debtors as appropriate.

#### **h) Operating leases**

The total cost of operating leases is charged to revenue in equal instalments over the life of the lease. Estimates of likely costs in respect of obligations under our property leases for dilapidations, reinstatement and property decorations are charged to revenue in equal instalments over the life of the lease, or the period to a planned early termination of the lease whichever is the shorter.

#### **i) Value Added Tax (VAT)**

Input tax in respect of external auditor fees and expenses incurred in the delivery of local authority audits is reclaimed from HMRC on behalf of the Accounts Commission and is used to offset audit fees payable by local authorities. All other input tax is charged to the Statement of Comprehensive Net Expenditure. Audit Scotland is registered for VAT in respect of business activities.

## **j) Pension arrangements**

Audit Scotland complies with the requirements of International Accounting Standard No 19 (IAS 19) for the year ended 31 March 2019. Audit Scotland makes pension provision for present and former employees through two pension schemes. Employees joining Audit Scotland after 1 April 2000, and those transferring to Audit Scotland from the Accounts Commission, have benefits provided through the Local Government Pension Scheme. Employees transferring to Audit Scotland at 1 April 2000 from the NAO are covered by the provisions of the Principal Civil Service Pension Scheme. The Auditor General for Scotland has benefits provided through the Principal Civil Service Pension Scheme.

## **k) Key sources of judgement and estimation uncertainty**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates, assumptions and judgements that have a risk of adjustment to the carrying amount of assets and liabilities within the financial statements within the next financial year are:

- Revenue recognition is based on time charged to audits adjusted where applicable to reflect the stage at which completion of work is done. At the year-end an assessment is undertaken to consider the reasonableness of income recognised in the Statement of Comprehensive Net Expenditure. Income recognised in advance of invoices being raised is treated as Work in Progress (see Note 9). Invoices raised in advance of work being done is treated as Deferred Income (see Note 12).
- Provisions have been made where in the opinion of management it is more likely than not that a financial liability exists which cannot be accurately quantified at present (see Notes 14 and 16).

## Mainstreaming equality and equality outcomes progress report

Chair, Equality and Human Rights Steering Group

Item 14  
1 May 2019

### Purpose

1. This report seeks the approval of the Board for the 2019 Mainstreaming Equality and Equality Outcomes progress report (the Progress Report).

### Background

2. As described in the report, both the public sector equality duty, also known as the general equality duty, and the Scottish Specific Duties apply to Audit Scotland and the Accounts Commission; they are both listed authorities. In view of the overlap of the material which relates to both bodies we have, as in 2017, prepared one report.
3. In compiling this report, which is required every two years, we have consulted the following sources of guidance:
  - The Improvement Service elected member briefing Note 20: The public sector equality duty, May 2013.
  - EHRC Scotland: Assessing Equality Outcomes: a tool for Scottish Public authorities, January 2015.
  - EHRC Scotland: Essential guide to the Public Sector Equality Duty, July 2016.
  - EHRC Scotland: Mainstreaming the Public Sector Equality Duty, July 2016.
  - EHRC Scotland: Equality outcomes and the Public Sector Equality Duty, July 2016.
  - EHRC Scotland: Public authorities in Scotland: who is covered by the Specific Duties, July 2018.

### Progress on mainstreaming equality and equality outcomes

4. This report sets out how we are addressing our responsibilities under the Equality Act 2010. It summarises the progress we have made in mainstreaming equality in our work and achieving our existing equality outcomes. We refreshed our 2013 equality outcomes and published new ones in April 2017.
5. In the Executive Summary we emphasise the important work of the Equality and Human Rights Advisory Group (EHRAG), and that this is how we evidence that we are involving people who have the protected characteristics, or their representatives.
6. The Equality and Human Rights Steering Group (EHRSG), formerly known as the Diversity and Equality Steering Group, oversees implementation of Equality Outcome 1: audit work reflects how public services meet the diverse needs of all citizens and communities.
7. During 2018 responsibility for Equality Outcome 2: Audit Scotland promotes, understands and supports a diverse and inclusive workforce, transferred to the People Focus Group (PFG). The reporting of employee information within the mainstreaming report is only required 'if not published previously'. In the case of Audit Scotland, diversity information is now published annually, and we have cross-referred the reader of the Progress Report to the extant diversity report which is available through the normal public performance reporting system, i.e. on our external website.

### Looking ahead

8. Per the Act equality outcomes are intended to be in place for four years. Consequently, we propose rolling forward the extant two for a further two years.
9. In addition, and as a consequence of an internal 'Equality Summit' held in January 2018, we have considered the development of a further outcome, one which considers how our audit work reflects human rights and socio-economic disadvantage. To a degree much of our work already reflects inequality, beyond the protected characteristics, for example in the BVAR audits.

10. After an internal workshop on 'putting people at the heart of audit', two short-life working groups were set up to develop our thinking on this outcome cognisant of our new audit responsibilities with respect to the new financial powers, social security, the Fairer Scotland Duty and the new National Performance Framework. Team members from respective audit teams were involved and we have also welcomed new members, to EHRSO, who have academic qualifications in Human Rights law.
11. We have taken the opportunity of this Progress Report to publicise our adoption of a new outcome: In our audit work we will reflect, where appropriate, on how public bodies address human rights and socio-economic disadvantage. It is recognised that material will have to be developed to assist auditors in advancing this new outcome, to adopt a proportionate response, and to assist in managing expectations.

## Critical Path

12. This is a statutory report required to be published by end April for both the Accounts Commission and Audit Scotland. The Progress Report was submitted as draft to the private session of the Accounts Commission on 11 April, whereupon it was approved, subject to minor amendment. The papers for this Board meeting, of 1 May, will have come into the public domain prior to the end of April, and consequently the statutory reporting deadline has been met.

## Recommendations

13. The Board is invited to review the Progress Report, to consider the proposed new outcome and to approve the report for publication.

# Mainstreaming Equality and Equality Outcomes

Progress report 2017-19

ACCOUNTS COMMISSION 

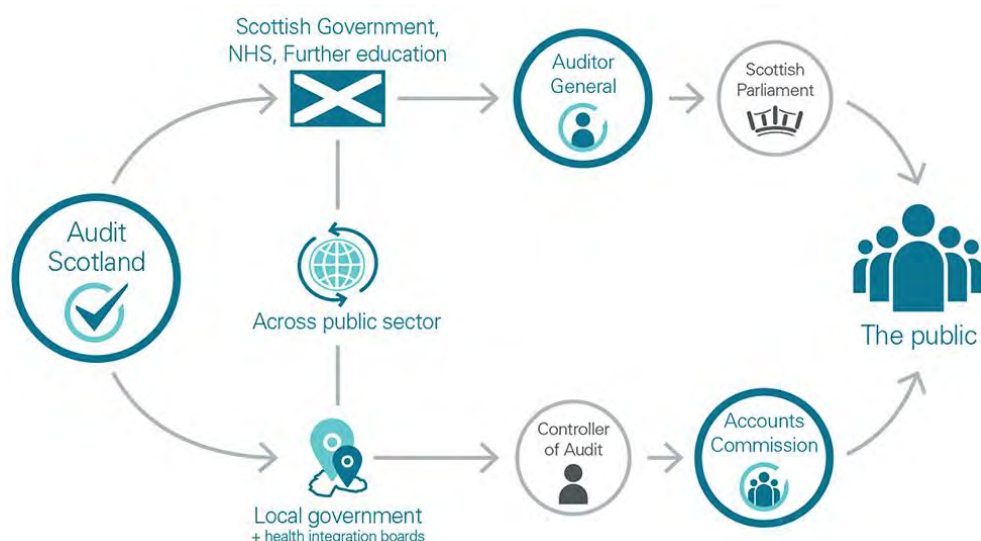
 AUDIT SCOTLAND

Prepared by Audit Scotland  
April 2019

## 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 and then revised in 2017. This report summarises the progress made in mainstreaming equality and achieving the two 2017 equality outcomes over the last two years.

**2.** With respect to Outcome 1: Audit work reflects how public services meet the diverse needs of all citizens and communities, a stronger equality thread now runs through our performance audits. And that is down to the more established role played by our external advisors, the Equality and Human Rights Advisory Group. That has helped us adapt the scope of audits, how we engage with service users and report on findings. The report contains numerous examples of how equality has been advanced through our performance audits, including around access to children's mental health services and to broadband in rural areas.

**3.** Equalities are also now part of our considerations for local government Best Value audit scopes and communications strategies. And this work will be further developed as part of the mandatory aspect of the five-year Best Value audit regime.

**4.** Information on equalities now features in some annual audit reports, and the financial audit planning guidance for 2018/19 now explicitly includes equalities as an area to be considered over the course of an audit appointment.

**5.** Good progress has been made on Audit Scotland's Outcome Two: Audit Scotland promotes, understands and supports a diverse and inclusive workforce. However, 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.** We are also looking ahead: our future audit work will reflect, where appropriate, on how well public bodies are addressing human rights and socio-economic disadvantage. That will consider Scotland's changing landscape including its new financial powers, Social Security Scotland, the new Budget Review Process, the National Performance Framework and the Fairer Scotland Duty. This work will be approached in the same measured and consistent manner as our audit duties. And further materials will be developed to support auditors.

# Introduction

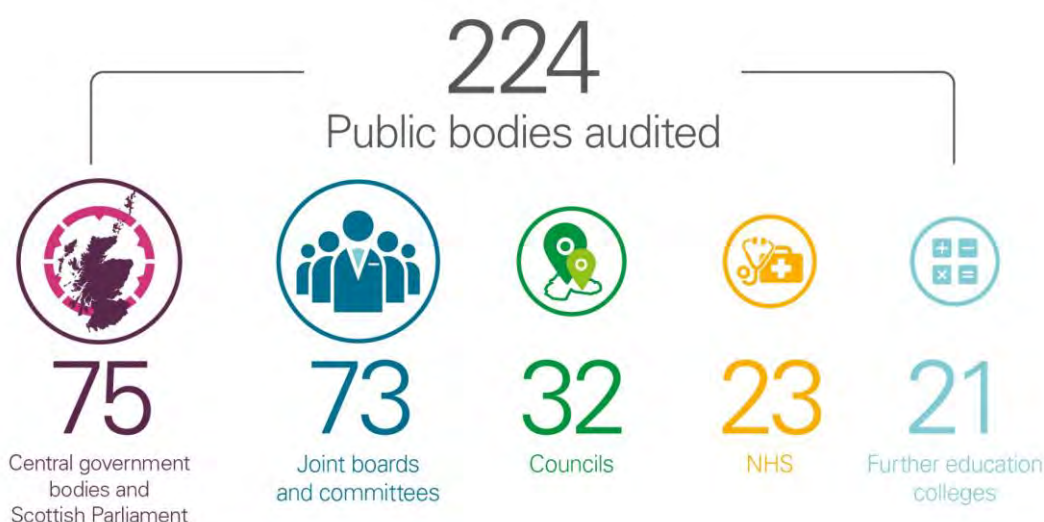
## Roles

**7.** This report is published jointly by the Accounts Commission and Audit Scotland.

**8.** 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.

**9.** 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.

**10.** 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.



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 audit firms.

**11.** For more information about Audit Scotland and the Accounts Commission, including our vision, structure, aims and priorities, see Audit Scotland's Corporate Plan 2018-21 and the Accounts Commission's Strategy and annual action plan 2018-23, both published on our website.

## About this report

**12.** 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.

**13.** 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.

**14.** 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:

- 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.

**15.** 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 the Accounts Commission is only directly concerned with Outcome One: Audit work reflects how public services meet the diverse needs of all citizens and communities, as the Commission gets its support from Audit Scotland. Both the steering group of internal members, and the advisory group of external members, address the audit work of both organisations.

**16.** The Equality and Human Rights Steering Group (EHRSG) oversees the mainstreaming of the public sector equality duty, and the implementation of Equality Outcome 1: Audit work reflects how public services meet the diverse needs of all citizens and communities. The steering group has representation from all our 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.

**17.** 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 in the work we do.

**18.** 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.

**19.** 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

**20.** The [equality outcomes](#) we refreshed in 2017 have made the equality duty integral to the work of Audit Scotland and the Accounts Commission. The 2018-21 Audit Scotland Corporate Plan ([link](#)) includes Diversity and Equality as one of three key organisational priorities. Meanwhile, the Accounts Commission's [Engagement Strategy and Plan for 2018/19](#) 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.

**21.** We use our existing public performance reporting systems to publish equality impact assessments and our reports associated with mainstreaming the equality duty. All of our final reports on annual audits, performance audits and best value audits can be found on our external website. We provide examples further of reports where equality has featured.

### Leadership

**22.** 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 now 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.

**23.** This has also influenced procurement decisions: for example with regard to our new archive storage provider, Redrock, it's aim is to 'provide sustainable employment for disabled people and a quality service to our customers'.

### Staff awareness and understanding

**24.** A range of activities have helped raise staff awareness of equality and diversity issues in our work:

- On arrival new staff undertake on-line training on diversity and equality as part of the overall induction. We are currently reviewing whether to update that training package.
- Members of the Accounts Commission have received diversity training.
- In November 2017, an equalities and human rights knowledge café was held. Several members of the EHRAG talked about the role of their organisation and why equality and diversity should matter to our audits, flagging up areas of persisting inequality for people with protected characteristics, for example those with a mental health disability.
- 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).
- Members of the EHRSG have held sessions on equality and diversity at their business group team meetings. For example, in PABV a member of the Self-Directed Support audit team talked about the ways they had engaged with

service users and disability organisations. They also described how they reported this in the final report in an accessible way.

- In 2018/19, there has been a particular focus on mental health: the provision of training on Mental Health first-aid, a Mental Health Awareness Week, and the organisation adopted as the new corporate charity is the Scottish Association for Mental Health.
- Four Women in Leadership seminars were held in 2018.

# Progress on equality outcomes

## 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

**25.** 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](#).

**26.** 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.

**27.** The feedback from EHRAG has helped us build equality and human rights considerations more effectively in to our audit work. For example:

- EHRAG recommended that the scope of the Children and young people's mental health (CYPMH) audit should look beyond statutory services to consider access to early intervention. The audit took this wider view of this service area and subsequently reported critically on several equality-related topics, including the current focus of CYPMH services, equity of access to services, and the range and level of performance and equality-related outcome data.
- EHRAG identified the need for the Broadband update audit to consider access from a rural perspective. The audit subsequently did this and reported critically on the Scottish Government's engagement and

communication with rural communities and the performance of Community Broadband Scotland.

- 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.

**28.** EHRAG has also identified several broader equality and human rights-related issues. This includes: the role of the refreshed National Performance Framework and the community empowerment agenda in promoting human rights, equality and human rights-based budget scrutiny; the impact of national and local budget changes on different groups or communities of interest (potentially including protected characteristic groups). We will continue to engage with EHRAG on these issues during 2019.

**29.** Each year we undertake an [Equality Impact Assessment](#) on the refreshed work programme and publish it on the Audit Scotland website.

### 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:



#### **Self-directed support: 2017 progress report, August 2017**

The audit sought the views of families and carers on how the self-directed support process is working. The audit team produced an online survey with paper copies available and translated into Braille.

The team regularly sought the advice and assistance of expert equalities groups. For example, an organisation that supports minority ethnic carers assisted with holding focus groups in people's homes. An easy read version of the report for people with learning disabilities was published.



#### **Equal pay in Scottish councils, Sept 2017**

The report focused on eliminating gender discrimination in local government pay grades. Regular advice and support were provided throughout the audit from the Equality and Human Rights Commission (EHRC) and Close the Gap who were members of the audit advisory group. The report contained a section on the gender pay gap. It also provided a checklist for councils to ensure they are fulfilling the public sector equality duties regarding equal pay alongside scrutiny prompts for elected members.





### **Early learning and childcare, February 2018**

Scoping for the audit highlighted equality issues, such as uptake of funded Early Learning and Childcare services by eligible two-year olds (e.g. children who are looked after and children of families in receipt of certain benefits) and about support available for children with additional support needs. The team produced an online guide for service users, parents and a video for parents to direct them to the guide.



### **Managing the implementation of the Scotland Acts, March 2018**

The report provides findings on how the Scottish Government engages with clients and seldom heard groups. The audit team identified equalities as a relevant area to follow up in audits on social security.



### **Local government in Scotland: Challenges and performance, April 2018**

The audit team considered equality issues in the annual audit reports on councils and information from the Scottish Parliament Information Centre (SPICe) on equalities. The report considers the impact of budget cuts and community empowerment on more deprived communities. It comments on the gender balance of elected members. It also highlights that councils should ensure they meet the needs of more vulnerable groups with limited access to digital technology as they pursue their digital transformation programmes.



### **Scottish Fire and Rescue Service update, May 2018**

The audit team identified equality issues at the scoping stage as data showed gender imbalance amongst uniformed staff. The report recommends that the Scottish Fire and Rescue Service include equality impact assessments with papers to inform board decisions and set out in its workforce planning how it plans to eliminate the gender pay gap. The report highlights the gender imbalance of the workforce and the steps SFRS is taking to address this.



### **Scotland's colleges 2018, June 2018**

The audit team looked at college access and attainment for students with defined equality characteristics and at the gender balance among students and on college boards. The final report includes key messages, a number of exhibits and a case study relating to these equality issues.



### **Children and young people's mental health, September 2018**

The audit team considered equalities at the scoping stage of the audit and commissioned a literature review on equalities and mental health. During the audit, the team engaged with a group of young people, and with a range of stakeholder organisations about relevant equalities issues. The final report includes an exhibit showing the prevalence of mental health issues amongst different groups of young people.

## **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 supplemented with a briefing paper in December 2018. 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 February 2019, there were 337 downloads of the toolkit from the Audit Scotland website, an average of 56 downloads per month.

**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 communications promotions plan which focuses on specific messages and specific local audiences. For example, for the East Renfrewshire Council BVAR (published November 2017) we published an easy read A3 poster which was distributed to libraries, GP and dental surgeries. Also, an e-newsletter was sent to key groups, particularly in the voluntary sector and community groups, including parent councils and community councils, highlighting and summarising key findings from each report. In the first month following publication of these additional outputs, we saw a 53 per cent increase in report downloads, plus additional social media coverage.

**36.** The following audit included equality considerations in the methodology, fieldwork and reporting stages of the audit:



#### **BVAR Orkney Islands Council, November 2017**

The audit team identified equalities as an area of potential good practice at the scoping stage. The team interviewed relevant council and partner leads on equalities issues and reviewed relevant documents. The report includes a section on equalities. For example, it comments on how equalities are considered in decision making processes, how the council works with its community planning partners to take forward equality issues, how the council is performing against its equality outcomes including gender pay gap information, and representation of elected members.

### **Progress in financial audit**

**37.** Comhairle nan Eilean Siar's annual audit report (AAR), [Annual audit of Comhairle nan Eilean Siar](#), published in September 2018 concluded that equality arrangements are established and consider the needs of individuals. Equality and diversity training is included in the induction programmes for all employees. This is outlined in the Equal Opportunities Statement and Policy which is available on the Comhairle website. However, the gender pay gap is substantial. The vast majority of part time and lower paid grades are predominantly undertaken by female employees. The training strategy is currently being reviewed to incorporate improvement actions identified.

**38.** South Ayrshire Council's AAR highlighted that the council recognised its role as a large employer in ensuring that equality is built into everything it does. The council has developed an equality and diversity strategy and is committed to providing a positive, respectful and supportive working environment, and staff training is provided to support this.

**39.** The AAR for Glasgow City Council confirmed that the council has established a new Empowerment Unit and appointed a Director of Community Empowerment and Equalities. In addition to this, following the recent equal pay ruling, the council has established an equal pay project comprising workstreams to take this matter forward. Councillors are updated through cross-party group meetings.

**40.** The Audit Planning Guidance for 2018/19 audits, published October 2018, states 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 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.

## **Accessibility and reporting all audit findings in a style that reflects the audience**

**41.** 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.

## **Stakeholder engagement and supporting other public bodies in their scrutiny of diversity and equality**

### **Youth Advisory Panel**

**42.** In 2018, working with Youth Scotland, Audit Scotland set up a Youth Advisory Panel. We are already delivering on our ambition that this panel will work with us to involve young people more in our work and use their voices and experiences as part of the audit process. It will also give those involved on our Youth Advisory Panel valuable experience and skills.

**43.** We're keen to involve young people in how we communicate our audit work, in ways that have value and meaning. The panel is already helping us with this, as described above in relation to the Children and young people's mental health report.

**44.** This builds on our work which has involved a range of service users in our audits on specific services, and now our youth panel is also getting involved in other aspects of our audit work. This includes helping to shape specific audits, looking at how we carry out the work and how we share the messages from our audits with young people. The youth advisory panel will meet regularly throughout the two years that it will be running.

**45.** As well as the panel, we're keen to engage with a wider range of young people, from across Scotland, that's why, together with Youth Scotland, we've set up a larger, online community. They will work with the Youth Advisory Panel to feed in a wider range of views and experiences.

### Scottish Parliament's Equalities and Human Rights Committee and the Scottish Human Rights Commission

**46.** Audit Scotland has been strengthening its links and engagement with the Parliament's Equalities and Human Rights Committee and the Scottish Human Rights Commission (SHRC). This is to ensure that we are considering equality-related budget and performance in our audit work. It also helps us to adopt a more human rights-based approach in developing our work programme and audits. We hold regular liaison meetings with the Equalities and Human Rights Committee clerking team, SPICe staff (Scottish Parliament Information Centre), and the SHRC. We have held early discussions on the equality and human rights implications of the increased alignment between the United Nations' Sustainable Development Goals and the Scottish Government's refreshed National Performance Framework.

**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 monitoring 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.

## 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

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"The group were all really excited about what Inform100 could achieve and are already coming up with ideas on reaching out to hear the views of other young people to help Audit Scotland shape its work over the coming years."

**Julie, one of the Project Leads from Youth Scotland**

"I think it's a wonderful experience to get youth voices heard on topics that are important to us, also it helps us put qualifications on our CVs."

**Jacob, 14**

"Was really good to see it start to be youth-led and taking the lead in the process."

**Dylan, 23**

---

- 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

**49.** 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.

**50.** 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.

**51.** 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 have recently set up a group, including members of our staff with disabilities, to look at making further improvements in this area.

### Listen to staff feedback on how to support diversity and equality in how we do things

**52.** Every year we ask all staff to complete the Best Companies staff survey. Information from this staff survey is reviewed by an internal group where action for improvement is identified. For example, we have had a particular focus on well-being as a consequence of survey results. 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

**53.** All members of staff have 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. Effective line management has been identified as a development need and we are currently working on our approach.

**54.** 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. Over half of staff (58 per cent) attended wellness checks in 2017/18 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.

**55.** 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

**56.** 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 include EIAs of:

- our new approach to Best Value auditing
- the refurbishment of our Glasgow office
- our pay policy
- our Career Development Gateway process.

### Ensure staff recognise that policies are written in plain language, adhere to current legislation and are accessible to all

**57.** 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

**58.** 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.

**59.** 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.

**60.** 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

**61.** 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 2018 in March 2019. Our median gender pay gap is 7.96%. This is an increase from last year when it was 4.86% (the national median was 18.1% at that time). The movement is attributed to the fact that 12 of the 15 new trainees

recruited in 2017/18 were female. 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](#).

**62.** We recruit new trainee auditors every year. After the 2017/18 intake, 57% of our professional trainees were female as at 31 March 2018. It is also noteworthy that 75% of Audit Scotland's current executive management team is female.

**63.** The most recent equal pay review was published in 2016 and can be found here (weblink). A refresh is currently underway with the findings scheduled to be finalised in April 2019 and published shortly after this date.

### Improve information on workforce by encouraging staff to disclose personal information

**64.** 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.

**65.** 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 2018. 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 2019.

### Improve recruitment and selection processes in response to feedback and increasing the number of job applications from people in under-represented groups

**66.** We advertise our vacancies using both mainstream and specialised job boards, along with advertising generally in disability and lifestyle publications.

**67.** We asked for feedback on our recruitment process at the end of 2018, following a number of recruitment campaigns. Most respondents said it was a positive experience and they generally formed a good impression of Audit Scotland from initial contact onwards. Feedback is routinely gathered every three months in relation to our recruitment and new start processes.

**68.** In 2018, we refreshed our recruitment and selection training. 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 ask 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.

# Looking forward

## Equality outcomes 2017-19

69. The following [equality outcomes](#) 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. These outcomes have been subject to review and are considered as appropriate to continue for the next two years:

### The vision for Audit Scotland

**To be a world class audit organisation that improves the use of public money**

### This vision will be supported through 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.



## Our new outcome

### Background

**70.** The public sector landscape continues to change, 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.

**71.** These outcomes will be 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.

**72.** Audit Scotland's Management Team hosted an internal 'Equalities Summit' in January 2018 and agreed to include consideration of both 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". The result of those discussions was the establishment of two internal short life working parties to address the two areas.

**73.** The working parties have given due consideration to:

- the definition of both topics, 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;
- the National Performance Framework.

**74.** 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 has featured in several local government reports ([Case study](#)).

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## Case study

[Local government in Scotland – Challenges and performance 2019](#), March 2019

The overview set out two questions focused on inequality: what pressures councils face from demographic change, health and social inequalities; and how well are councils focusing on empowering communities to address inequality and improve inclusion. The report provides a high-level public commentary that states that:

- There needs to be a focus on how services are best delivered to communities and, in particular, how councils protect and empower the most vulnerable members of those communities.
- The number of people living in poverty has increased, putting additional pressure on council services.
- Most councils have a strategic focus on reducing inequality within their communities.

- In terms of Community Empowerment, councils are engaging with communities but there is less evidence of successful engagement with people from deprived areas.
- Councils need to be aware that in implementing digital transformation it is often the most vulnerable within society who have the greatest need for council services but who are least able to access them digitally.

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## Outcome to address human rights and socio-economic inequality through our audits

**75.** The purpose of a specific human rights and socio-economic inequality outcome is to focus and align the work of the EHRSG to ongoing audits, giving clearer consideration to how it is affecting people and services.

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3. In our audit work we will reflect, where appropriate, on how public bodies address human rights and socio-economic disadvantage.

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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 EHRAAG.
- 

**76.** We have begun engaging with staff on this topic by hosting a workshop, with the participation of the Scottish Human Rights Commissioner, on embedding human rights considerations in our audit work at the Annual Audit Conference that was held in January 2019. In advancing this outcome we will be cognisant of resources available and prioritise as appropriate. Our next progress report will be published in April 2021 and will include progress against these three outcomes.

# Appendix 1.

## Equality and Human Rights Advisory Group members



**Age Scotland**



**Close the Gap**



**Council of Ethnic Minority  
Voluntary Sector  
Organisations (CEMVO)  
Scotland**



**Enable Scotland**



**Interfaith Scotland and the  
Edinburgh Interfaith  
Association**



**Mental Welfare Commission  
for Scotland (MWC)**



**Minority Ethnic Carers of  
People Project (MECOPP)**



**Saheliya**



**Scottish Secular Society**



**Scottish Trades Union  
Congress (STUC)**



**Scottish Trans Alliance**



**SEEME Scotland**

# Appendix 2.

## 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 | This report<br>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                        |
| 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 | This report<br>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 2018                         |
| 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<br>June 2018     |
| Gender pay gap information                                 | Section 7              | Publish percentage difference between hourly pay rates for men and women  | At least every 2 years | Annually<br>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<br>February 2017 |

# Mainstreaming Equality and Equality Outcomes

## Progress report 2017-19

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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## Strategic improvement programme 2019-2021 and the Performance Management Framework project

Associate Director, Corporate Performance and Risk

Item 15  
1 May 2019

### Purpose

1. This report provides the Board with an update on the strategic improvement programme 2018-21, the priority digitally enabled projects for 2019/20 and the performance management framework project.

### Background

2. The [Corporate Plan 2018-21](#) sets out our strategic priorities for the period 2018-21. The priorities are expressed in terms of:
  - audit priorities (financial management and governance, devolved financial powers, the fiscal framework and social security, support for parliamentary scrutiny, preparedness for EU withdrawal and service delivery and public sector reform)
  - organisational priorities (delivering world class audit, making a difference, being a better organisation).
3. The audit priorities are principally covered through the audit work. The organisational priorities are covered by the strategic improvement programme. Some audit priorities (most notably the audit work around devolved financial powers and social security) also feature in the strategic improvement programme, as they are developmental in nature.
4. The Management Team and the Board receive update reports each quarter on the key projects in the improvement programme.
5. In November 2018 the Audit Committee considered a [report](#) on the strategic improvement programme and a [programme summary](#). In addition to the audit work and improvement projects noted above, the report also highlighted where ongoing work by corporate working groups or professional leads from the Leadership Group supports the delivery of the strategic objectives.

### The strategic improvement programme

6. The majority of the improvement projects (summarised in appendix 1) are progressing to schedule.
7. The programme includes a number of digitally enabled projects. Though termed 'digitally enabled', it is important to note that the projects all seek to deliver organisational benefits through efficiencies, support for flexible working, ownership and culture change.
8. Some aspects of the programme, including some of digitally enabled projects, have proven more challenging on the basis of changing circumstances and interdependencies. These include:
  - the need to migrate the CentralTime Time Recording, e-HR systems and the Navision finance system to a new server to maintain security
  - changes to software licensing models and the consequential impact on costs
  - the interdependency of the Performance Management Framework (PMF) project on other systems to provide the data for the dashboards and performance reports

- the need to consider options for a new Electronic Working Papers (EWP) system to support the audit work
  - the resources available to progress these projects alongside the ongoing implementation of other digitally enabled projects and core work.
9. Management Team discussed these challenges and agreed the prioritisation and scheduling of a number of projects at its meeting on 12 March 2019.
10. The prioritisation criteria for the digitally enabled improvement projects are:
- ensuring business continuity and 'business as usual'
  - system security and resilience
  - the scale of the project, including number of system users and the resources required (business group input, digital development and financial)
  - benefits and added value
  - risks (around implementation and non-implementation)
  - 'hard deadlines' (those which are external/ outwith our control) and 'softer' deadlines (those where we have some discretion).

## Priority projects

11. Using the criteria above Management Team agreed to prioritise the following digitally enabled projects. Appendix 2 provides more information on the main drivers, timescales, resources and next steps for these projects.
- upgrade of CipHR e-HR system
  - upgrade of Navision Finance System
  - time Recording (TR) System – migration to new server
  - TR system – new system and move to a single system for the whole organisation
  - Performance Management Framework (PMF)
  - Office 365 (SharePoint Online)
  - Electronic Working Papers (EWP) audit system.
12. The first three of the above have a hard deadline and are being prioritised in the period to July 2019.

## System upgrades and migration

13. Currently the e-HR, Navision and CentralTime TRS systems are hosted on a database server version which will no longer be supported by Microsoft beyond July 2019. This represents a digital security risk to business-critical systems. We are currently engaging with CipHR (e-HR) and Turnkey (Navision) to upgrade and migrate these systems onto a new server by July 2019.
14. The upgrades to e-HR and Navision are being done under existing contract arrangements and costs are covered within existing budgets.



15. The CentralTime TR system is a legacy system which does not have an ongoing maintenance contract. Migration to a new server costs will be limited to digital services developer time and from within existing budgets.

#### **Time recording – replacement system**

16. Alongside the system migration we are progressing two options for a replacement time recording system. Currently, ASG colleagues record time and expenses in a module of the MKI audit system and PABV colleagues use the CentralTime TR system. We are committed to moving to a single TR and expenses system. Our original plan was that all colleagues would move to the MKI system, however we subsequently identified that the licensing costs of this approach would be prohibitive.
17. We have therefore been carrying out a market analysis of 'off the shelf' solutions and at the same time we have developed a prototype TR and expenses system. Management Team will consider recommendations on the options in May 2019.
18. The new TR solution will be implemented for CentralTime TR users by October 2019 (following a period of parallel running). We will then consider rolling out the solution to MKI TR users over the remainder of 2019/20.

#### **Performance management framework**

19. The PMF system development (performance reports and dashboards) will take place following the migration and upgrades outlined above. This ensures that the development work to extract data would be done on the upgraded systems and minimises the need for re-working.
20. We will continue using existing systems and performance reporting arrangements in the meantime. These exist at business group level as well as the corporate reporting to Management Team and the Board. The Audit Committee will consider an annual report on the performance management arrangements at its meeting on 22 May 2019.
21. Further detailed information on the PMF project is in paragraphs 29 to 37 below.

#### **Office 365 (SharePoint Online)**

22. The Office 365 project has been running since April 2018. To date it has delivered cloud-based versions of Outlook, Office 2016 suite, OneDrive and new Microsoft applications such as Yammer, Forms and Flow.
23. One major workstream of the project is the migration of the main file storage system to SharePoint online. This cloud-based solution offers significantly enhanced security, flexibility and functionality.
24. We are also well under-way in designing and implementing this workstream. Some team sites have already been migrated to the cloud and further migration will take place on a phased basis during the remainder of 2019.

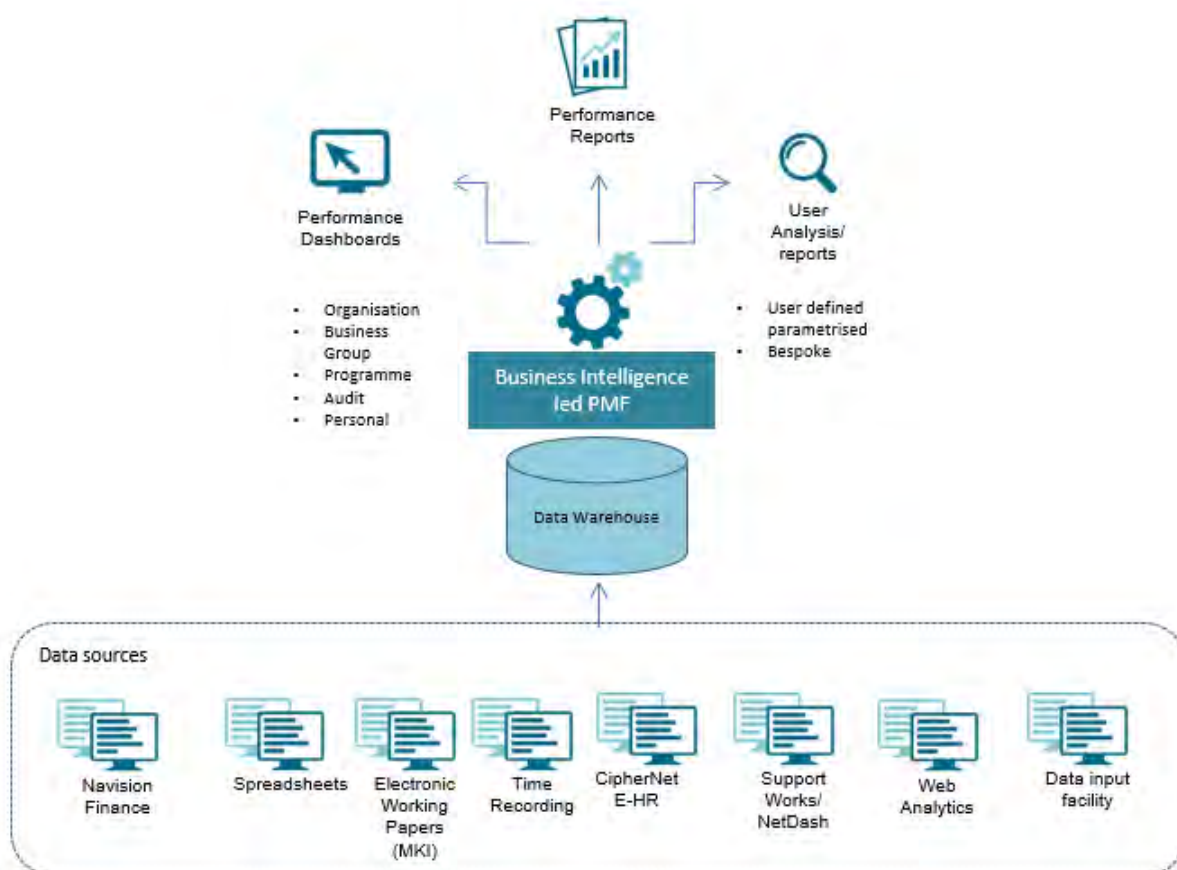
#### **Electronic Working Papers (EWP)**

25. The core system for the financial audit work is an electronic working papers system called Morgan Kai Insight (MKI). This has been the primary audit tool used by ASG since 2010. In September 2018 the Morgan Kai Group Ltd was acquired by Ideagen, the supplier of 'Pentana Audit' software. Ideagen has advised it that it plans to converge the two software solutions and issue a new product Pentana v7.0 in 2020.
26. Colleagues from ASG and Digital Services attended a webinar hosted by Ideagen in February 2019. It was clear from the webinar that the key audit functionality in Pentana V7.0 will look significantly different to what ASG MKI users are familiar with. This would, to all intents and purposes, be a new product rather than an upgrade.

27. We are therefore in the process of initiating a project to procure a new EWP system. The project offers the opportunity to consider a single EWP audit tool for all of the audit work (financial, best value and performance audit) and be used by all auditors.
28. This will be a major project and a project planning workshop is scheduled for 8 May. This will form part of the project initiation process and consider a broad range of issues including; the user and technical requirements, market and financial analysis, the procurement process, timescales and project governance and resourcing.

### **The performance management framework project**

29. In February 2018 Management Team considered reports on the reviews of our performance management arrangements (including external consultancy work carried out by Rocket Science/StormID), how we use our time and proposals for the development of a new business intelligence led model for the PMF.
30. Taking the conclusions and recommendations from the reviews together, Management Team agreed the recommendations to:
- implement a new single integrated TR system for the whole of the organisation
  - develop the PMF using a Business Intelligence (BI) led approach.
31. The key benefits of this integrated solution are:
- a new, easier to use TR system which reinforces the one organisation ethos and provides more accurate TR and cost data
  - more transparent, timely and accurate performance data which better supports analysis and actions and forecasting
  - a suite of performance dashboards, including a personal dashboard which makes performance management everyone's business, supports a performance management culture and offers a valuable tool for all colleagues
  - flexibility around the data we collect, how we analyse and report it and how we develop it over time
  - a more efficient and streamlined performance management process which is less labour intensive
  - increasing colleagues' familiarity with, and use of, an analytics product which, while initially focussing on PMF, can also be used for audit and data analytics.
32. The BI led approach to performance management is based on extracting data from a number of systems, structuring the data in the data warehouse and making it available to support performance dashboards, performance reports and performance data analysis. This is shown diagrammatically below.



33. The project has encountered some challenges and Management Team considered update reports on these at its meetings on 20 December 2018 and 19 February 2019. The main challenges have been:

- the dependence of open access to the data from other systems
- licensing costs (the MKI TR module referenced above and changes to Microsoft licensing models)
- the need to prioritise other digitally enabled projects (outlined above)
- pressures on the time of the project team members.

34. We carried out a project review in January 2019, this considered the lessons learned from the project to date and the options for implementation. The review was reported to Management Team in February and found:

- the design of the BI solution contains interdependencies, but the original design concept remains the best solution
- issues around the MKI TR and expenses functionality and licensing costs could have been identified and escalated earlier in the process
- changes to the Microsoft licensing model could not have been accurately predicted earlier in the process

- the project team exhibited some optimism bias, drawn from a desire to deliver a good solution
- project team members have struggled to devote sufficient time to the project due to competing priorities
- the project team could have engaged with Management Team in a more timely way when the challenges arose.
- the project experienced multiple challenges simultaneously.

**35.** The project review also found:

- beyond the expenditure on Rocket Science/Storm ID and the time input by members of the project team there has been limited expenditure
- there are no 'sunk costs' as the work carried out to date (reviewing TR codes and KPIs, mapping data sources and developing outline designs for dashboards) remains valuable to the next stages of the project
- the decision to stage communications based around the achievement of milestones has meant that expectations in the wider organisation have been managed
- the current performance management and reporting arrangements are fit for purpose (if not optimal)
- the cost of the proposed solution(s) remains lower than the enterprise and off the shelf PM software solutions.

**36.** These lessons will inform the design and delivery of the implementation phase of the project in the period July 2019 to March 2020.

**37.** Further updates will be provided through the quarterly strategic improvement programme updates to the Management Team and Board.

## Recommendations

**38.** The Board is invited to note:

- progress on the strategic improvement programme overall
- the priority digitally enabled projects for 2019
- the rescheduling of the next phase of the performance management framework project.

## Appendix 1 – Strategic Improvement Programme - [link](#)

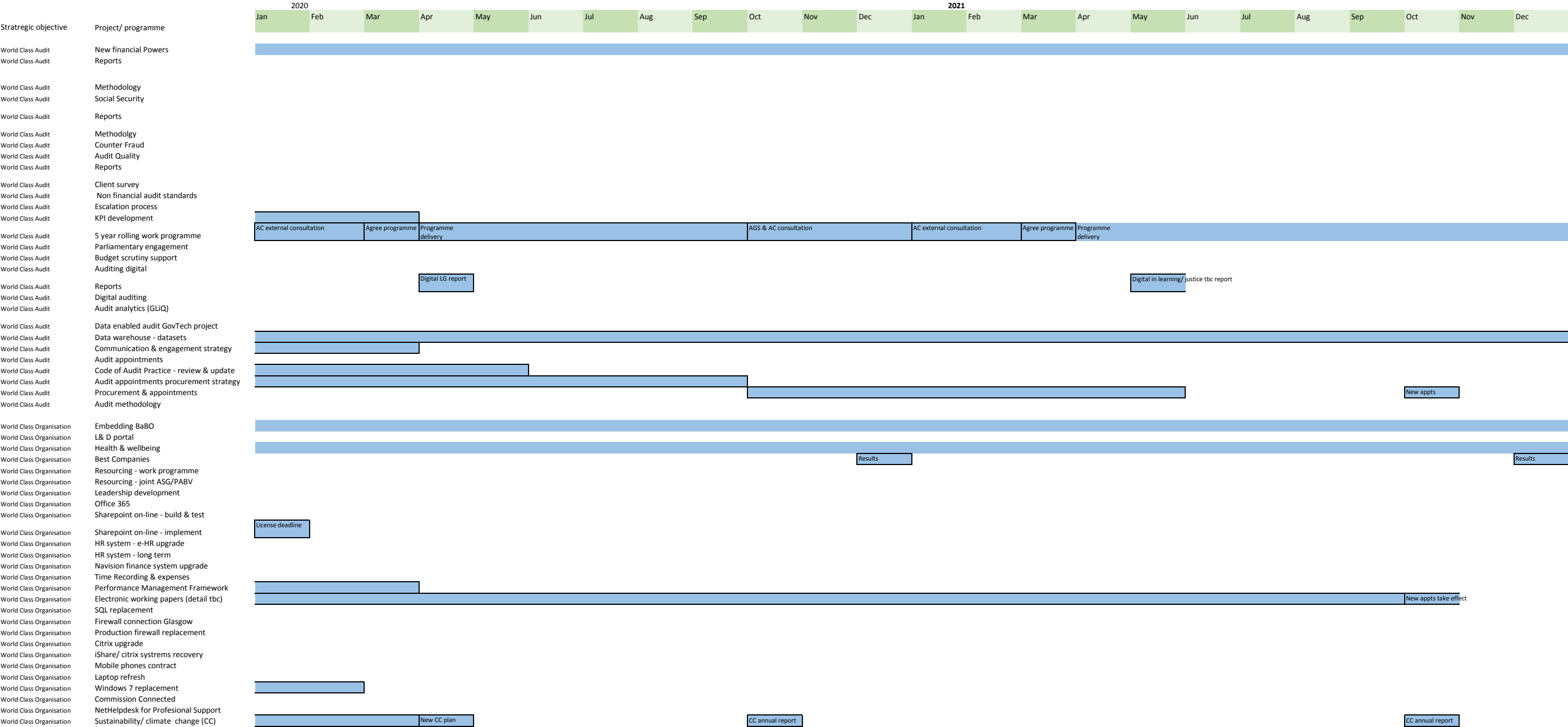
## Appendix 2 - Priority digitally enabled projects 2019

| Project                                 | Objectives   | Timescales          | Scale (impacts on)  | Risks  | Resourcing   | Comments  |
|---|--|---------------------|---|--|--|---|
| e-HR system upgrade & migration         | Resilience & security<br>Improved functionality<br>Data feed to PMF  | Mar – July 19       | HR team core users<br>All colleagues  | System security/<br>resilience if not<br>actioned<br>Hard deadline             | HR team (system testing)<br>Dev team (upgrade and support)<br>Financial: £9500 (budget<br>covered)   | Current supplier contract expires 03/20<br>Plans for 2019/20 include:<br>- assess additional e-HR modules re training &<br>recruitment<br>- market analysis of alternative products (some work<br>done on this already)   |
| Navision finance<br>upgrade & migration | Resilience & security<br>Improved functionality<br>Data feed to PMF  | Mar – July 19       | Finance team  | System security/<br>resilience if not<br>actioned<br>Hard deadline             | Dev team (upgrade)<br>Finance team (testing)<br>Financial: £21000 (budgeted<br>covered)  |   |
| Time Recording &<br>expenses            | Resilience & security<br>Improved functionality inc. mobile<br>Data feed to PMF  | Mar – Oct 19        | CentralTime users in<br>phase 1.<br>MKI TR users – phase 2                              | System security/<br>resilience of not<br>actioned<br>Hard deadline             | Dev team (app build)<br>PMF team & finance (test)<br>Financial: solution dependant<br>- CTTR £0<br>- In house TR £10,000 approx.<br>- Off the shelf TR in the range<br>£9,000-32,000 | Options are:<br>- CentralTime migration (contingency)<br>- In-house tool using MS PowerApps<br>- 'Off the shelf' product<br>Phase 1 = existing CentralTime TR, phase 2 = MKI users<br>(timing tbc with ref to audit year) |
| Performance<br>Management<br>Framework  | Performance culture through<br>accessible timely performance data<br>Greater analysis of data<br>Streamlined performance reporting | July 19 – Mar<br>20 | PMF team (spec and<br>test)<br>All colleagues benefit<br>from dashboards and<br>reports | Existing arrangements<br>are contingency<br>Reputational (delayed<br>delivery) | PMF project team (spec, comms,<br>testing)<br>Dev team (database, interfaces,<br>dashboard n& report build)<br>Financial: £34500 (Power BI<br>licensing):                            | Dependency on above projects (data and development<br>resources)<br>Discretion re deadline<br>Phased roll out of dashboards, reports and user analytics<br>tool<br>Power BI for other analytics activity                  |
| Office 365 (SharePoint<br>Online)       | Secure, resilient and flexible access to<br>files/ information (inc. mobile)   | Ongoing – Dec<br>19 | All colleagues  | MS licensing costs if<br>deadline missed                                       | O365 project board/team in place<br>Business group resources to<br>inform design of sites<br>File transfer process resources<br>being assessed                                       | Project well under way, some team and audit sites<br>already on SP on-line platform<br>Additional resources requested (MT report 12/03/19)  |
| Electronic Working<br>Papers            | Review required as MKI changing<br>under new ownership   | tbc                 | All existing MKI users<br>Potential re other audits                                     | Core audit system  | Significant resource requirement<br>– principally from business groups<br>(user spec, market analysis,<br>options appraisal, procurement,<br>testing, training, implementation)      | UK audit agencies & Ideagen meetings 04/19<br>Current (new) product timelines<br>Audit appointments rotation and procurement timetable  |

Strategic Improvement Programme

| Strategic objective      | Project/ programme                       | Sub category       | Status      | Governance         | 2018                  |                              | 2019                                 |               |                                |   |  |                   |                                 |                              |  |                       |                  |           |     |
|--------------------------|--|--------------------|-------------|--------------------|-----------------------|------------------------------|--------------------------------------|---------------|--------------------------------|---|--|-------------------|---------------------------------|------------------------------|--|-----------------------|------------------|-----------|-----|
|                          |  |                    |             |                    | Oct                   | Nov                          | Dec                                  | Jan           | Feb                            | Mar   | Apr  | May               | Jun                             | Jul                          | Aug  | Sep                   | Oct              | Nov       | Dec |
| World Class Audit        | New financial Powers                     | Core work          | On track    | NFP Steering Group |                       |                              |                                      |               |                                |   |  |                   |                                 |                              |  |                       |                  |           |     |
| World Class Audit        | Reports                                  |                    | On track    | NFP Steering Group | S22 PAPLS             |                              |                                      |               |                                |   | Scotland Act Report  |                   |                                 |                              |  | S22 SG                |                  | S22 PAPLS |     |
| World Class Audit        | Methodology                              |                    | On track    | NFP Steering Group |                       |                              |                                      |               | Agree exchequer fin audit plan | Assurance and Accountability Fwork sign off |  |                   |                                 |                              |  |                       |                  |           |     |
| World Class Audit        | Social Security                          | Core work          | On track    | NFP Steering Group | PA scope agreed       |                              |                                      |               |                                |   |  | Soc Sec PA report |                                 | First (part year) Soc Sec AR |  |                       |                  |           |     |
| World Class Audit        | Reports                                  |                    | On track    | NFP Steering Group |                       | Develop methodology          |                                      |               | Agree SS fin audit plan        | Agree assurance rep with NAO                |  |                   |                                 |                              |  |                       |                  |           |     |
| World Class Audit        | Methodolgy                               |                    | On track    | NFP Steering Group |                       |                              |                                      |               | Extension of data sets         |   |  |                   |                                 |                              |  |                       |                  |           |     |
| World Class Audit        | Counter Fraud                            | Core work          | On track    | tbc                |                       |                              | Counter fraud e-Hub                  |               |                                |   |  |                   |                                 |                              |  |                       |                  |           |     |
| World Class Audit        | Audit Quality                            |                    | On track    | Audit Committee    |                       |                              |                                      |               |                                |   | Q3/Q4 report   |                   | Annual report                   |                              |  |                       |                  |           |     |
| World Class Audit        | Reports                                  | Core work          | On track    | Audit Committee    | Q1/Q2 report          |                              |                                      |               |                                |   |  |                   |                                 |                              |  |                       |                  |           |     |
| World Class Audit        | Client survey                            | Dev                | On track    | Audit Committee    | Options               | Procurement & contract award | Confirm questions etc                | Client survey |                                |   | Survey results (tbc)   |                   |                                 |                              |  |                       |                  |           |     |
| World Class Audit        | Non financial audit standards            | Dev                | On track    | Audit Committee    | Options & agreement   |                              | Pilot, revise AMF & deliver training |               |                                | Go live with INTOSAI standards              |  |                   |                                 |                              |  |                       |                  |           |     |
| World Class Audit        | Escalation process                       | Dev                | Rescheduled | Audit Committee    | Refinement            |                              |                                      |               |                                |   |  |                   | Finalise                        |                              |  |                       |                  |           |     |
| World Class Audit        | KPI development                          | Dev                | Rescheduled | Audit Committee    |                       |                              |                                      |               |                                |   |  |                   |                                 |                              |  |                       |                  |           |     |
| World Class Audit        | 5 year rolling work programme            | Core work          | On track    | AGS/AC             | AGS & AC consultation |                              | AC external consultation             |               | Agree programme                | Programme delivery                          |  |                   |                                 |                              |  | AGS & AC consultation |                  |           |     |
| World Class Audit        | Parliamentary engagement                 | Core work          | On track    | tbc                |                       | MSP feedback                 |                                      |               | Joint review of engagement     |   |  |                   | Review parl engagement strategy |                              | Share budget scrutiny good practice            |                       |                  |           |     |
| World Class Audit        | Budget scrutiny support                  | Core work          | On track    | tbc                |                       |                              |                                      |               |                                | BRG work commences                          |  |                   |                                 |                              | 2nd round BPRG                                 |                       |                  |           |     |
| World Class Audit        | Auditing digital                         | Core work          | On track    | PABV               |                       |                              |                                      |               |                                |   |  |                   |                                 |                              |  |                       |                  |           |     |
| World Class Audit        | Reports                                  | Core work          | On track    | PABV               | Digital e-Hub         |                              |                                      |               |                                |   |  |                   | Digital SG report               |                              |  |                       |                  |           |     |
| World Class Audit        | Digital auditing                         | Dev                | On track    | tbc                |                       |                              |                                      |               |                                |   |  |                   |                                 |                              |  |                       |                  |           |     |
| World Class Audit        | Audit analytics (GLIQ)                   | Dev                | tbc         | ASGMT              |                       |                              |                                      |               |                                |   |  |                   |                                 |                              |  |                       |                  |           |     |
| World Class Audit        | Data enabled audit GovTech project       | Dev                | On track    | tbc                |                       |                              | Project launch                       | Assess bids   | Confirm bids to go fwd         |   | Phase 1  |                   | Phase 1 assessment              |                              | Phase 2 - potential procurement                |                       |                  |           |     |
| World Class Audit        | Data warehouse - datasets                | Dev                | On track    | KITGG              | AI sprints            |                              |                                      |               |                                |   |  |                   |                                 |                              |  |                       |                  |           |     |
| World Class Audit        | Communication & engagement strategy      | Dev                | Rescheduled | Board              |                       |                              |                                      |               |                                | Scoping                                     | Analysis   | Drafting          |                                 | Publish                      | Implementation                                 |                       |                  |           |     |
| World Class Audit        | Audit appointments                       | Dev                | On track    | Board              |                       |                              |                                      |               |                                |   |  |                   |                                 |                              |  |                       |                  |           |     |
| World Class Audit        | Code of Audit Practice - review & update | Dev                | On track    | Board              |                       |                              |                                      |               |                                |   |  |                   |                                 |                              |  |                       |                  |           |     |
| World Class Audit        | Audit appointments procurement strategy  | Dev                | On track    | Board              |                       |                              |                                      |               |                                |   |  |                   |                                 |                              |  |                       |                  |           |     |
| World Class Audit        | Procurement & appointments               | Dev                | On track    | Board              |                       |                              |                                      |               |                                |   |  |                   |                                 |                              |  |                       |                  |           |     |
| World Class Audit        | Audit methodology                        | Dev                | Initiation  | ASGMT              |                       |                              |                                      |               |                                |   | Initiation   |                   |                                 |                              |  |                       |                  |           |     |
| World Class Organisation | Embedding BaBO                           | Mainstreaming      | On track    | People Focus Group |                       |                              |                                      |               |                                |   |  |                   |                                 |                              |  |                       |                  |           |     |
| World Class Organisation | L& D portal                              | Mainstreaming      | On track    | People Focus Group |                       |                              |                                      |               |                                |   |  |                   |                                 |                              |  |                       |                  |           |     |
| World Class Organisation | Health & wellbeing                       | Mainstreaming      | On track    | People Focus Group |                       |                              |                                      |               |                                |   |  |                   |                                 |                              |  |                       |                  |           |     |
| World Class Organisation | Best Companies                           | Core               | On track    | Management Team    |                       |                              |                                      |               |                                |   |  |                   |                                 |                              |  |                       |                  |           |     |
| World Class Organisation | Resourcing - work programme              | Dev                | On track    | PABV               |                       |                              | Results                              |               |                                |   |  |                   |                                 |                              |  |                       |                  | Results   |     |
| World Class Organisation | Resourcing - joint ASG/PABV              | Dev                | On track    | ASG/PABV           |                       |                              |                                      |               |                                |   |  |                   |                                 |                              |  |                       |                  |           |     |
| World Class Organisation | Leadership development                   | Dev                | On track    | Management Team    |                       |                              |                                      |               |                                |   |  |                   |                                 |                              |  |                       |                  |           |     |
| World Class Organisation | Office 365                               | Dev                | On track    | KITGG              |                       |                              |                                      |               |                                |   |  |                   |                                 |                              |  |                       |                  |           |     |
| World Class Organisation | Sharepoint on-line - build & test        | Dev                | On track    | KITGG              |                       |                              |                                      |               |                                |   |  |                   |                                 |                              |  |                       |                  |           |     |
| World Class Organisation | Sharepoint on-line - implement           | Dev                | On track    | KITGG              |                       |                              |                                      |               |                                |   |  |                   |                                 |                              |  |                       |                  |           |     |
| World Class Organisation | HR system - e-HR upgrade                 | Dev                | On track    | tbc                |                       |                              | Consider options                     |               |                                | Upgrade                                     |  |                   | Server deadline                 |                              | Initiate longer term HR system options project |                       |                  |           |     |
| World Class Organisation | HR system - long term                    | Dev                | Scheduled   |                    |                       |                              |                                      |               |                                |   |  |                   |                                 |                              |  |                       |                  |           |     |
| World Class Organisation | Navision finance system upgrade          | Dev                | Rescheduled | tbc                |                       |                              |                                      |               |                                |   |  |                   | Server deadline                 |                              |  |                       |                  |           |     |
| World Class Organisation | Time Recording & expenses                | Dev                | Rescheduled | tbc                |                       |                              |                                      |               |                                |   |  |                   | Server deadline                 |                              |  |                       |                  |           |     |
| World Class Organisation | Performance Management Framework         | Dev                | Rescheduled | PRMG               |                       |                              |                                      |               |                                |   |  |                   |                                 |                              | Dashboard and reports build                    |                       |                  |           |     |
| World Class Organisation | Electronic working papers (detail tbc)   | Dev                | New         | tbc                |                       |                              |                                      |               |                                |   |  |                   |                                 |                              |  |                       |                  |           |     |
| World Class Organisation | SQL replacement                          | DS - resilience    | On track    | KITGG              |                       |                              |                                      |               |                                |   | Project initiation workshop  |                   |                                 |                              |  |                       |                  |           |     |
| World Class Organisation | Firewall connection Glasgow              | DS - resilience    | On track    | KITGG              |                       |                              |                                      |               |                                |   |  |                   |                                 |                              |  |                       |                  |           |     |
| World Class Organisation | Production firewall replacement          | DS - resilience    | On track    | KITGG              |                       |                              |                                      |               |                                |   |  |                   |                                 |                              |  |                       |                  |           |     |
| World Class Organisation | Citrix upgrade                           | DS - resilience    | On track    | KITGG              |                       |                              |                                      |               |                                |   |  |                   |                                 |                              |  |                       |                  |           |     |
| World Class Organisation | iShare/ citrix systrems recovery         | DS - resilience    | On track    | KITGG              |                       |                              |                                      |               |                                |   |  |                   |                                 |                              |  |                       |                  |           |     |
| World Class Organisation | Mobile phones contract                   | DS - mobile        | On track    | KITGG              |                       |                              |                                      |               |                                |   |  |                   |                                 |                              |  |                       |                  |           |     |
| World Class Organisation | Laptop refresh                           | DS - mobile        | On track    | KITGG              |                       |                              |                                      |               |                                |   |  |                   |                                 |                              |  |                       |                  |           |     |
| World Class Organisation | Windows 7 replacement                    | DS - mobile        | On track    | KITGG              |                       |                              |                                      |               |                                |   |  |                   |                                 |                              |  |                       |                  |           |     |
| World Class Organisation | Commission Connected                     | DS - mobile        | tbc         | KITGG              |                       |                              |                                      |               |                                |   |  |                   |                                 |                              |  |                       |                  |           |     |
| World Class Organisation | NetHelpdesk for Profesional Support      | DS - cloud/ mobile | On track    | KITGG              |                       |                              |                                      |               |                                |   |  |                   |                                 |                              |  |                       |                  |           |     |
| World Class Organisation | Sustainability/ climate change (CC)      | Dev                | On track    | Board              |                       | CC annual report             |                                      |               |                                |   | 2019 development work on: biodiversity strategy, emissions targets, sustainable travel plan, EMS, cycle to work scheme |                   |                                 |                              |  |                       | CC annual report | Dev work  |     |

Strategic Improvement Programme



Strategic Improvement Programme

| Strategic objective      | Project/ programme                       |
|--------------------------|--|
| World Class Audit        | New financial Powers Reports             |
| World Class Audit        |  |
| World Class Audit        | Methodology                              |
| World Class Audit        | Social Security                          |
| World Class Audit        | Reports                                  |
| World Class Audit        | Methodolgy                               |
| World Class Audit        | Counter Fraud                            |
| World Class Audit        | Audit Quality                            |
| World Class Audit        | Reports                                  |
| World Class Audit        | Client survey                            |
| World Class Audit        | Non financial audit standards            |
| World Class Audit        | Escalation process                       |
| World Class Audit        | KPI development                          |
| World Class Audit        | 5 year rolling work programme            |
| World Class Audit        | Parliamentary engagement                 |
| World Class Audit        | Budget scrutiny support                  |
| World Class Audit        | Auditing digital                         |
| World Class Audit        | Reports                                  |
| World Class Audit        | Digital auditing                         |
| World Class Audit        | Audit analytics (GLIQ)                   |
| World Class Audit        | Data enabled audit GovTech project       |
| World Class Audit        | Data warehouse - datasets                |
| World Class Audit        | Communication & engagement strategy      |
| World Class Audit        | Audit appointments                       |
| World Class Audit        | Code of Audit Practice - review & update |
| World Class Audit        | Audit appointments procurement strategy  |
| World Class Audit        | Procurement & appointments               |
| World Class Audit        | Audit methodology                        |
| World Class Organisation | Embedding BaBO                           |
| World Class Organisation | L& D portal                              |
| World Class Organisation | Health & wellbeing                       |
| World Class Organisation | Best Companies                           |
| World Class Organisation | Resourcing - work programme              |
| World Class Organisation | Resourcing - joint ASG/PABV              |
| World Class Organisation | Leadership development                   |
| World Class Organisation | Office 365                               |
| World Class Organisation | Sharepoint on-line - build & test        |
| World Class Organisation | Sharepoint on-line - implement           |
| World Class Organisation | HR system - e-HR upgrade                 |
| World Class Organisation | HR system - long term                    |
| World Class Organisation | Navision finance system upgrade          |
| World Class Organisation | Time Recording & expenses                |
| World Class Organisation | Performance Management Framework         |
| World Class Organisation | Electronic working papers (detail tbc)   |
| World Class Organisation | SQL replacement                          |
| World Class Organisation | Firewall connection Glasgow              |
| World Class Organisation | Production firewall replacement          |
| World Class Organisation | Citrix upgrade                           |
| World Class Organisation | iShare/ citrix systrems recovery         |
| World Class Organisation | Mobile phones contract                   |
| World Class Organisation | Laptop refresh                           |
| World Class Organisation | Windows 7 replacement                    |
| World Class Organisation | Commission Connected                     |
| World Class Organisation | NetHelpdesk for Profesional Support      |
| World Class Organisation | Sustainability/ climate change (CC)      |



## Purpose

1. This report provides an update to the Board on recent activity and developments concerning the audit market and audit regulation. It follows previous papers to the Board on 28 September 2018 on [Audit quality and reputational risk](#) and on 29 January 2019 on [Review of regulator/Audit market study](#).

## Background

2. A range of activity and reviews have been undertaken in the past year in response to corporate failures and audit quality issues in the wider audit market. The activity has focused on:
  - the effectiveness of regulation: the Kingman Review of the Financial Reporting Council (FRC). The [report](#) from this review was published in December 2018 and in March 2019 the UK Government's Department for Business, Energy and Industrial Strategy (BEIS) issued a [consultation paper](#) to take forward the recommendations from the Review
  - market concentration and lack of competition in the corporate audit market: Competition and Markets Authority (CMA). The CMA published an initial [report](#) in December 2018 outlining preliminary views and, following a period of consultation, published its [final summary](#) report and recommendations on 18 April 2019
  - the purpose and scope of audit: the Brydon Review. In December 2018 the Secretary of State for BEIS invited Sir Donald Brydon to conduct a review into the quality and effectiveness of audit. A final report is expected by the end of 2019 and the Government plans to consult on its response to the review's recommendations.
3. The House of Commons Business, Energy and Industrial Strategy Committee has also conducted a wide-ranging inquiry on the future of audit. The aim of the inquiry was to examine how the Kingman, CMA and Brydon reviews would complement each other, given the obvious links between the quality of audit product, audit regulation and the health of competition. The Committee published its [report](#) on 2 April 2019.
4. All of these reviews and inquiries largely concern audit in the corporate sector, particularly public interest entities (companies listed on the stock exchange). However, some of the considerations and recommendations have possible read-across to our Scottish public sector audit model. These are considered towards the end of this paper.

## Government Response to Kingman Review of FRC

5. The Kingman Review recommends that the FRC be replaced with an independent statutory regulator, accountable to Parliament, with a new mandate, clarity of mission, leadership and powers. The new regulator would be called the Audit, Reporting and Governance Authority. The report sets out 83 recommendations, many of which are concerned with how the new regulator should operate in practice. Although predominantly focused on the commercial sector, some of the recommendations relate to local audit in England and these were summarised in my report to the Board in January 2019.
6. The BEIS consultation paper welcomes the vision for a new regulator and states that many of the Review's recommendations will be adopted by the FRC without delay. Some recommendations, however, require primary legislation and others involve significant policy choices in deciding how to implement them. The consultation, which closes on 11 June 2019, focuses on these areas.
7. The response to the recommendations with most relevance to our arrangements are summarised in the following table:

| Kingman Review recommendation  | BEIS response   |
|--|---|
| The FRC should be replaced with a new independent regulator named the Audit, Reporting and Governance Authority (the ARGA).  | The Government welcomes all the Review's recommendations to establish a new, enhanced regulator. Taking these forward will require primary legislation, which the Government will introduce as soon as Parliamentary time allows. |
| The ARGA should work towards a position where individual audit quality inspection reports, including gradings, are published in full. As an interim step, the reports should be published on an anonymised basis.  | The FRC will immediately take forward the recommendation to publish anonymised reports. The Government will work with the FRC/ARGA to develop an appropriate way forward for publishing the full reports.                         |
| Key audit matters should be reported by auditors as 'graduated' audit findings (eg. describing an estimate as being cautious, balanced or optimistic).   | Careful consideration will be needed to ensure that graduated audit findings promote positive actions from audit firms and improve the quality of audits. The Government will consult on proposals in due course.                 |
| <p>The arrangements for local audit in England need to be fundamentally rethought to ensure they:</p> <ul style="list-style-type: none"> <li>• Deliver robust scrutiny of audit quality, with individual reports shared with audit committees and published.</li> <li>• Bring together in one place all the relevant responsibilities, so a single regulatory body can take an overview.</li> </ul> <p>Such a role should be undertaken by a separate body with deep expertise in local audit. It should have a clear objective to secure quality and take on responsibility for appointing auditors for local bodies, agreeing fees and preparation of the Code of Audit Practice.</p> <p>The Government should review whether the arrangements now in place for other public sector audits, such as Foundation Trusts, are genuinely robust and effective.</p> | The recent changes to oversight and procurement of local audit are still bedding in, and the Government will review their effectiveness once evidence is available.   |
| <p>The ARGA's individual audit quality reviews in relation to the NAO should be shared with the relevant audit committee and Parliament and should be published.</p> <p>All financial audits in scope of the NAO should be brought within ARGAs audit quality monitoring scope, and not only at the discretion of the C&amp;AG.</p>  | These are matters for Parliament to consider given the NAO's independence from Government.  |

## Competition & Markets Authority Final Report

8. The CMA's final report on their study of the statutory audit services market concentrates on the following key issues:

- shortcomings in audit quality
- audit committees are only a partial solution to the problem of companies playing the primary role in selecting their own auditors

- a fragile audit market with high barriers to entry, which lacks resilience and choice
- firms are less and less focused on audits.

9. To address these concerns, the CMA makes four main recommendations to the Government:

- Robust regulatory oversight of the (audit) committees that run the selection process for audited companies, and oversee the audit, to make them more accountable and ensure that they prioritise quality. The ARGA should mandate minimum standards for both the appointment and oversight of auditors, monitor compliance with these standards and take remedial action where necessary. The CMA also states that selection of auditors by an independent body is worth keeping under consideration in the long term.
- Mandatory joint audit for FTSE350 companies, to increase the capacity of challenger firms, to increase choice in the market and thereby drive up audit quality. There should be initial limited exceptions to the requirement, based on criteria set by the ARGA - mainly the largest and most complex companies. Any company choosing a sole challenger auditor should also be exempt. Audits of exempt companies may be subject to rigorous, real-time peer reviews commissioned by and reporting to the ARGA.
- An operational split between the Big Four's audit and non-audit businesses, to ensure maximum focus on audit quality. This should initially apply to the Big Four and involve a separate Chief Executive and board, separate financial statements, no profit sharing between the audit practice and non-audit practice and remuneration and career progression strongly linked to audit quality. The CMA also support a 'cooling off' period at the end of an audit, during which the firm would not be allowed to carry out any non-audit work.
- A five-year review of progress by the ARGA to examine the effectiveness of changes. This review should re-consider the merits of moving to independent appointment of auditors, the possible need for a full structural split between audit and non-audit services and how to fine-tune joint audit to adapt to market developments.

## Brydon Review

10. The Brydon Review has been commissioned in response to a perceived widening of the 'audit expectations gap' between what users expect of an audit and the reality of what an audit is and what auditors' responsibilities entail. Its objectives include consideration of:

- the needs and expectations of users of financial and non-financial corporate reporting
- how far the audit process and product may need to improve and evolve to meet the needs of users and to serve the wider public interest
- what specific changes to the statutory audit model and wider regulatory framework for audit may be needed to deliver this, including any changes to company law
- whether other forms of business assurance should be developed or enhanced to enable shareholders and other stakeholders to assess better the future financial prospects and sustainability of companies.

11. Sir Donald Brydon has also signalled that he will consider the analysis and recommendations made in the BEIS Parliamentary Select Committee Report of 2 April 2019.

12. The Review launched an initial [call for views](#) on 10 April 2019, with a closure date of 7 June. Further calls for views are expected as the Review progresses. The scope of this initial consultation is summarised below:

|   |   |
|---|---|
| <b>Definitions of audit and its users</b> | Considers for whose benefit audit should be conducted, its value to users and whether an audit should enhance confidence in the entity or just in the financial statements.   |
| <b>The expectation gap</b>                | Considers if there is an expectation gap and what it is. It also covers whether there is a significant 'delivery' or 'quality' gap between existing responsibilities and how they are currently met.  |
| <b>Audit and wider assurance</b>          | Looks at the role of audit within wider assurance that companies are expected to provide on management of the business and key risks. Views are sought on whether external auditors should make greater use of the work of internal auditors and whether there should be a role for external audit in assessing directors' disclosures in areas beyond the financial statements. It also highlights how the use of experts from other professions might lead to more effective assurance. |
| <b>Scope and purpose of audit</b>         | Seeks views on various changes to the scope and purpose of audit that have been suggested as a means of helping to address the expectation gap. Areas covered include an expanded role in assessing internal controls, whether the regulatory framework relating to going concern is fit for purpose and the case for a more forward-looking audit.   |
| <b>Audit product and quality</b>          | Questions the binary nature of audit opinions and looks at the possibility of graduated findings. It also asks if the current regulatory assessment of quality drives particular and possibly sub-optimal behaviours by auditors (a focus on 'completing the file').  |
| <b>Legal responsibilities</b>             | Seeks views on the interplay between audit and the legal responsibilities of directors particularly related to distributable reserves, but also considering the duty to maintain adequate accounting records.   |
| <b>Communication of audit findings</b>    | Looks at how the auditor's report is communicated and how this might be improved. It asks how greater transparency can be provided about the audit process and the auditor's judgements.  |
| <b>Fraud</b>                              | Asks whether it is reasonable and feasible to expect auditors to play a greater role in detecting material fraud. This includes whether auditors should be required to evaluate an audited body's systems to prevent and detect fraud.  |
| <b>Auditor liability</b>                  | Looks at the auditor's liability for costs or damages and how this might limit the scope of audit.  |
| <b>Other issues</b>                       | Considers the role of technology in audit, proportionality of audit, shareholder engagement with audit, reporting on culture, the cost of audit.  |

13. We propose to respond to this consultation and take the opportunity to demonstrate that the wider scope of Scottish public sector audit already meets many of the issues being considered by Brydon. For example, the current Code of Audit Practice already requires auditors to offer foresight on financial sustainability, risk and performance and requires auditors to make judgements on financial sustainability that extend far beyond the going concern concept. Auditors are already required to evaluate an audited body's systems to prevent and detect fraud and arrangements for governance and transparency, which includes leadership, scrutiny and internal controls.
14. There are other areas flagged by Brydon we will want to give further consideration, particularly as we begin to develop a new Code of Audit Practice. These are highlighted later in this paper.

## BEIS Report on the Future of Audit

15. The BEIS Parliamentary Select Committee report is wide-ranging and covers many of the issues also considered/being considered by Kingman, the CMA and Brydon such as the effectiveness of audit, conflicts of interest and auditor independence, competition and market resilience and regulation.
16. On regulation, the Select Committee's recommendations go further than the Kingman Review and the BEIS consultation paper. Their recommendations include that:
  - the FRC/ARGA should make reporting graduated findings mandatory. Graduated findings are where the auditor expresses an opinion on key management estimates and judgements in the accounts, describing them on a range from cautious to optimistic
  - audit quality reports should be published in full, but not anonymised even in the first instance
  - the Government and the ARGA should make further recommendations to tighten the UK dividend regime
  - the FRC/ARGA should require greater reporting on audit fees, potentially including the disclosure of audit hours, staff mix and rate per hour. Auditors should also report instances where they have performed additional procedures but have been unsuccessful in increasing their fee
  - the ARGA should inspect firms' audit software to ensure that it is sound and that the audit trail cannot be tampered with.
17. Similarly, the Select Committee's recommendations on auditor independence, competition and audit market resilience take a stronger line than some of those in the CMA's final report:
  - the CMA should aim for a full legal separation between the audit and non-audit arms of firms, but at the very least there should be an operational split
  - the ARGA and the CMA should consider the potential independent appointment of auditors with a view to developing it as a viable option if other remedies and reforms fail
  - joint audits should be piloted in the upper reaches of the FTSE100, in conjunction with a market cap (i.e. a limit for the Big Four firms) for the rest of the FTSE350
  - the CMA should revisit increasing the frequency of audit rotations, which should be reduced to seven-year non-renewable terms that can only be terminated in exceptional circumstances
  - the CMA should consider a cooling-off period of three years where non-audit services cannot be offered after an audit engagement has ended
  - the CMA should work with the ARGA to draw up proposals to mitigate the consequences of an audit market failure, especially if it involved one of the Big Four.
18. The Select Committee report also feeds into the Brydon Review by recommending that:
  - the detection of fraud should be a priority within an audit and auditors must demonstrate how potential fraud has been investigated
  - the Review considers how the scope of audit might be widened to give the auditor more opportunities to express forward-looking opinions
  - the Review considers extending the scope of audit to cover the entire annual report with different levels of assurance and reporting. Critical areas such as corporate governance and payment practices ought to be subject to a robust assurance process and meaningful reporting by the auditor.

## Issues for Audit Scotland to Consider

- 19.** Many of the proposed changes to the regulation of, and market for, audit are already fundamental features of the Scottish public-sector audit model. There are, however, some areas to consider further as we plan for the next audit procurement round, the new Code of Audit Practice and update of the quality framework.

### Procurement

- joint audit for the largest bodies (although this is intended to solve a problem that we do not have of lack of competition in the market)
- a cooling off period at the end of an audit appointment during which the firm would not be allowed to carry out any non-audit work. This is not currently a feature of our contracts with the firms
- additional disclosures on audit fees, such as audit hours, staff mix and rate per hour. This runs counter to efforts we have made in previous years to shift the focus from audit inputs to outputs and impact.

### Code of audit practice

- monitoring the Brydon Review as it progresses
- use of graduated findings. The Code requires auditors to make clear conclusions and judgements, but does not mandate graduated findings in the manner anticipated by the reviews
- expectations on forward-looking opinions. This is already a clear requirement of the Code, but worthy of review as Brydon progresses
- reliance on the work of internal audit
- expectations in relation to the detection of fraud.

### Quality

- publishing individual quality reports
  - transparency of the audit process and the auditor's judgements
  - external quality review of audit software to ensure it is sound and that the audit trail cannot be tampered with. This is not a feature of the quality reviews undertaken by ICAS at the moment.
- 20.** Subsequent reports to the Board will consider these issues in more detail as the Audit Quality and Appointments team advance with the next audit procurement exercise and drafting a new Code of Audit practice.

## Recommendation

- 21.** The Board is invited to consider and comment on this update paper.

Wednesday 5 June 2019 at 11.30am

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 minutes: Board meeting 1 May 2019 For approval
  8. Review of action tracker For information
- 

## Business performance

9. Q4 Financial performance report For information
  10. Q4 Corporate performance report For information
  11. Q4 Becoming world class improvement programme update report For information
- 

## Governance

12. 2018/19 Annual report on International work For approval
  13. 2018/19 Annual report on Freedom of information and environmental information requests For approval
  14. 2018/19 Annual report on complaints For approval
  15. 2018/19 Annual report from the Chair of the Remuneration and Human Resources Committee For approval
  16. 2018/19 Annual report from the Chair of the Audit Committee For approval
  17. 2018/19 Governance statement on internal control and certificate of assurance For approval
  18. Policy on the provision of non-audit services by Audit Scotland's external auditor For approval
  19. Review of HR policies For approval
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## Conclusion

- 20. Any other business
- 21. Review of meeting
- 22. Date of next meeting: 18 September 2019

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## Items to be taken in private

- |  |              |
|--|--------------|
| <b>23.</b> 2018/19 Audit Scotland Annual report<br>[Item to be taken in private to support the effective conduct of business, intended for future publication]                         | For approval |
| <b>24.</b> 2018/19 Annual report on Quality of public audit in Scotland<br>[Item to be taken in private to support the effective conduct of business, intended for future publication] | For approval |
| <b>25.</b> Preparations for audit procurement: project update<br>[Item to be taken in private due to commercial sensitivity]   | For approval |



Wednesday 1 May 2019, 10.45am

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

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## **Present:**

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

## **Apologies:**

None

## **In attendance:**

Diane McGiffen, Chief Operating Officer  
Martin Walker, Assistant Director, Corporate Performance and Risk  
Joy Webber, Senior Executive Assistant  
Mark Taylor, Audit Director, Audit Services and Performance Audit and Best Value  
Mark Roberts, Senior Manager, Performance Audit and Best Value  
David Robertson, Digital Services Manager  
Nicola Paton, PMO Analyst, Digital Services  
Stuart Dennis, Corporate Finance Manager  
Fiona Kordiak, Director, Audit Services  
Simon Ebbett, Communications Manager  
Fiona Daley, Consultant, Audit Quality and Appointments  
Owen Smith, Senior Manager, Audit Quality and Appointments

### **1. Welcome and apologies**

The Chair welcomed members and attendees to the meeting in public of the Audit Scotland Board, the agenda and papers for which had been published on Audit Scotland's website on Monday 29 April 2019.

### **2. Declarations of interest**

There were no declarations of interest.

### **3. Decision on items to be taken in private**

The Board agreed the items to be taken in private.

### **4. Chair's report – verbal update**

Ian Leitch provided a verbal update of meetings with Caroline Gardner and Diane McGiffen on general business matters and of meetings with the Scottish Commission for Public Audit regarding succession planning for Audit Scotland's Board.

The Board welcomed the update.

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

Caroline Gardner invited the Board to note ongoing engagement with the Scottish Parliament on the next round of budget scrutiny. She advised that Mark Taylor attended a meeting of the Convenors

Group and there was ongoing discussion about how to support the Parliament's scrutiny of devolved financial powers.

Caroline invited the Board to note recent Public Audit and Post Legislative Scrutiny committee (PAPLS) sessions which had considered The Control of Dogs (Scotland) Act 2010, the coverage of Freedom of Information legislation and evidence sessions on IT system issues.

Caroline advised members that the Social Security report was scheduled to be published on 2 May 2019.

Caroline invited the Board to note that Audit Scotland colleagues were heading into the busiest period of the audit year and that work supporting colleagues' wellbeing over this period was being given a clear priority.

The Board welcomed the update.

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

Graham Sharp invited the Board to note that since the Accounts Commission's meeting on 11 April 2019, it had published Best Value Assurance Reports (BVARs) on South Lanarkshire and Stirling and the 'How Council's work – Safeguarding public money' report.

Graham advised of the forthcoming Local Government and Communities Committee meeting of the Scottish Parliament on 8 May 2019 which would consider the Local Government Overview report.

Graham invited the Board to note that the next meeting of the Accounts Commission would consider its draft Annual report, draft Strategy and draft Engagement Strategy and the BVAR on North Lanarkshire Council.

Graham advised that shortlisting for the Deputy Chair position would take place on 2 May 2019.

## **7. Review of minutes: Board meeting 18 March 2019**

The Board considered the minutes of the meeting of 18 March 2019, which had been previously circulated, and agreed that these were an accurate record, subject to updating when some attendees had joined and left the meeting.

The Chair invited members to note that in relation to Item 20 Graham Sharp had confirmed that the Accounts Commission was content with the timelines set out in the report and would welcome more detailed information on flexibility and contingency in the project plan.

The Board noted that regular updates would be provided as the project progresses.

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

The Board noted the updates provided by the action tracker.

## **9. Audit and Accountability framework update**

*Mark Taylor, Audit Director, Audit Services and Performance Audit and Best Value, joined the meeting.*

Mark Taylor introduced the Audit and accountability framework update report, which had been previously circulated.

Mark invited the Board to note the contents of the report and welcomed any comments or questions.

During discussion, the Board welcomed the agreed framework setting out arrangements for the audit and accountability of devolved matters between the Scottish and UK Governments. The

Board noted the formal consultation by the Scottish Government with Audit Scotland on the draft framework and the constructive engagement between Audit Scotland and the National Audit Office throughout its development.

Mark advised the Board that Audit Scotland is undertaking the first financial audit of Social Security Scotland, working with the National Audit Office to agree and formalise the audit arrangements for aspects of this work and obtain assurance over areas administered by the Department of Work and Pensions. Mark advised that the team continues to build skills and capacity for auditing wider aspects for the devolved powers, drawing on the skills and experience of the National Audit Office.

The Chair noted the concerns of the Cabinet Secretary in that the framework does not fully satisfy arrangements for Audit Scotland's access to UK public bodies and Mark advised that the Auditor General for Scotland and Audit Scotland share those concerns. Turning to the potential implications of the joint work referred to in paragraph 15, the Chair asked how significant the risk was that agreement is not reached on the audit arrangements. Mark advised, that from a Scottish perspective, the risk relates to the relationship with the National Audit Office and the provision in the framework for the Comptroller and Auditor General to explain any issues to the Scottish Government. Caroline Gardner advised that, while not without risk, the framework will be tested over the next three years when a review of the fiscal arrangements will be carried out by 2022.

Heather Logan asked about planning for the audit work in light of these issues and Mark Taylor advised that Audit Scotland has a plan for the short and medium term.

Alan Alexander welcomed the paper which provided a summary of the risk. Turning to the Memorandum of Understanding (MOU) between Audit Scotland and the National Audit Office, Mark advised of initial discussions with the National Audit Office in advance of the review of the MOU and ahead of starting audit work in late summer 2019. Mark also advised that the MOU is one element of risk mitigation and that Audit Scotland is also considering other options.

Diane McGiffen advised that, in terms of risk and the wider strategic impact on public audit, Audit Scotland regularly explores areas of common interest and concern across the UK through engagement with the UK audit agencies and regular meetings with the Auditors General and Chief Operating Officers.

Following discussion, the Board welcomed the report and expressed its support for the Auditor General for Scotland's position.

*Mark Taylor, Audit Director, Audit Services and Performance Audit and Best Value, left the meeting.*

## **10. EU Withdrawal – verbal update**

*Mark Roberts, Senior Manager, Performance Audit and Best Value, joined the meeting.*

Mark Roberts provided a verbal update on the recent decision to extend the EU departure date to 31 October 2019.

Mark invited the Board to note the ongoing uncertainty and outlined of what Audit Scotland has done to prepare for EU withdrawal both in audit reporting for 2018/19 and operationally through business continuity planning.

The Chair welcomed the update and Caroline Gardner and Graham Sharp expressed their thanks to Mark and his colleagues for their work in planning, communicating with colleagues and noted the wider benefits for business continuity planning brought by the work.

*Mark Roberts, Senior Manager, Performance Audit and Best Value, left the meeting.*

## **11. Information security management policy review**

*David Robertson, Digital Services Manager and Nicola Paton, PMO Analyst, Digital Services, joined the meeting.*

David Robertson introduced the Information security management policy review report, a copy of which had been previously circulated.

Nicola Paton invited the Board to note the policy had been reviewed internally by the Audit Scotland Knowledge, Information and Technology Governance Group (KITGG). She advised that this review had highlighted minor changes which had been incorporated into the policy prior to its consideration and approval by Management Team on 9 April 2019. Nicola invited the Board to approve the updated policy.

Following discussion, the Board approved the Information Security Management Policy.

*David Robertson, Digital Services Manager and Nicola Paton, PMO Analyst, Digital Services, left the meeting.*

## **12. Data protection policy**

Martin Walked introduced the revised draft Data protection policy, which had been previously circulated.

Martin invited the Board to consider and approve the amended policy which incorporated changes to reflect guidance issued by information commissioners relating to the processing of personal data and detailed guidance on the rights of the individual. Martin also advised that that only one subject access request had been received in the current year.

The Board discussed a couple of points for minor clarification and noted that GDPR rules would most likely still apply for some time following the withdrawal from the EU.

Following discussion, the Board approved the updated policy subject to minor amendments.

## **13. 2018/19 Accounting policies, key accounting estimates and judgements**

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

Stuart Dennis introduced the 2018/19 Accounting policies, key accounting estimates and judgements report, a copy of which had been previously circulated.

Stuart invited the Board to approve the inclusion of the accounting policies, key accounting estimates and judgements in to the notes of the 2018/19 accounts.

The Board noted the good practice and approved the inclusion of the key accounting policies in the notes of the 2018/19 accounts.

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

## **14. Equality outcomes and mainstreaming progress report**

*Gillian Woolman, Audit Director, Audit Services and Richard Robinson, Senior Manager, Performance Audit and Best Value, joined the meeting.*

Gillian Woolman introduced the Mainstreaming equality and equality outcomes progress report, which had been previously circulated.

Gillian invited the Board to review the progress reported, consider and comment on the proposed new outcome and to approve the report for publication.

During discussion, the Board welcomed the new outcome to consider how public bodies address human rights and socio-economics disadvantage.

Caroline Gardner reflected on the excellent work done by the team which captured the range of responsibilities well. Heather Logan welcomed the report, in particular highlighting the examples throughout the report which brought the issues to life. Heather asked if there was any gaps or duplication around the work undertaken on audited bodies by different teams or other regulators. Gillian advised that there were no concerns given the good lines of communication between audit teams on the scope of audits. Richard Robinson advised the overview reports provide one vehicle to draw the key messages together.

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

*Gillian Woolman, Audit Director, Audit Services and Richard Robinson, Senior Manager, Performance Audit and Best Value, left the meeting.*

## **15. Strategic improvement programme 2019-2021 and the Performance management framework project**

Martin Walker introduced the Strategic improvement programme 2019-2021 and Performance management framework project update report which had been previously circulated.

Martin invited the Board to note the progress reported on the overall strategic improvement programme and that the Management Team review of the digitally enabled projects for 2019 on 12 March 2019 had confirmed the need to reschedule the next phase of the performance management framework (PMF) project in order to prioritise system resilience projects.

The Board noted the progress to date and the key messages from the reports previously considered by Management Team. The Board also noted the decision to rephase the projects.

Heather Logan asked about the options appraisal process for the Time Recording (TR) and PMF systems and the assessment of 'in-house' and 'off the shelf products'. She also asked whether the objective to have a single audit system for electronic working papers (EWP) remained.

Martin advised that a TR and expenses system has been developed in-house which would be assessed against other off the shelf products available in the market. Martin also confirmed that the objective is to have all colleagues use a single TR system.

On the PMF, Martin advised that the Management Team decision to progress the in-house business intelligence led solution was consistent with the recommendation made by external consultants. He advised that the external consultant's report had included an options appraisal which considered three main solutions. These were, an enterprise solution (which typically offers modules for a variety of organisational functions including Human Resources and Finance as well as PMF), a 'stand alone' PMF system and the business intelligence led solution.

Martin advised that EWP would be a significant project and that the objective would be to procure a single EWP system for all of the audit work.

Heather Logan noted that the TR and PMF projects had been running for some time and sought assurance that the proposed solutions would be fit for purpose, cost effective and proportionate for an organisation of Audit Scotland's size. She advised that she would like additional information on project governance and the options appraisal work, and in particular information on the financial implications of the projects and the projected business benefits.

Martin advised the cost of the in-house developed TR system was covered in existing budgets, compared favourably with off the shelf solutions and would provide all the functionality required.

On the PMF, Martin advised that changes to the licensing model for the software to deliver the solution had changed during the course of the project and this amounted to around £35k. In terms of current performance management arrangements Martin advised that these were fit for

purpose as confirmed by an internal audit. However, he also advised that the current process was more labour intensive than he would like and that the new approach would be more efficient and provide for more timely and flexible analysis of the performance data.

Alan Alexander sought clarification on resourcing outlined in Appendix 2 to the report. Martin advised that the Finance system upgrade, the HR system upgrade, TR system and the PMF system have costs and timings attached to them. He advised that the SharePoint on-line project was progressing to schedule and was being delivered within existing resources.

Martin advised that the EWP project was at a very early stage and that an initial project scoping workshop would take place on 8 May 2019. He advised that this would inform the project objectives, scope, timescales, risks, resource requirements and governance and that reports would come forward to the Management Team and the Board as appropriate.

Alan Alexander asked whether the projects are on track. Martin advised that the HR and Finance systems would be upgraded by the end of July and that the TR and expenses system would be in place by October following a period of parallel running in accordance with the schedule. Martin also confirmed that the SharePoint online project is progressing well and is expected to be completed by the end of December as planned.

Diane McGiffen advised that the report was for information only and sought to provide a summary of the strategic improvement programme and an update on the interconnected projects being delivered to support the organisational objectives. Diane advised that further information on the option appraisals, costs and benefits would be shared with members in advance of the next meeting of the Board.

**Action ASB90: Martin Walker to circulate additional information on the projects. (June 2019)**

## **16. Review of audit market – update**

*Fiona Kordiak, Director, Audit Services, joined the meeting.*

Fiona Kordiak introduced the Review of audit market update report, a copy of which had been previously circulated.

Fiona invited the Board to consider and comment on the high level summary of issues for audit as reported in the Kingman Review, Competition and Markets Authority report, the Brydon review and the House of Commons Business, Energy and Industrial Strategy Committee inquiry on audit.

The Board emphasised that the public audit model in Scotland, approved by the Audit Scotland Board, has for some years implemented key elements of what is now proposed for the commercial sector. The Board agreed to continue to consider developments as part of the preparation of the new Code of Audit Practice, procurement strategy and the update of the audit quality framework.

The Chair noted Audit Scotland intends to respond to the Brydon Review and advised that the Board would like to see any proposed response.

Following the discussion, the Board welcomed the report.

**Action ASB91: Fiona Kordiak to circulate a copy of the proposed response to the Brydon Review. (May 2019)**

*Fiona Kordiak, Director, Audit Services, left the meeting.*

## **17. Any other business**

There was no further business.

## **18. Review of meeting**

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

## **19. Date of next meeting: 5 June 2019**

The members noted the draft agenda for the next meeting of the Audit Scotland Board scheduled for 5 June 2019 in the offices of Audit Scotland, 102 West Port, Edinburgh.

## **Items taken in private**

## **20. Draft Corporate plan update 2019/20**

Martin Walker introduced the Draft Corporate plan update 2019/20, which had been previously circulated.

Martin invited the Board to consider and comment on the draft Corporate Plan and subject to any amendments approve the publication of the plan in June 2019.

The Board considered the draft Corporate plan and approved it for publication in June 2019 subject to minor amendments.

## **21. Communication and engagement strategy review**

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

Simon Ebbett introduced the Communication and engagement strategy review update report, which had been previously circulated.

Simon invited the Board to note the workshops with colleagues to refresh the Communications and engagement strategy which had identified common themes about independence and getting messages out to public services users.

The Board welcomed the update.

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

## **22. Preparations for audit procurement: project update**

*Fiona Daley, Consultant and Owen Smith, Senior Manager, Audit Quality and Appointments, joined the meeting.*

Fiona Daley introduced the Preparations for audit procurement: Project update report, which had been previously circulated.

Fiona invited the Board to note progress and consider the proposed project governance arrangements outlined in the appendix to the report.

The Board considered the progress reported and agreed with the proposed governance structure.

Following discussion, the Board welcomed the report.

*Fiona Daley, Consultant and Owen Smith, Senior Manager, Audit Quality and Appointments, left the meeting.*



| Ref   | FORUM | Agenda Item No | Item Title   | Action Description   | Meeting Date | Due Date   | Responsible    | Assigned to    | Complete/Ongoing | Reported Yes/No | Progress Notes  |
|-------|-------|----------------|--|--|--------------|------------|----------------|----------------|------------------|-----------------|---|
|       |       |                |  |  |              |            |                |                |                  |                 |   |
| ASB87 | Board | 8              | Review of action tracker                             | Diane McGiffen to circulate the output from the Board development session on 8 February 2019.  | 18/03/2019   | 01/05/2019 | Diane McGiffen | Diane McGiffen | Complete         | Yes             | The outputs from the Board Development session on 8 February were circulated with the Board papers for the meeting on 1 May 2019. |
| 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              | A verbal update will be provided at Item 8 of today's meeting.  |
| ASB89 | Board | 11             | Q3 Becoming world class improvement programme report | Martin Walker to circulate the reports considered by Management Team on 12 February 2019 and 12 March 2019 to members for their information.                 | 18/03/2019   | 01/05/2019 | Martin Walker  | Martin Walker  | Complete         | Yes             | The report which appears at Item 15 of today's agenda provides an update and summarises the reports to Management Team.           |
| ASB90 | Board | 15             | Strategic Improvement programme                      | Martin Walker to circulate additional information on the projects.   | 01/05/2019   | 05/06/2019 | Martin Walker  | Martin Walker  | Ongoing          |                 | The additional information will be shared in June.  |
|       | Board | 16             | Review of audit market update                        | Fiona Kordiak to circulate a copy of the proposed response to the Brydon Review  | 01/05/2019   | 05/06/2019 | Fiona Kordiak  | Fiona Kordiak  | Ongoing          |                 | A copy of Audit Scotland's proposed response to the Brydon Review will be circulated wc 3 June 2019.                              |



## Purpose

1. This report presents the un-audited financial results for the twelve months to 31 March 2019.

## Background

2. The finance performance report for the twelve months to 31 March 2019 is attached to this paper.
3. The report was discussed by Management Team on 30 April 2019.

## Discussion

4. In the twelve months to 31 March 2019, Audit Scotland's Net Operating Expenditure was £9,827k which was £64k less than budget.
5. In-house income was in total £30k less than plan with the 2017/18 audit year and prior year fees generating a surplus of £100k. Progress on 2018/19 audit work was on average 2.56% below plan leading to a negative volume variance of £187k, partially compensated by a positive price variance of £57k.
6. Fee income earned for audits carried out by external firms net of fees and expenses paid to the firms was £58k better than budget. Income was £408k higher than budget which is offset by the £350k increase in fees and expenses payable to the external firms. The 2017/18 audit year generated a surplus of £212k on fee income and is in recognition of additional work the firms have carried out. Progress on 2018/19 audit work is on average 2.85% ahead of plan leading to the recognition of positive volume (£133k) and price (£48k) variances.
7. Staff costs represent 67% of Audit Scotland's total expenditure budget. In 2018/19 the staff establishment was based on 278 whole time equivalents with the approved budget providing cover for a pay award of 1%. Following changes to public sector pay guidance we negotiated a pay award of 2% or 3%, dependent on pay scale position. This pay award settlement was in line with the Scottish Government's public sector pay policy. Cash savings of £355k were identified and delivered to enable us to meet our budget allocation.
8. Taking into account the financial challenge of an unplanned pay award increase, the final outturn on staff costs of £42k less than budget was a positive outcome. This figure is inclusive of agency costs and the net position in respect of secondment costs and income.
9. IAS 19 pension costs were £105k higher than budget due to a reduction in the discount factor and an increase in the pensionable payroll costs used to calculate the service cost.
10. The Management Contingency budget of £150k has been allocated in full to fund increased IAS 19 employee benefit costs and essential agency spend within Corporate Services.
11. Other expenditure contributed £78k to the favourable position. The main areas of variance were recorded in legal, professional and consultancy (+£46k), property (+£27k) and training and recruitment (-£25k).
12. More detailed variance analysis and explanation is provided in the attached report.

## Virement

13. There were no instances of budget virement in excess of £20k in the twelve months to 31 March 2019.

## Recommendation

14. The Board is invited to discuss and note the un-audited financial results for the 12 months to 31 March 2019.

## Appendix: Q4 Headline results

The summary financial position to 31 March 2019:

| £000                                | Annual Budget  | Actual         | Budget         | Var.         | % Var.       | Prior Year     | Note |
|-------------------------------------|----------------|----------------|----------------|--------------|--------------|----------------|------|
| Fee Income - In House               | 7,589          | 7,559          | 7,589          | (30)         | -0.4%        | 7,568          | 1    |
| Fee Income - Audit Firms            | 4,603          | 5,011          | 4,603          | 408          | 8.9%         | 4,862          | 2    |
| Central Charges                     | 5,453          | 5,462          | 5,453          | 9            | 0.2%         | 5,460          | 3    |
| Rebate                              | 0              | 0              | 0              | 0            | -            | 0              |      |
| Interest                            | 0              | 4              | 0              | 4            | -            | 7              |      |
| Other Income                        | 0              | 53             | 0              | 53           | -            | 58             | 4    |
| IAS 19 Income                       | (797)          | (798)          | (797)          | (1)          | 0.1%         | (893)          |      |
| <b>TOTAL INCOME</b>                 | <b>16,848</b>  | <b>17,291</b>  | <b>16,848</b>  | <b>443</b>   | <b>2.6%</b>  | <b>17,062</b>  |      |
| Approved auditors                   | 4,125          | 4,475          | 4,125          | (350)        | -8.5%        | 4,355          | 2    |
| Staff salaries and oncosts          | 15,832         | 15,825         | 15,832         | 7            | 0.0%         | 15,063         | 5    |
| Payroll provisions incl. severance  | 0              | 0              | 0              | 0            | -            | 1              |      |
| Agency and secondment costs         | 125            | 135            | 125            | (10)         | -8.0%        | 387            | 5    |
| IAS 19 Pension costs                | 2,221          | 2,325          | 2,221          | (104)        | -4.7%        | 1,831          | 6    |
| Property costs                      | 936            | 908            | 936            | 28           | 3.0%         | 938            |      |
| Travel and subsistence              | 906            | 889            | 906            | 17           | 1.9%         | 866            |      |
| Legal, professional and consultancy | 774            | 728            | 774            | 46           | 5.9%         | 473            |      |
| Training                            | 483            | 464            | 483            | 19           | 3.9%         | 430            | 7    |
| Recruitment                         | 105            | 149            | 105            | (44)         | -41.9%       | 128            | 7    |
| Printing and office costs           | 271            | 286            | 271            | (15)         | -5.5%        | 227            |      |
| Information technology              | 458            | 470            | 458            | (12)         | -2.6%        | 414            |      |
| Audit                               | 60             | 52             | 60             | 8            | 13.3%        | 55             | 8    |
| Depreciation                        | 383            | 369            | 383            | 14           | 3.7%         | 372            |      |
| Other costs                         | 60             | 43             | 60             | 17           | 28.3%        | 36             | 9    |
| <b>EXPENDITURE</b>                  | <b>26,739</b>  | <b>27,118</b>  | <b>26,739</b>  | <b>(379)</b> | <b>-1.4%</b> | <b>25,576</b>  |      |
| <b>NET OPERATING (EXPENDITURE)</b>  | <b>(9,891)</b> | <b>(9,827)</b> | <b>(9,891)</b> | <b>64</b>    | <b>0.6%</b>  | <b>(8,514)</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 2019 for the in-house audits:

|                         | 2017/18 Audit Year |          |            | 2018/19 Audit Year |             |            | Prior Years | Total      |
|-------------------------|--------------------|----------|------------|--------------------|-------------|------------|-------------|------------|
|                         | Volume             |          | Price      | Volume             |             | Price      |             |            |
|                         | WIP %              | £        | £          | WIP %              | £           | £          | £           | £          |
| Local Government        | -                  | -        | +58        | -3.34              | -146        | +20        | +6          | -62        |
| Health                  | -                  | -        | -          | +2.92              | +42         | +12        | -           | +54        |
| FE                      | -                  | -        | +4         | -35.16             | -15         | -          | -           | -11        |
| Central Government      | -                  | -        | +38        | -3.07              | -31         | +4         | -           | +11        |
| Non-statutory           | -                  | -        | -6         | -4.55              | -37         | +21        | -           | -22        |
| <b>Total – March 19</b> | <b>-</b>           | <b>-</b> | <b>+94</b> | <b>-2.56</b>       | <b>-187</b> | <b>+57</b> | <b>+6</b>   | <b>-30</b> |

#### Local Government

Local Government audits for 2017-18 are complete with a positive variance to budget of £58k. The positive price variance is due to increased fees being applied with the most significant increases being applied to North Lanarkshire Council, Aberdeenshire Council, Angus Council and Scottish Borders Council. The 2018-19 audits are behind plan and are being partially reduced by the recognition of positive price variances. The £6k prior year fee income relates to charitable trust fees for 2016-17 audits at Moray and East Lothian councils.

#### Health

All 2017-18 health audits are complete and within the expected fee. For 2018-19 audits we are slightly ahead of plan with the accounts highlighting positive volume and price variances. 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 2017-18 audits are complete with the accounts recognising a positive price variance of £4k. Audit work for 2018-19 is behind budget though the completion level is line with the audit completion percentages of the firms.

#### Central Government

2017-18 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 Scottish Land Commission. Progress on 2018/19 audits is 3.07% worse than budget leading to a volume variance of £31k.

## Non-statutory

The European Agricultural Fund Account (EAFA) audit for 2017-18 is complete with the final fee being slightly less than expected (£6k). Work has started on the 2018-19 audit which is 4.55% behind plan (£37k) and this is being reduced by a favourable price variance of £21k.

## 2. Fee income and expenditure – Audit Firms

The positive income variance of £408k should be offset with the adverse expenditure variance of £350k for approved auditors. Effectively the position highlights a net favourable variance of £58k 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 31 March 2019:

|                         | 2017/18 Audit Year |          |             | 2018/19 Audit Year |             |            | Prior Year | Total       |
|-------------------------|--------------------|----------|-------------|--------------------|-------------|------------|------------|-------------|
|                         | Volume             |          | Price       | Volume             |             | Price      | Price      |             |
|                         | WIP %              | £        | £           | WIP %              | £           | £          | £          | £           |
| Local Government        | -                  | -        | +147        | +2.38              | +66         | +39        | -          | +252        |
| Health                  | -                  | -        | +35         | +3.78              | +38         | +3         | +3         | +79         |
| Water                   | -                  | -        | -           | +15.49             | +22         | -          | -          | +22         |
| FE                      | -                  | -        | +11         | -0.53              | -2          | -          | +12        | +21         |
| Central Government      | -                  | -        | +19         | +2.20              | +9          | +6         | -          | +34         |
| <b>Total – March 19</b> | <b>-</b>           | <b>-</b> | <b>+212</b> | <b>+2.85</b>       | <b>+133</b> | <b>+48</b> | <b>+15</b> | <b>+408</b> |

### Local Government

2017-18 audits in the local government sector are complete leading to a positive variance of £147k. 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 and Midlothian Council. The 2018-19 audits are 2.38% ahead of plan leading to the recognition of a positive volume variance of £66k and price variance of £39k.

### Health

All 2017-18 audits are complete which has generated a positive variance of £35k and this is mainly due to agreed fees being higher than expected for 3 health boards (Lothian, Ayrshire & Arran and Highland). 2018-19 health audits are 3.78% ahead of plan leading to a positive volume variance of £38k. The prior year income of £3k is in relation to an additional audit fee for the 2016/17 audit of NHS Health Scotland.

### Water

The favourable volume variance for the 2018-19 audit is due to the firm being ahead of the planned trajectory which was based on prior year actual.

## Further Education (FE)

Progress on 2017-18 audits is complete leading to a £11k positive price variance. The main fee increases have been agreed with Lews Castle College and Moray College. For 2018-19 audits there is a minor adverse variance of £2k. The prior year fee income of £12k relates to fee increases agreed by Moray College and Glasgow Kelvin College.

## Central Government

Central government 2017-18 audits are complete leading to a positive variance of £19k which is mainly due to the recognition of agreed fee increases for Crown Estate Scotland and Historic Environment Scotland. 2018-19 audits are currently 2.20% ahead of plan leading to a £9k positive volume variance and the recognition of a £6k 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 £9k in 2018-19 is the adjustment required following the reconciliation of the 2017-18 audit fee balance and the proposed 2018-19 audit fee calculation.

### 4. Other Income

Other income is mainly the recovery of staff costs with one member of staff seconded to Deloitte and another member of staff seconded to deliver a specific project for the Cayman Islands government.

### 5. Staff & Agency Costs

| Business Group                                      | Annual Budget<br>£000 | Actual<br>£000 | Budget<br>£000 | Variance<br>£000 | Actual Average<br>w.t.e. | Budget<br>w.t.e. | Note |
|---|-----------------------|----------------|----------------|------------------|--------------------------|------------------|------|
| ASG staff costs (incl NFP)                          | 8,315                 | 8,408          | 8,315          | (93)             | 157.7                    | 148.7            | a)   |
| ASG agency & secondments                            | 70                    | 67             | 70             | 3                |                          |                  |      |
| PABV (incl Professional Support) staff costs        | 3,773                 | 3,635          | 3,773          | 138              | 60.8                     | 64.4             | b)   |
| PABV agency & secondments                           | 0                     | 8              | 0              | (8)              |                          |                  |      |
| CSG (incl Audit Quality & Appointments) staff costs | 1,996                 | 2,058          | 1,996          | (62)             | 37.4                     | 35.3             | c)   |
| CSG agency & secondments                            | 0                     | 46             | 0              | (46)             |                          |                  |      |
| Business Support staff costs                        | 649                   | 619            | 649            | 30               | 17.9                     | 18.1             | d)   |
| Business Support agency & secondments               | 0                     | 14             | 0              | (14)             |                          |                  |      |
| Governance & Other staff costs                      | 1,099                 | 1,105          | 1,099          | (6)              | 19.3                     | 20.0             | e)   |
| Governance & Other agency & secondments             | 55                    | 0              | 55             | 55               |                          |                  |      |
| <b>Total staff costs</b>                            | <b>15,832</b>         | <b>15,825</b>  | <b>15,832</b>  | <b>7</b>         | <b>293.1</b>             | <b>286.5</b>     |      |
| <b>Total agency &amp; secondments</b>               | <b>125</b>            | <b>135</b>     | <b>125</b>     | <b>(10)</b>      |                          |                  |      |

- a) The average number of staff employed in ASG has been 9.0 w.t.e. more than the funded budget. The establishment is based on 153.1 w.t.e. with the application of a 3% vacancy/turnover factor reducing the funded w.t.e. to 148.7. Overall the additional cost of employing the increased staffing level (£501k) has been partially funded by the reduction in average actual salary costs per employee (£408k). The £93k overspend is funded by additional secondment income of £33k and the trainee underspend within PABV of £68k. The budget was set for 34 trainees with 30 in ASG and 4 in PABV for the whole year. There were periods in the year trainee numbers in PABV were reduced with ASG incurring the additional cost.
- b) PABV is on average 3.6 w.t.e. below budget (£215k) and this is being reduced by the average actual salary cost being above plan (£77k). The recruitment exercise undertaken in May/June led to the majority of vacant positions being filled by September, however, reduced trainee costs and leavers since September has led to reduced average w.t.e. The

£8k secondment costs relate to a Scottish Government employee working in PABV before they were a successful candidate in the recruitment exercise.

- c) The average staff resource requirement in CSG has been higher than the funded w.t.e. (£116k) mainly due to the application of the 3% vacancy factor. This overspend is currently funded by the favourable variance on actual average salary costs (£54k) and the planned generation of savings within non-payroll expenditure budget headings. Agency costs have been incurred to provide essential cover for a vacancy within Digital Services.
- d) Business support w.t.e. below funded figure (£7k) due to one supernumerary member of staff providing maternity cover to Human Resources from April to October and a manager vacancy at the start of the financial year. In addition to a positive volume variance the actual average salary costs are better than budget (£23k). Agency expenditure covered a vacant post which has now been filled.
- e) The reduced average w.t.e. in Governance & Other is due to two non-exec vacancies within the Accounts Commission to the end of July. The overall small overspend is due to the application of spot rate increases effective from April 2018. A budget of £55k in agency & secondments has been allocated from Management Contingency to part fund the overspends in Corporate Services and Business Support.

## **6. IAS 19 Pension Costs**

IAS 19 pension costs were £105k worse than budget. Net interest was £1k worse than budget with the current service cost £104k worse than budget.

The service cost for unfunded benefits and ombudsmen was £27k higher than budget due to a decrease in the discount rate from 2.7% to 2.4%.

The service cost for the funded scheme was £77k higher than budget. This is due to the pensionable payroll for the pension calculations being £11,431k compared to the budget assumption of £11,240k. This is due to in year retirements of members of the Civil Service pension scheme being replaced by new staff who become members of the Local Government Pension Scheme and some pay increases higher than projected.

## **7. Training and Recruitment**

In addition to the requirement to fill vacancies as they arise we have incurred the additional cost in 2018/19 of the significant recruitment campaign that was undertaken in May and June to bring in a mix of qualified and unqualified staff to backfill vacancies generated through the creation of teams to work on new financial powers.

There has also been two assessment centres in respect of the professional trainee recruitment programme. This was undertaken to ensure that we were in a position to benefit from being able to compete with other bodies in offering positions to high calibre candidates.

The underspend in the training budget has been used to partially fund the recruitment costs in 2018-19.

## **8. Audit costs**

All planned external and internal audit outputs have been delivered this financial year for a fee lower than budget.

## **9. Other costs**

The underspend of £17k is due to budgets for complaints/correspondence and freedom of information not being utilised.

## **Management Contingency**

The 2018-19 budget included a contingency allocation of £150k controlled by the Management Team.

Allocations of £95k and £55k have been made from the Management Contingency to cover increased IAS 19 employee benefit costs and essential agency spend within Corporate Services.

## **Capital Expenditure and Funding**

Capital investment for the twelve months to March 2019 was £174k, £1k less than the available budget of £175k.

The investment was all IT related and included mobile phones, chromebooks and laptops. The purchase of this equipment complements our digital services strategy with the emphasis on replacing old technology with the latest enhanced security enabled equipment

## **Actual position compared to November forecast**

The forecast out-turn prepared in November 2018 projected an underspend of £228k for 2018-19. The actual final outturn of £64k represents an adverse movement of £164k.

IAS 19 – employee benefit requirements account for £160k of the movement.

Pension costs under IAS 19 calculations were £105k higher than forecast. Unfunded benefits and the ombudsmen were £27k worse than projection due to a reduction in the discount rate. The funded scheme was £77k worse than projection with the total payroll costs used for pension calculations being higher than forecast.

The holiday year is the calendar year which therefore leads to the outstanding leave position being high at 31 March each year as the majority of leave is taken during the summer months. The increase in provision of £105k was £55k worse than the forecast projection.

## **Statement of Financial Position and Cash flow statement**

For information, appendix 1 presents the statement of financial position as at 31 March 2019 and appendix 2 the cash flow statement for the year ended 31 March 2019

**Stuart Dennis**

Corporate Finance Manager  
22 May 2019



# Statement of Financial position

## As at 31 March 2019

## Appendix 1

|   | 31 March 2018<br>(Audited)<br>£(000)'s | 31 March 2019<br>£(000)'s |
|---|--|---------------------------|
| <b>Non-Current Assets</b>                                     |  |                           |
| Property, Plant and Equipment                                 | 1,400                                  | 1,229                     |
| Intangible Assets   | 67                                     | 43                        |
| <b>Total non-current assets</b>                               | <b>1,467</b>                           | <b>1,272</b>              |
| <b>Current Assets</b>   |  |                           |
| Trade and other receivables                                   | 3,482                                  | 2,687                     |
| Cash and cash equivalents                                     | 179                                    | 1,206                     |
| <b>Total current assets</b>                                   | <b>3,661</b>                           | <b>3,893</b>              |
| <b>Total assets</b>   | <b>5,128</b>                           | <b>5,165</b>              |
| <b><u>Less: Current Liabilities</u></b>                       |  |                           |
| Trade and other payables < 1 year                             | 2,255                                  | 3,364                     |
| Provision for early retirement < 1 year                       | 100                                    | 102                       |
| Other provisions < 1 year                                     | 0                                      | 0                         |
| <b>Total current liabilities</b>                              | <b>2,355</b>                           | <b>3,466</b>              |
| <b>Non-current assets plus/net current assets/liabilities</b> | <b>2,773</b>                           | <b>1,699</b>              |
| <b>Non-current liabilities</b>                                |  |                           |
| Deferred liabilities  | (839)                                  | (826)                     |
| Provision for Early Retirement                                | (1,758)                                | (1,832)                   |
| Other provisions  | (218)                                  | (290)                     |
| Net Funded Pension Liabilities                                | (26,665)                               | (34,954)                  |
| <b>Total non-current liabilities</b>                          | <b>(29,480)</b>                        | <b>(37,902)</b>           |
| <b>ASSETS LESS LIABILITIES</b>                                | <b>(26,707)</b>                        | <b>(36,203)</b>           |
| <b><u>Represented by:</u></b>                                 |  |                           |
| <b>Taxpayers' Equity</b>                                      |  |                           |
| Net funded pension liabilities                                | 26,665                                 | 34,954                    |
| General Fund  | 42                                     | 1,249                     |
|   | <b>26,707</b>                          | <b>36,203</b>             |

# Cash Flow Statement to 31 March 2019

## Appendix 2

£(000)'s

### Cashflows from operating activities

|  |                |
|--|----------------|
| Net Operating expenditure  | (9,827)        |
| <i>Adjustment for non cash items:</i>                            |                |
| - Depreciation   | 369            |
| - Other non-cash items   | 0              |
| - Pension scheme - net revenue (debit)                           | 2,947          |
| (Increase)/Decrease in trade and other receivables               | 795            |
| (Decrease)/Increase in trade/other payables/deferred liabilities | 69             |
| (Decrease)/Increase in provisions for early retirement           | 76             |
| (Decrease)/Increase in other provisions                          | 72             |
| <b>Net cash outflow from operating activities</b>                | <b>(5,499)</b> |

### Cashflows from investing activities

|   |              |
|---|--------------|
| Purchase of property, plant and equipment     | (171)        |
| Purchase of intangible assets                 | (3)          |
| Less / ( add) movement in accrued expenditure | 0            |
|   | <b>(174)</b> |

### Cashflows from financing activities

|   |              |
|---|--------------|
| From Consolidated Fund ( supply)  | 6,700        |
| <b>Net increase / (decrease) in cash and cash equivalents in the period</b> | <b>1,027</b> |
| Cash and cash equivalents at the beginning of the period                    | 179          |
| Cash and cash equivalents at the end of the period                          | <b>1,206</b> |
| <b>Net cash requirement</b>   |              |
| Cashflows from financing activities   | 6,700        |
| (Increase)/ decrease in cash  | (1,027)      |
|   | <b>5,673</b> |

## Purpose

1. This report provides the Board with an overview of Audit Scotland's performance during quarter four and for 2018/19 overall.

## Background

2. Performance reports are considered by the Management Team and the Board on a quarterly basis alongside the quarterly financial performance report and Becoming World Class improvement programme update.
3. The quarter three report was considered at meetings of the Management Team and the Board on 23 February 2019 and 20 March 2019 respectively.
4. The quarter four report also provides a summary of performance for 2018/19. It was considered by the Management Team at its meeting on 14 May 2019.
5. The performance information is reported under the three strategic objectives of Delivering World Class Audit, Making a Difference and Being a Better Organisation.
  - Appendix 1 (pages 3 – 5) provides a one-page summary of performance for each strategic objective.
  - Appendix 2 (pages 6 – 24) provides the detailed performance information.

## Q4 performance summary

6. The Q4 report demonstrates continued strong performance over all. Performance headlines include:
  - **Delivering World Class Audit** - we are conducting relevant, timely and high-quality audits.

Publications in Q4 include:

- 200 annual audit plans
- 3 annual audit reports
- 1 Best Value Assurance report
- 1 Overview report

The Q3/Q4 and annual audit quality reports provide positive assurance on the quality of the audit work across all auditors.

- **Making a Difference** - we are getting our messages out effectively and delivering new and improved products:
  - 16 parliamentary engagements including five evidence sessions across two committees
  - 196,033 downloads and 3,841 social media engagements
  - 125 media mention of Audit Scotland and/ or Accounts Commission
  - Positive feedback from audited bodies and other stakeholders on the audit work

- **Being a Better Organisation** - we are managing our workforce effectively and investing in learning and development. Financial planning and budget management are effective:
  - 99.6% of 279.5 establishment in place at the end of the quarter
  - Absence rate: 1.4%
  - Net operating cost 2018/19: £64k less than budget – variance of 0.6% of net operating expenditure budget.

## 2018/19 Performance summary

### Securing world class audit

7. We produced 457 audit reports/outputs in 2018/19.
8. The reports which form part of the Audit Quality Framework provide positive assurance on the quality of the audit work.

|                                  | Planned    | Delivered  | %            |
|----------------------------------|------------|------------|--------------|
| Annual Audit Plans               | 221        | 193        | 87           |
| • Audit Scotland                 | (122)      | (106)      | 87           |
| • Firms                          | (99)       | (87)       | 88           |
| Annual Audit Reports             | 222        | 222        | 100          |
| • Audit Scotland                 | (123)      | (123)      | 100          |
| • Firms                          | (99)       | (99)       | 100          |
| Performance Audits               | 7          | 6          | 86           |
| BV Assurance & Follow-up Reports | 7          | 7          | 100          |
| Overviews                        | 5          | 5          | 100          |
| Housing Benefit Reports          | 8          | 5          | 62.5         |
| Statutory Reports                | 8          | 11         | 138          |
| Other                            | 10         | 8          | 80           |
| <b>Total</b>                     | <b>488</b> | <b>457</b> | <b>93.6%</b> |

9. The remaining 28 Annual Audit Plans, one performance audit and one How Councils Work report were delivered by 2 May 2019. We have delivered 99.8 percent of the 2017/18 planned audits/reports of which almost 94% percent were to schedule.
10. We produced 11 statutory reports in 2018/19, this is more than in any previous year.
11. Audit work was delivered 0.48% over budget – this is within the 5% tolerance level.

### Making a difference

12. We are getting our messages out effectively
  - In 2018/19 there were a total of 87 attendances, at meetings of the Scottish parliament including the Public Audit and Post Legislative Scrutiny Committee, eight other committees and 15 other engagements.

- We 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 108,641 visits (up from 72,000 in 2017/18), there were 817,436 report downloads (up from 690,113 in 2017/18) and there were 26,118 social media engagements (up from 20,636 in 2017/18).
- There is evidence over the year of impact at a national and local level and providing insight and increasing amounts of foresight.
- There were 99 new correspondence cases and 98% received a final response within the agreed time limit.

## Being a better organisation

### 13. We are managing our resources well:

- The Best Companies survey was completed by 84% of staff and achieved: our highest overall score to date and we are now in the top 100 not for profit organisations. We achieved an increase in five of the eight factors with the largest increases in 'my company' and 'fair deal' groupings
- net operating expenditure to March 2019; 0.6% below budget
- efficiencies, cost reduction and additional income delivered £1.1m of budget savings against a target of £1.0m
- average number of staff employed in the 12 months to March 2019 278.6 w.t.e. (0.9 w.t.e lower than establishment figure of 279.5 w.t.e)
- staff absence rate 4.85 days (4.4 days in 2017/18)
- over 99% IT up time.


### 14. Despite being at establishment, sustaining a low absence rate and positive Best Company engagement results we are conscious that there continues to be pressures on colleagues and limited 'spare capacity' to respond to increasing and unplanned demands, the increasingly complex and rapidly changing operating environment and an ambitious improvement agenda. Feedback from colleague surveys and engagement indicates that there are capacity challenges in terms of the demand for audit work and the supply and deployment of resources.

### 15. The 2019/20 Corporate Plan Update highlights wellbeing, resourcing and learning and development as key areas of focus for 2019/20. Audit Directors are reviewing the 'demand side' capacity pressures in terms of the volume and nature of outputs, audit methodologies and our improvement agenda, with a focus on prioritisation and streamlining. On the 'supply side' reviews of our resourcing arrangements are under-way alongside the development of the workforce and learning and development plans.

## Recommendations

### 16. The Board is invited to review the Q4 performance report and consider whether any additional management attention is required.

## Summary of 2018-19 Q4 performance


|   |   |
|---|---|
|  Delivering world-class audit | Our objective is to ensure that public audit in Scotland applies the highest professional and ethical standards, is efficient, proportionate and risk based. Audit work should be informed by an excellent understanding of the strategic and operational context and respond effectively to changing circumstances and emerging issues. We must report clearly and authoritatively and follow the public pound wherever it is spent. Audit must promote transparency, accountability and Best Value. |
|---|---|

|                  |  |
|------------------|--|
| <b>Headline:</b> | Relevant, high quality audits published to schedule and within budget. |
|------------------|--|

| Objectives  | 2017-18 |    |    |    | 2018-19 |    |    |    | Actions                              |
|---|---------|----|----|----|---------|----|----|----|--------------------------------------|
|   | Q1      | Q2 | Q3 | Q4 | Q1      | Q2 | Q3 | Q4 |                                      |
| We conduct relevant and timely audits and report in public. | G       | G  | G  | G  | G       | G  | G  | G  |                                      |
| We make clear and relevant recommendations for improvement  | G       | G  | G  | G  | G       | G  | G  | G  |                                      |
| Audits are of high quality                                  | G       | G  | G  | G  | G       | G  | G  | G  |                                      |
| We systematically improve the quality of our work           | G       | G  | G  | G  | G       | G  | G  | G  | Actions arising from quality reviews |

## Key performance indicators

|   |   |
|---|---|
| <b>Annual Audit in Q4</b> <ul style="list-style-type: none"> <li>Published in Q4               <ul style="list-style-type: none"> <li>3 annual audit reports (2 Audit Scotland and 1 Firm)</li> <li>120 Audit Scotland Annual Audit plans.</li> <li>80 Firms Annual Audit plans.</li> </ul> </li> </ul> | <b>Performance/ best value/ overviews/housing benefit/Section 22 in Q4</b> <ul style="list-style-type: none"> <li>Two reports published in Q4:               <ul style="list-style-type: none"> <li>1 Local Government - challenges and performance report</li> <li>1BVAR</li> </ul> </li> </ul>                    |
| <b>On budget in Q4</b> <ul style="list-style-type: none"> <li>Expenditure on audit work was 0.48% above budget in Q4 – this is within the 5% tolerance range.</li> </ul>  | <b>Quality in Q4</b> <ul style="list-style-type: none"> <li>Positive assurances re audit quality in               <ul style="list-style-type: none"> <li>Q3/4 audit quality report</li> <li>Audit Scotland annual quality report</li> <li>Quality of Public Audit in Scotland report 2018/19</li> </ul> </li> </ul> |

|  |  |
|--|--|
|  <b>Making a difference</b> | Our objective is to maximise the difference our audit work makes to public services in Scotland. |
|--|--|

|                   |   |
|-------------------|---|
| <b>Headlines:</b> | Sustained interest in reports published in Q4 (in terms of downloads and social media) and evidence of national and local impact. |
|-------------------|---|


| Objectives   | 2017-18 |    |    |    | 2018-19 |    |    |    | Actions |
|--|---------|----|----|----|---------|----|----|----|---------|
|  | Q1      | Q2 | Q3 | Q4 | Q1      | Q2 | Q3 | Q4 |         |
| We get our messages out effectively                          | G       | G  | G  | G  | G       | G  | G  | G  |         |
| We systematically deliver impact through our work            | G       | G  | G  | G  | G       | G  | G  | G  |         |
| We offer insight and foresight through our audit work        | Y       | Y  | Y  | Y  | Y       | G  | G  | G  |         |
| We develop new and improved processes, products and services | G       | G  | G  | G  | G       | G  | G  | G  |         |

**Key performance indicators in Q4**

- 16 parliamentary engagements including 5 evidence sessions across two committees
- 125 media mention of Audit Scotland and/ or Accounts Commission (a 64% decrease on Q4 2017/18).
- 196,033 downloads (an increase of 5% compared to Q4 2017/18).
- 3,841 social media engagements (a decrease of 20% compared to Q4 2017/18).
- 98% correspondence responses issued within 30 days, once the ongoing cases are completed this is expected to be 100%.

**Key performance indicators in 2018/19**

- 87 Parliamentary engagements including:
  - PAPLS 37, Local Government and Communities 9, SCPA 4, Finance and constitution 8, Equalities and Human rights 4, Social Security 3, Health and Sport 3, Education and Skills 2, Justice 2, Other 15.
- 1,283 media mentions of Audit Scotland and/ or Accounts Commission (a decrease of 4% from 1,340 in 2017/18).
- 817,436 downloads (an increase of 18% compared to 690,113 2017/18).
- 26,118 social media engagements (an increase of 26% compared to 20,636 in 2017/18).
- 98% correspondence responses issued within 30 days (compared to 97% in 2017/18)

|   |  |
|---|--|
|  | Our objective is to make the best use of our resources so that we can deliver audit work that improves the use of public money. We want to make Audit Scotland a great place to work so that we can attract and retain a highly skilled workforce who provide high-quality audit services. |
|---|--|

|                   |   |
|-------------------|---|
| <b>Headlines:</b> | Staff complement at establishment and low rates of absence. Net operating cost 0.6% below budget. Some indications of demand and supply side pressures on capacity. |
|-------------------|---|

| Objectives  | 2017-18 |    |    |    | 2018-19 |    |    |    | Actions   |
|---|---------|----|----|----|---------|----|----|----|---|
|   | Q1      | Q2 | Q3 | Q4 | Q1      | Q2 | Q3 | Q4 |   |
| <b>We manage our resources effectively</b>  | G       | G  | G  | G  | G       | G  | G  | G  | Review of audit resourcing arrangements under way.                                  |
| <b>We maximise our efficiency</b>   | G       | G  | G  | G  | G       | G  | G  | G  |   |
| <b>We manage information and intelligence effectively (internal)</b>                    | A       | A  | A  | A  | A       | A  | A  | A  | Digital Audit Strategy implementation and performance management framework project. |
| <b>We empower and support our people to be engaged, highly skilled and perform well</b> | A       | A  | A  | A  | G       | G  | G  | G  | Best Companies survey results being discussed in business groups/ teams etc.        |

### Key Performance Indicators in Q4

|  |  |
|--|--|
| <b>People</b> <ul style="list-style-type: none"> <li>Staff complement (w.t.e): 99.6% of 279.5 establishment at the end of the quarter (98.9% of 274.9 in Q4 2017/18).</li> <li>Absence rate: 1.4% (1.12% in Q4 2017/18).</li> <li>Resignations YTD: 6.72% (6.75% in 2017/18).</li> <li>L&amp;D events: 24 in-house events offering 484 places.</li> <li>Exams: 11 exams with 100% pass rate for professional trainees.</li> </ul>  | <b>Resources ytd</b> <ul style="list-style-type: none"> <li>Net operating cost: £64k less than budget – variance of -0.6% of net operating expenditure budget.</li> <li>Staff costs: £7k less than budget – variance 0%</li> <li>Agency and secondment costs: £10k more than budget</li> <li>Capital investment on IT hardware: £1k less than budget – variance of 0.57% on budget.</li> <li>Property costs: £28k less than budget – variance of 3% on budget.</li> <li>Travel and subsistence expenditure: £17k less than budget – variance of 1.9%.</li> <li>Legal, Professional and consultancy costs £46k less than budget– variance of 5.9%.</li> </ul> |
| <b>Key Performance Indicators in 18/19</b> <ul style="list-style-type: none"> <li>Absence rate: 4.85% (4.4% in 2017/18).</li> <li>L&amp;D events: 103 in-house events covering 1,352 places.</li> <li>Exams: 112 exams with 86 % pass rate for professional trainees.</li> <li>Best Companies survey - highest overall score to date, 'ones to watch' status maintained and entry into the top 100 not for profit organisations</li> <li>There were 11.26% of leavers ytd compared with 12.79% in 2017/18</li> </ul> |  |



## Key Performance Indicators in 18/19



**We conduct relevant and timely audits and report in public.**

| Key Performance Questions            | 2017-18 |    |    |    | 2018-19 |    |    |    | Actions   |
|--------------------------------------|---------|----|----|----|---------|----|----|----|---|
|                                      | 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  | New performance management framework will provide additional data and analysis in these areas |
| Are audits delivered on budget?      | G       | G  | G  | G  | G       | G  | G  | G  |   |

**Relevant**

The joint Auditor General and Accounts Commission rolling five year rolling work programme 2019/20 to 2023/24 was published on 26 March. The programme sets out performance audit, Best Value and overview reporting commitments for the next two years, and indicative areas of audit work for years three to five. Provision has been made within the rolling work programme for EU withdrawal related performance audit work. The timing and scope of any performance audit work will be dependent upon development within this fast-moving area. The central EU withdrawal team continue to monitor developments and liaise with audit colleagues as appropriate.

The Accounts Commission considered the Controller of Audit's Annual Assurance and Risks Report on Local Government in Q4. This report provides assurance to the Accounts Commission on the delivery of audit outputs across the local government sector, and in relation to the Commission's Strategic Audit Priorities. The report's key findings included:

- auditors have an effective approach to identifying and following up audit risks in individual councils, integration authorities and pension funds.
- auditors have provided good coverage of the Commission's five SAPs. There are some areas in which we could provide more assurance in future, such as the quality of public performance reporting, councils' approach to people development and the effectiveness of community engagement.

In the MDCR survey audited bodies were asked to respond to questions using a scale of 1 to 5 where 1 is 'very poor' and 5 is 'very good'.

Stakeholders' aggregate views on the key questions are:

## Annual Audit

|   | Average Score |
|---|---------------|
| Usefulness of the annual audit overall        | 4.1           |
| Usefulness of the annual audit report overall | 4.2           |
| Appropriate coverage of Best Value            | 3.5           |

## Performance Audit

|                    | Average Score |
|--------------------|---------------|
| Performance audits | 3.6           |
| Best Value         | 3.4           |
| Overviews          | 3.6           |

**Published in Quarter 4**

Audit Scotland published 120 and the Firms 80 Annual Audit Plans.

The Local Government Overview 2019 report was published on 21 March 2019.

Best Value– the South Lanarkshire BVAR report was published on 28 March 2019 per the schedule.

The EAFA 2018 annual audit report was delivered on the 14<sup>th</sup> February 2019. The audit was completed within the agreed budget and the accounts package was delivered for certification within the Commission's deadline.

The Non-Domestic Rates Account (NDR) annual audit report was agreed and issued in final form on 14 February 2019, the planning guidance deadline was 31 October 2018. The draft annual audit report (AAR) was issued in draft on 2 August 2018, but the audit team had issues getting the client to respond and agree. The accounts were audited before the statutory deadline of 31 Dec 2018, but the AAR was late.

The timescale for publication of the Social Security performance audit was revised from Q4 2018/19 to Q1 2019/20 due to the complexity of auditing a new body and social security arrangements alongside the statutory financial audit. The performance audit report was published on 2 May 2019.

Publication of the 'How Councils Work: protecting public money' report was rescheduled to avoid a clash with the LG overview report. It was published on 11 April 2019.

A series of Impact Report had been tentatively scheduled for publication in Q3. With the exception of the Social Work in Scotland Impact Report (published December 2018) the remaining impact reports will be completed either as part of other ongoing audits (e.g. Higher Education) or during 2019/20 (Q1 and Q2).

**2018/19 summary**

In 2018/19, we planned to publish 488 audit plans, audit and performance reports and published 457. Almost 94 per cent percent were delivered on time. Including those published by 2 May 2019 this rises to 485 (99.4%). 98%, of the audit opinions delivered to schedule (96% in 2017/18).

The variation between planned and published is due to:

- Additional audit/reports - we produced three more statutory reports than provided for and published two additional briefing papers
- Annual audit reports - two Local Government and one Central Government AARs were delivered late due to issues outwith the Auditors control.
- One Performance audit, one How Councils Work and three impact reports were rescheduled. The performance audit and How Councils Work report have now been published.
- Annual audit plans – 193 of the 221 plans were submitted to AQA as per the planning guidance deadline (87%). 28 were submitted later than the deadline. 16 of these were delayed to accommodate Audit Committee meeting dates at the audited body. Seven had been presented to audited body on schedule but not submitted to AQA. The remaining five were late for a variety of reasons (two audited bodies moving office, one delay in agreeing an audit fee, one waiting for a management response and one which was simply late).
- Housing Benefit – five of the eight planned reports were published. One of the remaining audits due to be published in Q4 will be published in Q1. In December the Accounts Commission considered proposals on a new approach for HB performance audit. Under the new agreed approach there will be a continued focus on risk-assessments, but a greater focus on thematic issues (e.g. over-payments, resource models) to allow better comparisons across councils. The phased approach includes two to three themed audits along with approximately two audits on individual councils.

Variation in the schedule is shown as ✓ = delivered, (XQ) = rescheduled to or from quarter identified in the brackets.

## Appendix 2 – Performance detail

|                                 | Q1   | Q2  | Q3   | Q4  |  |
|---------------------------------|--|---|--|---|--|
| Annual Audit Plans – AS (122)   | 2 FE ✓   |   |  | 10 NHS✓<br>66 LG✓<br>44 CG ✓                              |  |
| Annual Audit Plans – Firms (99) | 19 FE ✓  |   |  | 13 NHS✓<br>39 LG✓<br>28 CG✓                               |  |
| Audit – Audit Scotland (123)    | 10 NHS ✓<br>6 CG ✓   | 66 65 LG✓<br>25 28 CG✓  | 1 LG (Q2) ✓<br>2 FE ✓<br>9 CG✓   | 1 CG – NDR (Q3)<br>1 CG (EAFA) ✓                          |  |
| Audit – Firms (99)              | 13 NHS ✓<br>5 CG ✓   | 39 38 LG✓<br>14 CG✓   | 1 LG (Q2) ✓<br>18 FE ✓<br>9 CG ✓   | 1 FE✓   |  |
| Performance Audit (7)           | ALEOS ✓<br>Scottish fire and rescue services ✓   | Forth Replacement Crossing ✓<br>Children & YP mental health✓<br>Superfast broadband for Scotland: update✓ | Health and social care integration: update✓  | Scotland's new financial powers: Social security (Q1)     |  |
| Best Value Assurance Report (7) | East Ayrshire Council ✓<br>Fife Council ✓<br>West Dunbartonshire Council ✓                   | Glasgow City Council ✓  | Dumfries and Galloway Council✓<br>East Lothian Council✓  | South Lanarkshire✓  |  |
| Overview Report (5)             | Local government in Scotland: challenges and performance ✓<br>Scotland's Colleges ✓          |   | NHS in Scotland✓<br>Local Government: financial overview✓  | Local government in Scotland: challenges and performance✓ |  |
| Housing benefit (8)             | ✓West Dunbartonshire<br>× City of Edinburgh (Q2)   | City of Edinburgh (Q1) ✓<br>East Renfrewshire (Q3) x<br>Housing benefit annual report(Q3) x               | East Renfrewshire (Q2) ✓<br>Renfrewshire✓<br>Glasgow*<br>Housing benefit annual report(Q2) ✓   | Perth*<br>Falkirk*<br>Midlothian (Q1)<br>Aberdeenshire*   |  |
| Statutory (8)                   | s102 City of Edinburgh Council ✓<br>s22 Edinburgh College ✓<br>s22 New College Lanarkshire ✓ | s22 Scottish Government Consolidated Accounts✓  | s22 Scottish Police Authority✓<br>s22 NHS Ayrshire and Arran✓<br>s22 NHS Highland✓<br>s22 NHS Tayside✓<br>s22 Community justice✓<br>s22 Scottish Public Pensions Agency✓<br>S22Scottish Social Services Council✓ |   |  |

## Appendix 2 – Performance detail

|               |   |  |  |   |  |
|---------------|---|--|--|---|--|
| Other (10)    | National Scrutiny Plan ✓<br>Two Impact reports:<br>Modern Apprenticeships ✓<br>Maintaining Scotland's roads: a follow-up report ✓ | National Fraud Initiative ✓<br>Impact report: Community Planning in Scotland ✓ | Impact reports:<br>Efficiency of Sherriff courts x<br>Scotland's economic growth<br>Higher education X<br>Social work in Scotland ✓<br>Issues paper:<br>EU Withdrawal ✓<br>Briefing:<br>New financial powers ✓ | How councils work - Safeguarding public money: are you getting it right? X (Q1) |  |
| Planned (488) | 68  | 139  | 74   | 207   |  |
| Published     | 69  | 153  | 58   | 205   |  |

\*Originally planned but removed after change of approach agreed with the Accounts commission.

### On budget

Audits on budget: In Q4 the expenditure on audit is 0.48% above budget and within our 5 percent budget tolerance.

|       | 2018/19    |            |            |            |
|-------|------------|------------|------------|------------|
|       | Budget     | Actual     | £ Variance | % Variance |
| ASG   | 10,378,717 | 10,484,026 | 105,309    | 1.01       |
| PABV  | £1,910,676 | £1,864,045 | -£46,631   | -2.4%      |
| Total | 12,289,393 | 12,348,071 | 58,678     | 0.48       |

### Forward look:

- A suite of additional materials detailing the refreshed rolling work programme is being developed for parliamentary committees, audit teams and other key stakeholders. These will be rolled out during Q1.
- Performance and risk management group to develop methodology for further analysis and reporting of audit cost information as per the Internal Audit report recommendation.



## We make clear and relevant recommendations for improvement

| Key Performance Questions:   | 2017-18 |    |    |    | 2018-19 |    |    |    | Actions  |
|--|---------|----|----|----|---------|----|----|----|--|
|  | Q1      | Q2 | Q3 | Q4 | Q1      | Q2 | Q3 | Q4 |  |
| Are there practical, clear and relevant recommendations in everything published? | G       | G  | G  | G  | G       | G  | G  | G  | Annual summary review of audit recommendations (acceptance and response)<br>Annual planning guidance update<br>Audit Quality framework reports |

A review of the total number of recommendations made and accepted in the 2017/18 annual reports showed there were 793 recommendations of which 783 (98.7%) were accepted. The ten instances of disputed action plan points were in three audited bodies (one council, one health board and one integration joint board).


The issues raised, mainly related to those raised in the interim management reports to the council and the health board. While for the council these mainly related to the lack of controls in key financial systems, the risks raised in the health board's interim report were mainly wider code risks such as effectiveness of scrutiny and lack of transparency.

### Issues/ risks/ actions:

- Continued encouragement of teams to record and report value added impacts in impact logs and annual audit reports.

### Forward look:

- Four audit reports (two performance audit and two s22 statutory reports) are being quality reviewed by peer UK audit agencies. This will include a review of audit recommendations and the extent to which they are clear, practical and relevant.

|   |  |
|---|--|
|  Delivering world-class audit | <b>Audit work is of high quality and we are systematically improving the quality of our work</b> |
|---|--|

| Key Performance Questions:                           | 2017-18 |    |    |    | 2018-19 |    |    |    | Actions  |
|--|---------|----|----|----|---------|----|----|----|--|
|  | Q1      | Q2 | Q3 | Q4 | Q1      | Q2 | Q3 | Q4 |  |
| <b>Are we assured about the quality of our work?</b> | G       | G  | G  | G  | G       | G  | G  | G  | Adoption of INTOSAI standards for non-financial audit work is under way  |
| <b>Are we improving the quality of our work?</b>     | G       | G  | G  | G  | G       | G  | G  | G  | Ongoing refinements to the Audit Quality arrangements including analysis of client survey results and the issues escalation process. |

### Assurance

In Q4 we finalised three reports on audit quality:

- Q3/4 audit quality report
- Audit Scotland annual quality report
- Quality of Public Audit in Scotland report 2018/19

The reports draw from all aspects of the Audit Quality Framework and include external and internal cold reviews, internal hot reviews and surveys of audited bodies and auditors. They provide positive assurance on quality overall and also identify areas where further improvements are required.

The new contract for Plain English report editing and proofreading commenced during Q4. This provides external review of our draft reports to ensure they contain clear messages and make effective use of the Plain English principles in our audit reports.

### Q4 Reviews

- 10 quality reviews were completed this quarter, eight reviews of financial audits, one review of a performance audit and one review of a section 22 report.
- All 11 planned reviews of financial audits are now completed and feedback sessions have been held with audit teams.
- A report summarising the key issues emerging from the recent quality reviews will be completed in Q1 and action taken where deemed there is a requirement.
- ICAS did not identify any concerns with audit opinions.
- ICAS noted considerable improvements in the documentation of Performance Audit and Best Value Assurance Report audits.

### Technical guidance in Q4 included:

- The quarterly technical bulletin and a quick guide on statutory reporting
- Technical guidance notes on statutory objections to local government accounts, General Grant claims, Belwin Scheme claims and Education Maintenance Allowance claims
- Advice and support on issues including retirement benefits audit assurance protocols, loans fund
- 3 technical training workshops on professional scepticism and 2 training events on PABV issues and investigations methodology
- Core audit training sessions for new colleagues joining the PABV team, including audit skills and methodologies.
- 7 technical updates to ASG super teams.

**Issues/ risks/ actions:****Forward look:**

- Q1 - Quality of Public Audit in Scotland report 2018/19, Annual Audit Scotland Quality Report and quality improvement actions report (June 2018)
- ICAS training event based on 2018/19 review findings (April 2019)
- Results of peer reviews on performance audit work by NAO, WAO and NIAO to the PABV Leadership Team (April 2019)
- Action plan to address the issues raised in both internal quality reviews and external (ICAS) quality reviews (Q1). The action plan will focus on the most significant issues including ASG's approach to substantive sampling and supporting a better understanding of analytical reviews by audit teams.
- Further training sessions will be run throughout the remainder of 2019, with additional sessions included on records and information management.
- Professional Support colleagues are working with several newly established audit teams to pilot the new approach to planning within the Audit Management Framework. These include the NHS overview, the School education and the Early learning and Childcare audit teams.



## We get our messages out effectively

| Key Performance Questions:                       | 2017-18 |    |    |    | 2018-19 |    |    |    | Actions   |
|--|---------|----|----|----|---------|----|----|----|---|
|  | Q1      | Q2 | Q3 | Q4 | Q1      | Q2 | Q3 | Q4 |   |
| Are we getting messages getting out effectively? | G       | G  | G  | G  | G       | G  | G  | G  | New communications and engagement strategy – September 2019 |

### Examples of getting our messages out includes:

In Q4 we attended 16 Parliamentary engagements including:

- 5 committees (four Public Audit and Post Legislative Scrutiny and one Finance and Constitution Committee)
- 10 other Parliamentary engagements including meetings with Conveners, Committee Clerks and the SCPA
- 1 MSP meeting

The Audit Scotland conference focused on the issues of trust in Audit and was attended by over 260 staff.

### Media

|              | Q1      | Q2      | Q3      | Q4      | YTD     | 17/18   |
|--------------|---------|---------|---------|---------|---------|---------|
| Media        | 477     | 268     | 413     | 125     | 1,283   | 1,340   |
| Downloads    | 215,008 | 191,886 | 214,509 | 196,033 | 817,436 | 690,113 |
| Engagements* | 7,286   | 6,420   | 8,571   | 3,841   | 26,118  | 20,636  |

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

- Quarter four was a relatively quiet end to the reporting year, with just two audits published within the quarter. The BVAR on South Lanarkshire Council got one piece of coverage in a local newspaper – a reflection of the very positive nature of the report (good news generally doesn't garner headlines). The Local Government Overview performed well, with over 20 pieces of broadcast and print coverage, most at the national level. Coverage all carried a clear message around the need for 'fundamental changes' to the way public services are delivered.
- Health issues also kept Audit Scotland's mentions in the media up over the quarter, including the infections and deaths at Queen Elizabeth Hospital and NHS Tayside's management team giving evidence to PAPLs on governance issues related to its former chief executive's departure.

| Month        | Broadcast coverage<br>(radio & tv) | Print Coverage: National<br>(newspapers & online) | Print Coverage:<br>Local | Total      |
|--------------|------------------------------------|---|--------------------------|------------|
| Jan          | 8                                  | 31  | 9                        | 48         |
| Feb          | 1                                  | 9   | 11                       | 21         |
| Mar          | 3                                  | 36  | 17                       | 56         |
| <b>Total</b> | <b>12</b>                          | <b>76</b>   | <b>37</b>                | <b>125</b> |



**Downloads**

- Across the quarter, it was notable that the Health and Social Care Integration update report proved consistently popular, receiving 3,700 downloads. The audit team were particularly active in promoting the report's findings at conferences and other events in early 2019, and this may have impacted on downloads.
- Performing even better was our 2012 Health Inequalities in Scotland report, which ranks very highly on Google, and has done well for at least a year now. Type in 'health inequalities' and the PDF of the report is one of the first things to appear in the search ranks. It had over 4,500 downloads across the quarter.

**Social media activity**

- Twitter continues to be the most effective social media platform for generating engagement with online audiences without paying for targeted advertising. We are beginning to develop stronger content for the Accounts Commission Twitter account. For example, an animation explains what the AC is, and what it does, has been viewed around 700 times.
- Animations and video continue to play well on our social media channels and the Communications Team is looking to widen its skills in this area to increase the volume and quality of content produced.
- January's social media performance was boosted by the annual conference. The communications team tweeted snippets of content from the conference's key speakers and this helped engage an online audience around the topics covered, such as trust in public services and the barriers to health and social care integration
- LinkedIn continues to be of value, particularly in the last three months when there has been significant recruitment activity. Our audience on WordPress is steady as we look to increase the number of blogs posted by the AGS and colleagues. A post-conference blog post by the AGS garnered around 350 views (around half of those coming from external people) and was picked up by Public Finance Magazine and Sceptical Scot.
- Facebook is likely to become a channel we use solely for targeted advertising of our content. This is one of the things being looked at as part of a social media scoping exercise being carried out by the Communications Team. Focussing on what our audiences are interested in – rather than what we want to tell them – will continue to be a big focus for the team, especially on social media.
- Social media posts account for a small fraction of the traffic to our website, at less than 5 per cent of the total. Over 90 per cent of our website users either go directly to our site or land there via Google search results.

**Engagement with the profession**

In Q4 external engagements by Professional Support included:

- a presentation on updates to the FReM to central government Directors of Finance
- attending 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.
- responding to seven consultations issued by external standard setters.
- issuing technical guidance notes on independent auditor's reports in health and central government and a good practice note on performance reports in central government.

**Freedom of Information (FOI), Environmental Information Regulations (EIR) and Complaints**

- There were eight FOI requests, no EIRs and no complaints in Q4. All FOI requests were dealt with within the statutory 20 working days and 50% were dealt with within seven working days.

**Correspondence**

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

| New correspondence cases                     | Q1         | Q2       | Q3        | Q4   | YTD | 17/18 |
|--|------------|----------|-----------|------|-----|-------|
| Number of cases                              | 24         | 28       | 22        | 25   | 99  | 136   |
| Acknowledgement within five working days (%) | 100        | 96       | 100       | 100% | 99% | 100   |
| Final response within 30 working days        | 92<br>100* | 82<br>93 | 95<br>100 | 98%  | 98% | 97    |


- Two final responses are pending and are still currently within our deadline and no acknowledgements have been missed this quarter.
- One final response was missed this quarter – the correspondent received a holding response and phone call to update them on progress to date.
- In addition, we had 25 audit enquiries relating to queries about our work (e.g. figures within our reports, guidance and access to materials/reports)
- The quarter 3 figure has been updated to reflect the outstanding responses completed after the Q3 report was published.

**Issues/ risks/ actions:**

- 

**Forward look:**

- New Communications and Engagement Strategy (September 2019)

|  |  |
|--|--|
|  Making a difference | <b>We systematically deliver impact through our work</b> |
|--|--|

| Key Performance Questions:                              | 2017-18 |    |    |    | 2018-19 |    |    |    | Action  |
|---|---------|----|----|----|---------|----|----|----|---|
|   | Q1      | Q2 | Q3 | Q4 | Q1      | Q2 | Q3 | Q4 |   |
| <b>Is our work delivering impact?</b>                   | G       | G  | G  | G  | G       | G  | G  | G  |   |
| <b>Are our recommendations leading to improvements?</b> | Y       | G  | G  | G  | G       | G  | G  | G  | Further quantitative measures being developed to supplement qualitative assessments as part of the PMF project. |

#### Examples of where our work has made a positive impact in Q4 include:

As part of the internal quality review of ASG audits, reviewers met with the Directors of Finance and Chairs of Audit Committees. The feedback from five bodies in Q4 included:

- Positive comments on the professionalism of audit staff
- That audit teams are open, responsive and accessible and regularly attend and participate in discussions at Audit Committee
- That the Audit Teams add value by identifying key risks and recommendations
- Prompt responses on technical queries
- Good communication throughout the audit process.

The Scottish Parliament Information Centre (SPICe) provided positive feedback on the Local Government overview report and positive feedback was also received from MSPs. The overview team has been invited to attend the Argyll and Bute Council Audit Committee in June to present the report.

The NHS in Scotland overview team was invited to present to a range of groups, including the board of the Scottish Ambulance Service, and the board of the National Waiting Times Centre during Q4.

Other examples of impact include:

- *Central Government body* - the 2017 AAR report highlighted several serious matters, the most significant being our review of internal audit which found widespread inadequacies in the quality of work supporting reports issued by internal audit. The 2018 AAR identified that significant improvements had been made by the internal audit service in response to the recommendations.
- *Central Government body* - we identified that there were areas of non-compliance with Public Sector Internal Audit Standards and that significant improvements were required. Internal Audit has now put in place additional measures to remedy the weaknesses identified, an action plan for has been agreed and monthly updates are now provided to the appropriate committee.
- *Local Government body* - we recommended that the council introduce registers of interest for senior staff. Although initially rejected by officers we presented the recommendation to the council's Audit and Scrutiny Panel. It agreed with the recommendation and instructed officers implement the required changes. As of January 2019, registers of interest are now in place for senior council officers and are available on the council website.
- *Local Government body* – we had made recommendations about improving the scope and timeliness of the reporting of internal audit investigations. The 28 March 2019 Audit & Scrutiny Panel received a full investigation report as a result of an amended internal audit reporting protocol and a commitment to openness and transparency.

- *Local Government body* - the 2017 AAR concluded that performance reporting was insufficient and that the Audit and Scrutiny Panel had not received meaningful 2017/18 performance information. We have since seen improvements in performance reporting with a full report in November 2018 and further reports drilling into the detail of performance areas (requested by the members) in December 2018 and March 2019.
- *NHS body* - the audit team actively engaged with officers around annual leave accrual. Initially the body queried whether an annual leave accrual was required for the accounts. The audit team liaised with Professional Support colleagues and collated information on other NHS boards to confirm the position across NHS in Scotland and confirm our expectations for the accounts. The board have since confirmed that an accrual will be included within the 2018/19 accounts.

**Issues/ risks/ actions:**

- Development of quantitative KPIs re recommendations and actions

**Forward look:**

|   |  |
|---|--|
|  Making a difference | <b>We offer insight and foresight through our work</b> |
|---|--|

| Key Performance Questions:   | 2017-18 |    |    |    | 2018-19 |    |    |    | Action  |
|--|---------|----|----|----|---------|----|----|----|---|
|  | Q1      | Q2 | Q3 | Q4 | Q1      | Q2 | Q3 | Q4 |   |
| <b>Are we making information and intelligence available to others?</b> | G       | G  | G  | G  | G       | G  | G  | G  | Development of an assessment framework and more systematic approach to measuring progress on this objective as part of PMF project. |

### We offer insight and foresight through our work:

The Accounts Commission's 'Local Government in Scotland: Challenges and performance 2019' overview report highlighted:

*'councils across Scotland have continued to work hard to maintain services to their communities, despite the increasing challenges and pressures. They have stepped up and have continued to improve how they use their resources. But, in many councils the change and improvement work has focused on efficiencies. To address the growing gap between demand and resources, more fundamental, transformational changes are needed in service provision, and the pace of change needs to improve in some councils'.*

In its findings on the Best Value Assurance Report on South Lanarkshire Council the Accounts Commission found

*'Our previous Best Value audit report in 2009 noted strong leadership, clear direction, a strong culture of continuous improvement and a well-performing council. We are pleased to note the council continues to demonstrate all of these elements and is making significant progress in fulfilling its duty of Best Value and improving outcomes for its communities'.*


During Q4 we published 200 annual audit plans for NHS, Central and Local Government bodies. The annual audit plans identify the risks and planned work for the 2018/19 annual audits.

Audit Scotland is working with scrutiny partners through the Operational Scrutiny Group to develop the next iteration of the National Scrutiny Plan. Audit Scotland and partners have been sharing information on respective work programmes to (where possible) align these and coordinate scrutiny activity.

### Issues/ risks/ actions

#### Forward look:

- Further analysis of the client surveys (Q1 2019/20)
- Publication of the Social security: Implementing the devolved powers report (May 2019).

|  |   |
|--|---|
|  Making a difference | <b>We develop new and improved processes, products and services</b> |
|--|---|

| Key Performance Questions:   | 2017-18 |    |    |    | 2018-19 |    |    |    | Action |
|--|---------|----|----|----|---------|----|----|----|--------|
|  | Q1      | Q2 | Q3 | Q4 | Q1      | Q2 | Q3 | Q4 |        |
| <b>Are new processes, products and services being developed?</b>                       | G       | G  | G  | G  | G       | G  | G  | G  |        |
| <b>Are products and study programmes suitable and appropriate for emerging issues?</b> | G       | G  | G  | G  | G       | G  | G  | G  |        |

**Examples of new improved processes, products and services in Q4 include:**

- a new Animation explaining the role of the Accounts Commission.
- ASGMT has approved a significant change to ASG's audit sampling methodology for 2019/20. This should ensure greater consistency across audits. In the short term, we will improve the existing sampling methodology to ensure a consistent approach is taken for the 2018/19 audits.
- revised audit programmes have been issued for the financial statements audit for 2018/19.
- a refresh of the scoping/methodology sections of the performance audit management framework was approved.

**Issues/ risks/ actions**

**Forward look:**

- Animation for Audit Scotland Annual Report and Accounts 2018/19 (June 2019)
- Risk interrogation on focus and scope to Management Team and Audit Committee (May 2019)
- internal and external quality review findings will be reported to ASG/PABV and areas for improvement will be used to inform future training (Q1)
- All 2019/20 planning, controls and final accounts programmes will be updated to ensure that they are fully compliant with International Auditing Standards and incorporate findings from quality reviews as appropriate



## We manage our resources effectively and maximise efficiency

| Key Performance Questions:                | 2017-18 |    |    |    | 2018-19 |    |    |    | Action  |
|---|---------|----|----|----|---------|----|----|----|---|
|   | Q1      | Q2 | Q3 | Q4 | Q1      | Q2 | Q3 | Q4 |   |
| Are we managing our resources effectively | G       | G  | G  | G  | G       | G  | G  | G  | Reviews of demand side and capacity pressures under way |
| Are we maximising efficiency?             | G       | G  | G  | G  | G       | G  | G  | G  |   |

### Resource management

In the 12 months to March 2019:

- Audit Scotland's Net Operating Expenditure was £64k less than budget.
- Capital investment for the twelve months to March 2019 was £174k, £1k less than the available budget of £175k.
- Staff costs £10K (0.1%) less than budget.
- We delivered £1.1 million of efficiency savings against a target of £1.0 million. This was 4% of our budget. The majority of savings came from staff costs, additional income, organisational efficiencies, travel and subsistence expenditure and legal, professional and consultancy costs.

Net operating (expenditure) in the 12 months to March 2019:

|          | Q1      | Q2      | Q3      | Q4      | 17/18   |
|----------|---------|---------|---------|---------|---------|
| Actual   | (1,180) | (2,165) | (4,467) | (9,827) | (8,514) |
| Budget   | (1,237) | (2,269) | (4,586) | (9,891) | (9,157) |
| Variance | -4.6%   | -4.6%   | -2.6%   | 0.6%    | -7.0%   |

### Staff

The average number of staff in the quarter was 99.6% of the establishment

|  | Q1    | Q2    | Q3    | Q4    | 17/18 |
|--|-------|-------|-------|-------|-------|
| 2018/9 establishment w.t.e:                        | 279.5 | 279.5 | 279.5 | 279.5 | 274.9 |
| Average number of staff employed in 2018/19 w.t.e: | 271.9 | 274.2 | 278.0 | 278.6 | 271.9 |
| No. of staff at end of quarter w.t.e:              | 270.3 | 278.3 | 284.4 | 283.6 | 272.0 |

Staff and Agency costs – The total staff costs in the 12 months to March 2019 are below budget.

|                            | Annual Budget<br>£000 | Actual<br>YTD | Budget YTD | Variance | Actual Average<br>WTE | Budget<br>WTE |
|----------------------------|-----------------------|---------------|------------|----------|-----------------------|---------------|
| Total Staff costs          | 15,832                | 15,825        | 15,832     | 7        | 293.1                 | 286.5         |
| Total agency & secondments | 125                   | 135           | 125        | (10)     |                       |               |

**Legal, professional and consultancy**

The underspend position of £46k in the year to is mainly due to reduced expenditure within PABV.

**Estate** - costs in the 12 months to March 2019 are £28k (3%) lower than budget and lower than previous years spend of £938k.

| £000 YTD         | Q1  | Q2  | Q3  | Q4  | 17/18 |
|------------------|-----|-----|-----|-----|-------|
| Actual spend     | 208 | 392 | 618 | 908 | 938   |
| Budget           | 215 | 427 | 643 | 936 | 930   |
| Prior year spend | 211 | 418 | 640 | 938 |       |

**Costs of travel** - Travel and subsistence costs in the year were £17k lower than budget and 23k higher than last year.

| £000 YTD         | Q1  | Q2  | Q3  | Q4  | 17/18 |
|------------------|-----|-----|-----|-----|-------|
| Actual spend     | 227 | 455 | 635 | 889 | 866   |
| Budget           | 230 | 452 | 674 | 906 | 922   |
| Prior year spend | 204 | 428 | 654 | 866 |       |

**Capital Expenditure and Funding** - Capital investment for the twelve months to March 2019 was £174k, £1k less than the available budget of £175k.

The investment was all IT related and included mobile phones, Chromebooks and laptops. The purchase of this equipment complements our digital services strategy with the emphasis on replacing old technology with the latest enhanced security enabled equipment.

**IT network up time**

| IT Network                   | Q1       | Q2      | Q3      | Q4     | 17/18 |
|------------------------------|----------|---------|---------|--------|-------|
| IT uptime (%)                | 99.14    | 99.38   | 99.73   | 100    | 99.6  |
| Working hours lost           | 1992.5   | 1432.1  | 681.45  | 11.5   | 3758  |
| Average time lost per person | 6.69 hrs | 4.77hrs | 2.13hrs | 4 mins | 660   |

Most of the downtime this quarter was due to an issue with a patch causing 2 Citrix servers to reboot during production hours. Glasgow lost connection for 10 minutes and ishare was down for 45 minutes however both of these were before 9am and minimal users affected before service was restored.

**IT Incident management summary**

- 97.33% (1529/1571) of incidents were accepted within the response time SLA.
- 93.95% (1476/1571) of requests were closed by an Analyst within the fix time SLA
- An average of 4.2 incidents were logged per user

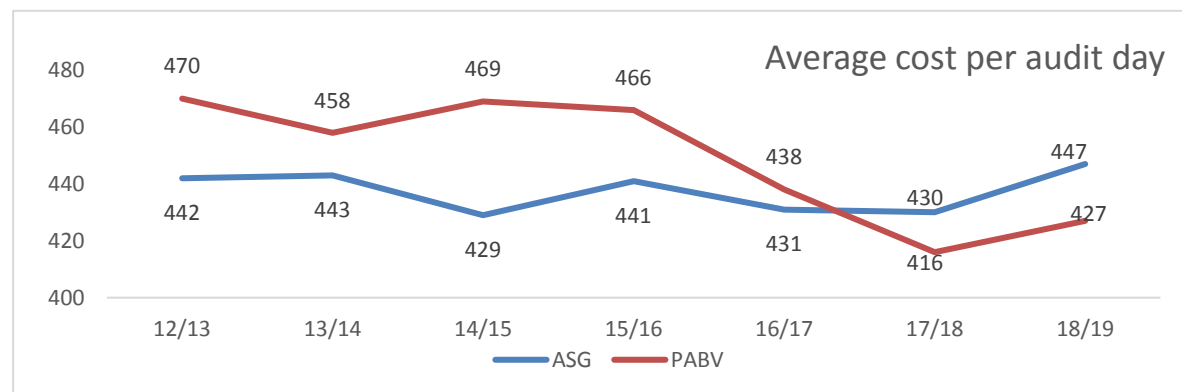
A new car lease contract has been awarded and commenced March 19



**Productivity**

Business group productivity remains broadly consistent with productivity/ planning assumptions.

|      | 18/19% |    |    |    | 17/18% |    |    |    |
|------|--------|----|----|----|--------|----|----|----|
|      | Q1     | Q2 | Q3 | Q4 | Q1     | Q2 | Q3 | Q4 |
| ASG  | 60     | 73 | 60 | 64 | 57     | 74 | 59 | 67 |
| PABV | 70     | 70 | 65 | 69 | 76     | 74 | 67 | 76 |



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.

**Equalities**

We published our second gender pay gap report in March 2019. The report is based on a snapshot date of 31 March 2018. There are more women than men in our workforce (53% to 47%) and our Management Team is 75 per cent female. Audit Scotland's Mean Gap is 9.91% and the Median Gap is 7.96%. This compares with a national median of 8.6 %.

**Issues/ risks/ actions:****Forward look:**

- Medium Financial Plan (MTFP) drafted and consultation ongoing. MTFP will inform the 2020/21 budget development process.



## We manage information and intelligence effectively (internal)

| Key Performance Questions:  | 2017-18 |    |    |    | 2018-19 |    |    |    | Actions |
|---|---------|----|----|----|---------|----|----|----|---------|
|   | Q1      | Q2 | Q3 | Q4 | Q1      | Q2 | Q3 | Q4 |         |
| Are we managing information and intelligence effectively (Internal) | Y       | Y  | Y  | Y  | Y       | G  | G  | G  |         |

### Examples of managing information and intelligence during Q4:

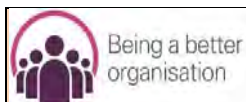
- Feedback on the Annual Conference January 2019 was positive regarding the content and what staff took from the event.
- Colleagues from the new financial powers and constitutional change programme team attended Super team meetings to update colleagues on work in this area. Management Team held a Brexit 'summit', looking at the impact of leaving the EU for Scotland's public finances and services, and for our audit work.
- Considerable progress on the development of the new SharePoint on-line file management system
- Extensive internal communications through ishare, Yammer, Abacus on a wide range of subjects including; public audit, audit quality, new financial powers, charitable activity
- The Annual Assurance process took place in Q4 providing positive assurance on information governance

### Issues/ risks/ actions:

- PMF project has been re-phased based on a review of options and proposals and as part of a re-prioritisation of the programme of digitally enabled improvement projects.

### Forward look:

- Annual assurance reporting to the Audit Committee and Board (May & June 2019)
- SharePoint on line in place by December 2019



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

| Key Performance Questions:  | 2017-18 |    |    |    | 2018-19 |    |    |    | Actions                             |
|---|---------|----|----|----|---------|----|----|----|-------------------------------------|
|   | 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?   | Y       | Y  | Y  | Y  | 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  | Annual diversity report (June 2019) |

### Empowered and engaged:

Best companies – In January it was announced that Audit Scotland has been placed in the Top 100 not-for-profit workplaces in the UK.

The PDGG and L&D Consultant are drafting the L&D Plan for 2019/20 and consulting with a range of colleagues to ensure it captures the business priority development required for the year ahead. The final plan will be published as part of the Annual L&D Report.

A new 'internal opportunities' section went live on ishare promoting opportunities across the organisation and a series of cross-business group meetings took place to consider how the organisation supports development within resourcing and recruitment.

During Q4:

- 127 colleagues had 3D conversations
- 2 Career Development Gateway (CDG) applications (15 CDG progressions year to date).
- 181 wellness checks attended by colleagues.

**Absence levels** - Absence levels remain low and in line with previous years.

|                               | Q1 days | Q2 days | Q3 days | Q4 days | ytd days |
|-------------------------------|---------|---------|---------|---------|----------|
| <b>Audit Scotland - 18/19</b> | 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     |
| Audit Scotland - 15/16        | 0.89    | 0.98    | 1.49    | 2.05    | 5.62     |

**Staff turnover** - All leavers (3.59) are higher than the same quarter last year (3.18). For the whole year the percentage of leavers is slightly down on last year and below the CIPD benchmark.

| 2018/19        | Q1   | Q2   | Q3   | Q4   | YTD   | 17/18 | CIPD benchmark |
|----------------|------|------|------|------|-------|-------|----------------|
| Resignations % | 1.08 | 0.70 | 1.71 | 3.23 | 6.72  | 6.75  | 5.5            |
| All Leavers %  | 1.08 | 2.82 | 3.77 | 3.59 | 11.26 | 12.79 | 13.6           |

**Exam results:** In Q4 there were 11 exams taken and 11 passes (100%)

|              | Q1  | Q2 | Q3 | Q4  | YTD | 17/18 |
|--------------|-----|----|----|-----|-----|-------|
| Exams taken  | 3   | 20 | 78 | 11  | 112 | 121   |
| Exams passed | 3   | 16 | 66 | 11  | 96  | 106   |
| % pass rate  | 100 | 80 | 85 | 100 | 86  | 88    |

#### Career paths and secondments

| Vacancies filled | 18/19 YTD | 17/18 |
|------------------|-----------|-------|
| Internal         | 15        | 15    |
| External         | 15        | 21    |
| Total            | 30        | 36    |

| Secondments | 18/19 YTD | 17/18 |
|-------------|-----------|-------|
| New         | 0         | 0     |
| Existing    | 2         | 7     |

**Highly skilled** - L&D events are summarised below.

|                            | Q1     |           | Q2     |           | Q3     |           | Q4     |           | YTD    |           | 17/18  |           |
|----------------------------|--------|-----------|--------|-----------|--------|-----------|--------|-----------|--------|-----------|--------|-----------|
|                            | Events | Attendees | Events | Attendees | Events | Attendees | Events | Attendees | Events | Attendees | Events | Attendees |
| Health & Safety            | 1      | 1         | 3      | 15        | 1      | 1         | 0      | 0         | 5      | 17        | 1      | 25        |
| Knowledge Cafes            | 2      | 15        | 0      | 0         | 6      | 107       | 1      | 19        | 9      | 141       | 12     | 266       |
| Learning & Development     | 1      | 6         | 1      | 7         | 5      | 39        | 11     | 106       | 18     | 158       | 8      | 64        |
| Management Development     | 4      | 41        | 2      | 24        | 2      | 30        | 3      | 18        | 11     | 113       | 8      | 54        |
| Organisational Development | 2      | 20        | 3      | 24        | 16     | 93        | 3      | 279       | 24     | 434       | 26     | 496       |
| Technical Training         | 12     | 227       | 2      | 33        | 16     | 185       | 6      | 62        | 36     | 507       | 31     | 469       |
| Total                      | 22     | 310       | 11     | 103       | 46     | 455       | 24     | 484       | 103    | 1352      | 86     | 1,374     |

#### Issues/ risks/ actions:

- Despite a number of positive metrics we continue to consider the organisation is 'running hot' and work is ongoing to analyse demand and supply side pressures and solutions.

**Forward look:**

- 2018/19 Annual Diversity Report (June 2019)
- The Workforce Plan and the Learning and Development plan (June 2019)

## Purpose

1. To invite the Board to consider the progress made to date on the Becoming World Class (BWC) improvement programme and the planned actions.

## Background

2. The BWC strategic improvement programme is a key enabler for achieving our vision to be a world class audit organisation. On 14 November the Audit Committee considered a report on the [strategic improvement programme](#). The report set out how the development objectives in the [Corporate Plan](#) will be achieved through a combination of core audit work, working groups forums and professional leads and development projects.
3. Update reports on the strategic improvement plan were considered by Management Team on 12 March and the Board on 1 May 2019. A summary of the strategic improvement programme is available [here](#).
4. The quarterly update reports provide a summary of recent activity and the future plans and milestones in key areas of work.

## Progress on the BWC improvement programme

5. We continue to make good progress on the programme over all. Headlines since the last report include:
  - Delivering World Class Audit:
    - Positive assurance on the quality of audit through the Q3/Q4 quality report, the Audit Scotland Annual Quality Report and the Quality of Public Audit in Scotland 2018/19 report.
    - We published our performance audit on the Scottish Government's implementation of devolved social security powers in May 2019 and the financial audit of Social Security Scotland is underway.
    - Project to deliver a new Code of Audit Practice and the next round of audit appointments is under way.
  - Being a Better Organisation:
    - Audit Director led development work on analysing capacity demand and on the supply side improving the flexibility of audit resourcing.
    - Development of the workforce plan and the learning and development strategy.
    - Ongoing support for learning and development and extensive programme of wellness checks.
    - Agreement of the 2019/20 pay award.
    - Prioritisation of digitally enabled projects for 2019/20.
  - Making a Difference:
    - Publication of the five-year rolling work programme.

- Launch of social media handbook and engagement top inform the new communications and engagement strategy.
- Digital audit – phase 1 assessment of bids for the data enabled audit GovTech project led by the NIAO.

6. The appendix provides more detailed information on each of the BWC workstreams.
7. The Board agreed the 2019/20 update to the Corporate Plan at its meeting on 1 May 2019 and this included streamlining the organisational strategic priorities. Future improvement programme update reports will reflect these revised priorities.

## **Recommendations**

8. The Board is invited to note the progress made in Q4 and the planned next steps and milestones.



Our objective is to ensure that public audit in Scotland: • applies the highest professional and ethical standards • is efficient, proportionate and risk based • is informed by an excellent understanding of the strategic and operational context • responds effectively to changing circumstances and emerging issues • reports clearly and authoritatively • follows the public pound wherever it is spent • promotes transparency, accountability and Best Value.

| Project/ initiative/ product  | Status update  | Next steps   |
|---|--|--|
| Implementing the Audit Quality Framework  | <p>The <a href="#">Quality of public audit in Scotland annual report 2018/19</a> and <a href="#">Q3/Q4 quality report</a> conclude that 'there is evidence of compliance with auditing standards and the Code of Audit Practice, together with good levels of qualitative performance and some scope for improvements for audit work delivered in the period 1 April 2018 to 31 March 2019.' There are however specific areas where improvements are required to improve compliance with the ISAs particularly around documentation, sampling method and sizes and the use of analytical procedures.</p> <p>The <a href="#">2018 Audit Scotland quality report</a> provided positive assurance on independence, timeliness, client feedback, and adding value. Quality review work provided assurance and identified areas for improvement and the survey of auditors reinforced the address some resourcing challenges – a review is under way in this area.</p> <p>The public audit model in Scotland is well placed to meet the challenges arising from the reviews of the auditing profession.</p> | <p>The key milestones are:</p> <ul style="list-style-type: none"> <li>• The Q3/Q4 quality report will be presented to the Audit Committee in May along with the draft Annual Audit Quality Report.</li> <li>• The Audit Quality annual report will be presented to the Audit Scotland Board in June 2019 along with a report on improvement actions</li> <li>• Stakeholder surveys – the first round of survey work carried out by external consultants concluded in April and further analysis is under away</li> <li>• Audit issues investigation process – proposals in place by June 2019</li> <li>• The Audit Quality Framework will be refreshed in 2019/20</li> <li>• KPIs - A revised suite of indicators will be introduced in 2019/20.</li> <li>• The structure and transparency of audit quality reporting will be reviewed in 2019/20</li> </ul> |
| Devolved financial powers and constitutional change (DFPCC) including EU withdrawal | <p>The Management Team and the Board considered <a href="#">updates</a> on the Audit &amp; Accountability Framework on 02/04/19 and 01/05/19 respectively</p> <p><b>Social security</b></p> <p>We published our performance audit report examining how effectively the Scottish Government is managing the delivery of</p>   | <p>The key milestones are:</p> <ul style="list-style-type: none"> <li>• Social security performance audit report at PAPLSC (16 May) and Social Security Committee (30 May).</li> <li>• First (1/2 year) Social Security annual audit report – June/July 2019.</li> </ul>   |



| Project/ initiative/ product  | Status update   | Next steps  |
|---|---|---|
|   | <p>the devolved social security powers on 2 May 2019. It will be considered by PAPLSC and the Social Security Committee. Engagement with the NAO on the financial audit of the new Social Security Scotland agency continues. The part-year annual audit of Social Security Scotland (for 2018/19) is underway.</p> <p><b>Scottish budget process</b></p> <p>We hosted workshops with the Scottish Parliament at the end of March 2019 to share experiences of the first year of the new budget process and identify how best to build on this. Mark Taylor discussed the key themes with the Parliament's Convenors Group on 25 April and our Internal Parliamentary Engagement Group is considering what this means for our approach to supporting budget scrutiny.</p> <p><b>EU withdrawal</b></p> <p>We continue to assess and plan for the potential organisational implications of EU withdrawal. Auditors are considering public bodies' preparations as part of the 2018/19 audits and we are currently scoping potential options for performance audit work in this area. We are using various channels to share up-to-date information and seek the views of colleagues. Management Team are reviewing our response monthly and will return to discussing it weekly as and when required.</p> | <ul style="list-style-type: none"> <li>• To agree what audit work we will do in response to EU withdrawal in 2019/20 – summer 2019.</li> </ul>  |
| Development of a new Code of Audit Practice and a procurement strategy for the next round of audit appointments | On 18 March 2019 the Board agreed the overall approach and timeline for this project. Work is ongoing in terms of project governance and resourcing.  | <p>The key project workstreams are:</p> <ul style="list-style-type: none"> <li>• 2020 Code development and approval (March 2019 to May 2020).</li> <li>• Procurement strategy development and approval (March 2019 to September 2020).</li> <li>• Tender and appointments exercise (October 2020 to May 2021).</li> </ul> |




Being a better  
organisation

Our objective is to make Audit Scotland a great place to work so that we can attract and retain a highly skilled workforce. We want to make the best use of our resources so that we can deliver audit work that improves the use of public money.

| Project/ initiative/ product | Status update  | Next steps   |
|------------------------------|--|--|
| Resourcing                   | <p>Key actions since the last report include:</p> <ul style="list-style-type: none"><li>• Discussion on updated medium-term financial strategy with Leadership Group and revised strategy to Management Team and Board to inform budget planning process.</li><li>• In May Management Team and the Audit Directors group have been reviewing the 'demand side' capacity pressures in terms of the volume and nature of outputs, audit methodologies and our improvement agenda. On the 'supply side' reviews of our resourcing arrangements are under-way alongside the development of the workforce and learning and development plans.</li><li>• Joint ASG/PABV review work on resourcing models ongoing (March – December):<ul style="list-style-type: none"><li>○ Review of annual audit and PABV resourcing requirements against existing work commitments</li><li>○ Development of options for more strategic approach to resource transfer across business groups</li><li>○ Development of future model for corporate resourcing of overview reporting activity (local government, NHS and colleges)</li><li>○ Development of resource planning and staff guidance and support arrangements for future S22 reporting to the Scottish Parliament</li><li>○ Identification of opportunities for aligning planning and performance monitoring arrangements across ASG and PABV</li></ul></li><li>• PABV cluster resourcing work ongoing:</li></ul> | <p>Key actions/ milestones are:</p> <ul style="list-style-type: none"><li>• Review and options appraisal work to improve corporate resourcing – June 2019.</li><li>• Engagement and consultation with business groups – Spring/Summer 2019</li><li>• Further engagement with MT re: corporate resourcing model(s) – Autumn 2019.</li></ul> |

| Project/ initiative/ product   | Status update  | Next steps  |
|--|--|---|
|  | <ul style="list-style-type: none"> <li>○ Analysis of work programme cluster resourcing.</li> <li>○ Implementation of cluster-led monitoring of work programme delivery – from April 2019</li> <li>○ Development of longer-term plan for more cross-organisational approach to cluster-led programme development activity</li> <li>○ Develop process and timetable for cluster-led approach to future work programme refreshes</li> </ul>   |   |
| <p>How we work together</p> <ul style="list-style-type: none"> <li>• Job Design</li> <li>• Reward &amp; Recognition</li> <li>• Performance Appraisal</li> <li>• Wellbeing</li> </ul> | <p>Key actions since the last report include:</p> <ul style="list-style-type: none"> <li>• Continuing to share and discuss Best Companies results in business groups and teams.</li> <li>• Outcomes of 2019 wellness checks shared at the April HSW Committee meeting.</li> <li>• Integrating our approach to wellbeing within our learning and development strategy and plan for 2019/20</li> <li>• The Human Resources and Remuneration Committee considered update reports on pay, BaBO and recruitment and selection at its meeting on 18/03/19</li> <li>• Pay negotiations for the April 2019 pay award</li> <li>• Mental health awareness week w/c 13/05/19</li> </ul> | <p>The key actions/ milestones are:</p> <ul style="list-style-type: none"> <li>• Finalisation for the workforce plan – June 2019</li> <li>• Annual Health, Safety &amp; Wellbeing Report - sharing with MT on 7 May and Audit Committee on 5 June 2019</li> <li>• 2019 Pay Award –implementation May 2019 (following PCS ballot outcome)</li> </ul>   |
| <p>How we learn and develop</p> <ul style="list-style-type: none"> <li>• planning careers</li> <li>• developing skills</li> <li>• professional training scheme</li> </ul>            | <p>Key actions since the last report include:</p> <ul style="list-style-type: none"> <li>• We facilitated coaching clinics on various topics as part of the Management Development offering, e.g. managing performance, staff engagement.</li> <li>• A second 'Train the Trainer' workshop took place in March 2019, with the 3<sup>rd</sup> year Trainees delivering training to their peers on 1 April.</li> <li>• 3D completion statistics continue to be considered in quarterly meetings between HR and business group people leads</li> <li>• Refresh of the self-directed learning programme.</li> </ul>  | <p>The key actions/ milestones are:</p> <ul style="list-style-type: none"> <li>• Finalisation of L&amp;D strategy and L&amp;D plan – June 2019.</li> <li>• Introduction of a new online L&amp;D booking system (to replace Eventbrite) – August 2019</li> <li>• Continuing to make sure our onboarding process is a success, in particular for individual new starters.</li> <li>• HR&amp;OD and the PTSG will continue to deliver and expand peer to peer training over 2019.</li> </ul> |

| Project/ initiative/ product | Status update  | Next steps  |
|------------------------------|--|---|
| Strategic leadership         | Key actions since the last report include: <ul style="list-style-type: none"> <li>themed Leadership Group meetings continue to take place</li> <li>360 feedback exercise for members of the Leadership is under way</li> </ul> | The key milestones are: <ul style="list-style-type: none"> <li>LG 360 roll out to LG – January to June 2019</li> <li>ongoing Leadership Group meetings.</li> </ul>  |
| Digitally enabled projects   | The Board considered an update report on the strategic improvement programme at its meeting on 1 May 2019.<br>An EWP project scoping workshop took place on 8 May to inform the initiation phase of the project.               | The priority projects are: <ul style="list-style-type: none"> <li>e-HR upgrade – by July 2019</li> <li>Navision finance upgrade – by July 2019</li> <li>New TR system – by October 2019</li> <li>Sharepoint On-Line – by December 2019</li> <li>Performance management framework - by March 2020</li> <li>New Electronic working papers system – scoping May 2019 – timescales tbc</li> </ul> |

|   |   |
|---|---|
|  | Our objective is to maximise the difference our audit work makes to public services, the people that they serve, the outcomes that those people experience and the use of public money. |
|---|---|

| Project/ initiative/ product      | Status update  | Next steps  |
|-----------------------------------|--|---|
| World Class Programme Development | The <a href="#">revised five year rolling work programme</a> was published in March 2019   | <ul style="list-style-type: none"> <li>Ongoing refinements to the programme development process</li> </ul>              |
| Communications and engagement     | Communications are currently working with representative groups from Audit Services, Best Value, Performance Audit and Corporate Services to develop a new Communications and Engagement Strategy. Workstreams are looking at: linking with the corporate plan; data and design; publications and formats; the wider public sector communications environment in Scotland; and social media. The findings from the work to date was reported to the Board on 1 May 2019. | The key milestones are: <ul style="list-style-type: none"> <li>Strategy for Board approval – September 2019.</li> </ul> |

| Project/ initiative/ product                   | Status update  | Next steps   |
|--|--|--|
|  | In May we launched our <a href="#">2019/20 Social Media Handbook</a> . It includes advice on how colleagues can protect themselves on social media, tips on how to set up a social media profile, and information on how social media channels including Twitter, Facebook and LinkedIn benefit our work.  |  |
| Strategic approach to Parliamentary Engagement | <p>We continue to work closely with the Parliament and its committees, in particular the Public Audit and Post-legislative Scrutiny Committee (PAPLS), through our audit work and by supporting budget scrutiny.</p> <p>In addition to our ongoing support for PAPLS the key focus of our activity since the last update has been reviewing the impact of our involvement in the Parliament's most recent budget setting exercise, focusing in particular on how effectively the arrangements adopted by committees reflected the new budget scrutiny process recommended by the Budget Process Review Group (BPRG).</p> <p>We have also 'launched' our refreshed work programme with all MSPs and begun briefing committees on its content and how our work links with their key areas of interest.</p> | <p>The key milestones are:</p> <ul style="list-style-type: none"> <li>• Development of medium-term engagement plan with Scottish Parliament – Spring/summer 2019</li> <li>• Engagement with PAPLS and subject committees over refreshed AGS/Commission work programme – ongoing through to summer 2019</li> <li>• Development of future budget scrutiny arrangements with PAPLS and subject committees – Summer 2019</li> <li>• Second Round BPRG budget scrutiny activity – Autumn/Winter 2019 and then ongoing.</li> </ul> |
| Digital Audit                                  | <p>The <a href="#">Digital Audit Strategy</a> contains a variety of commitments under three main streams of work:</p> <p>Auditing digital</p> <ul style="list-style-type: none"> <li>• New <a href="#">Digital e-Hub</a> published</li> </ul> <p>Digital auditing</p> <ul style="list-style-type: none"> <li>• Refinements to audit analytics in ASG and staff workshop on SG technical assurance framework</li> <li>• Bid assessments for the NIAO led GovTech audit analytics project.</li> </ul> <p>Digital capacity and resilience</p> <ul style="list-style-type: none"> <li>• Ongoing review of digital audit capacity.</li> <li>• Ongoing meetings with the other UK agencies and topics for collaboration and lead agencies agreed.</li> </ul>   | <p>The key milestones are:</p> <p>Auditing digital – rolling work programme includes:</p> <ul style="list-style-type: none"> <li>• Digital progress in CG and health (reporting early 2019/20).</li> <li>• Digital progress in LG (reporting early 2020/21).</li> <li>• Digital services (learning or justice tba) (reporting 2021/22).</li> </ul> <p>Digital auditing/ capacity - Audit analytics</p> <ul style="list-style-type: none"> <li>• NIAO led GovTech analytics project (phase 1 Dec 2018 – Jul 2019).</li> </ul> |

| Project/ initiative/ product | Status update  | Next steps |
|------------------------------|--|------------|
|                              | Management Team held a digital audit themed summit session on 21 May focussed on digital audit techniques and digital capacity |            |

## Purpose

1. This report invites the Board to approve the draft 2018/19 Annual report on International work.

## Background

2. Each year Audit Scotland reports publicly on its international work as part of its corporate performance reporting. The International Annual Report 2018/19 was considered at the Audit Scotland Management Team meeting of 7 May 2019. The proposed publication date is 14 June 2019, where it will be published alongside the Audit Scotland Annual Report and other corporate reports.
3. The report shows that 2018/19 has been an eventful year. We have continued our emphasis on building learning from international work into what we do. We have also had some good exposure in working with others to share good practice. Highlights from the year include:
  - Working directly with other audit agencies and parliaments to share good practice in public governance.
  - Attending and presenting at selected overseas events and sharing lessons from these with colleagues in Audit Scotland.
  - Continuing to use our International performance audit database to inform our audit and how we scope our forward work programme.
  - Increasing the profile of our international work through social media, blogs and knowledge cafes, and involving staff from across the organisation.
4. Our 2017-20 International Strategy remains valid and we do not propose to update it this year. However, we propose that it is updated late next year, to accommodate any changes in emphasis following the appointment of a new Auditor General.
5. International activities which are planned or have already taken place in 2019/20 include:
  - Attending the EURORAI conference on public debt in Warsaw (May 2019).
  - An invitation to attend the EUROSAL youth conference aimed at younger auditors (November 2019).
  - Expressing our interest in supporting the Auditor General of Alberta (Canada) initiative to explore good practice in auditing efficiency and effectiveness.
  - Supporting Audit Scotland Cluster teams with overseas good practice research to tie in with our rolling 5-year work programme.
  - Seeking further opportunities for working with others through the OECD and the Westminster Foundation for Democracy.

## Recommendation

6. The Board is invited to approve the 2018/19 Annual report on International work.

# International work

Annual report 2018/19

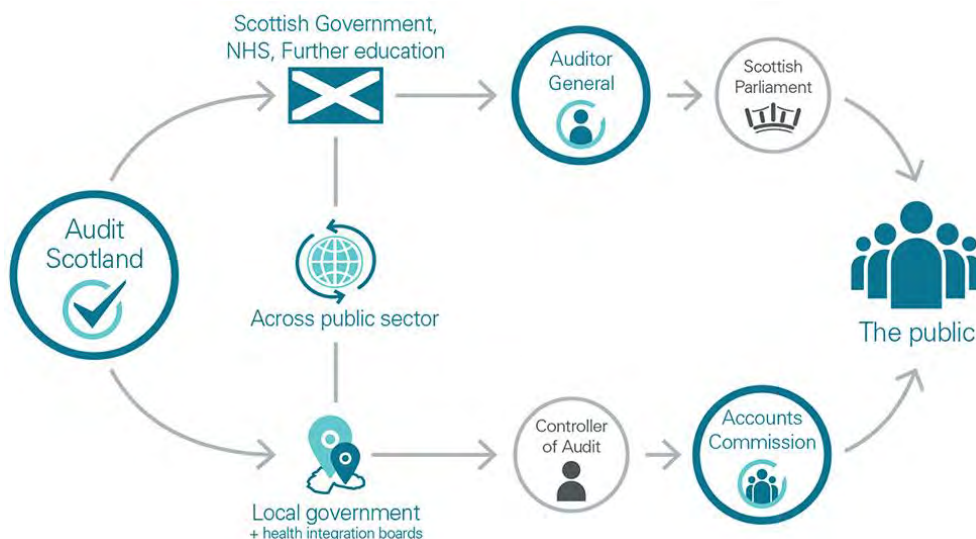




# Who we are

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 undertakes audit work on behalf of the Auditor General and the Accounts Commission. It 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 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 do 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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# Contents

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# Welcome

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Over the last year we have seen a significant increase in interest in Audit Scotland's international activity and we have made real progress in linking it more directly with our audit and quality improvement work.

Some of my personal highlights over 2018/19 have included meeting with other UK audit agencies and Public Accounts Committees at the Isle of Man and meeting colleagues from across the globe including Australia, China, and the Republic of North Macedonia here in Edinburgh to share experiences and learn from each other.

This year we have worked directly with parliaments and audit bodies from overseas. We shared good practice in public accountability with representatives from the parliaments of Armenia and North Macedonia, as well as working directly with the North Macedonia state audit office. We also supported the Cayman Islands Audit Office in its performance audit of school education.

Our international work has informed our thinking in new and challenging areas for us such as auditing digital public services, and our approach to auditing Scotland's new financial powers.

Beyond important practical benefits of our international work, meeting and hearing from colleagues from other parts of the world also provides a useful perspective on the Scottish Public Audit Model. A key lesson for me from last year's international activity is that Audit Scotland is fortunate to operate within a public accountability system which recognises and values the contribution that independent public audit brings.

At a time of much change, not least the ongoing uncertainty around the UK's decision to leave the EU, we are keen as ever to continue connecting, sharing and learning from our colleagues from around the globe.



**Antony Clark**  
Audit Director



**Antony Clark**  
Audit Director

**Performance Audit  
and Best Value**

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# Highlights of the year

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## Visits by international delegations

We hosted delegates interested in hearing more about our work from seven audit institutions / government bodies spanning the globe including Armenia, Australia, China and the Republic of North Macedonia.



## International Performance Audit Database

We use an International Performance Audit Database to source audit reports and good practice to inform our future and current audit work.



## Knowledge Cafes

We held three learning workshops each with an international theme, the role of auditor general Cayman Islands; overseas good practice; and Australia's health service.



## Learning from overseas

We presented at international conferences on topics including performance audit, police reform, information security and the audit of companies owned by local authorities.

We attended relevant events on auditors and technology; and global anti-corruption.



## Social media and communications

We have a dedicated international [web page](#) on our Audit Scotland website.

We use social media to share key events and messages with audit colleagues across the UK and overseas.



## Sharing our expertise

This year we worked with the North Macedonia State Audit Office in a project organised by the Westminster Foundation for Democracy.

We also provided performance audit expertise to the Cayman Islands Audit Office.

# Our priorities

## Being world class

Learning from good audit practice beyond Scotland is key to our ambition of being a world-class audit organisation. It helps keep our work relevant and make a greater impact on improving public services.

Our [International Strategy for 2017-20](#) sets out our approach to international work. It focuses on how we can apply our learning from overseas to support Audit Scotland's priorities to improve the use of public money. It aligns closely with our [Corporate plan 2018–21](#) and Becoming World Class improvement programme.



International  
Strategy for  
2017-2020   
June 2017



Corporate plan  
2018–21   
June 2018



## Our approach and priorities

During 2018/19, our international work has contributed to the three aims of our Becoming World Class improvement programme as follows:

### Delivering world-class audit

- Bringing international good practice to our performance audit work programme through participating in selected conferences and using the international performance audit database.
- Sharing professional, technical and audit expertise with other audit institutions, parliaments and public sector bodies through hosting visits and developing networks.

### **Being a better organisation**

- Sharing the knowledge and learning we gather from international work with our colleagues throughout Audit Scotland.
- Developing the skills of our team by involving them in international work such as presenting to delegations and working with our audit peers from other countries.

### **Making a difference**

- Working directly with overseas audit bodies and parliaments to promote good public governance.

# 2018/19 in review

## Our focus in 2018/19

This year our international work has had two main areas of focus:

- applying lessons and good practice from overseas to our audit work
- working directly with others to share good practice in public governance.

Over the course of 2018/19, we have undertaken international work, both here in the UK, and overseas, as shown in our [Highlights of the year](#) summary on page 5. We hosted eight visiting overseas delegations; we attended or presented at international conferences, both in the UK and overseas. We also worked in partnership with audit institutions from Armenia, Australia, Canada, Cayman Islands Ireland, North Macedonia, Norway and the UK. The following chapter, Spotlight: Learning from overseas, gives further details.

We have had much interest from overseas in our work, particularly China. We were visited by five delegations from various Chinese finance ministries and provincial audit offices. Topics covered included the role of audit in parliamentary scrutiny and lessons from our environmental audit work. Participants asked challenging questions and all the exchanges were very well received by the delegations, for example, conference organisers and delegations fed back to us:

“We are really grateful for the excellent presentation... the delegation found it very inspiring even though the auditing in China and the UK are very different.

“The delegates had lively and fruitful discussion with colleagues from Audit Scotland and found the experience very rewarding.”

This year we were invited to speak at five international conferences. This included representing Audit Scotland at two major European Organisation of Regional Audit Institutions (EURORAI) seminars. These were attended by around 150 delegates from 25 different countries. We spoke about our experience in conducting audits on cyber and information security, and about the audit of companies owned by local authorities.

We are also adopting the International Organisation of Supreme Audit Institutions (INTOSAI) standards for our performance audit work. We have shared lessons with our peers, including the Norwegian and Irish audit offices, who have already adopted the standards.

## Staying connected

Audit Scotland aims to make greater use of social media to promote its work and share good practice. It's now a hugely important part of how we communicate with the world outside of our offices.

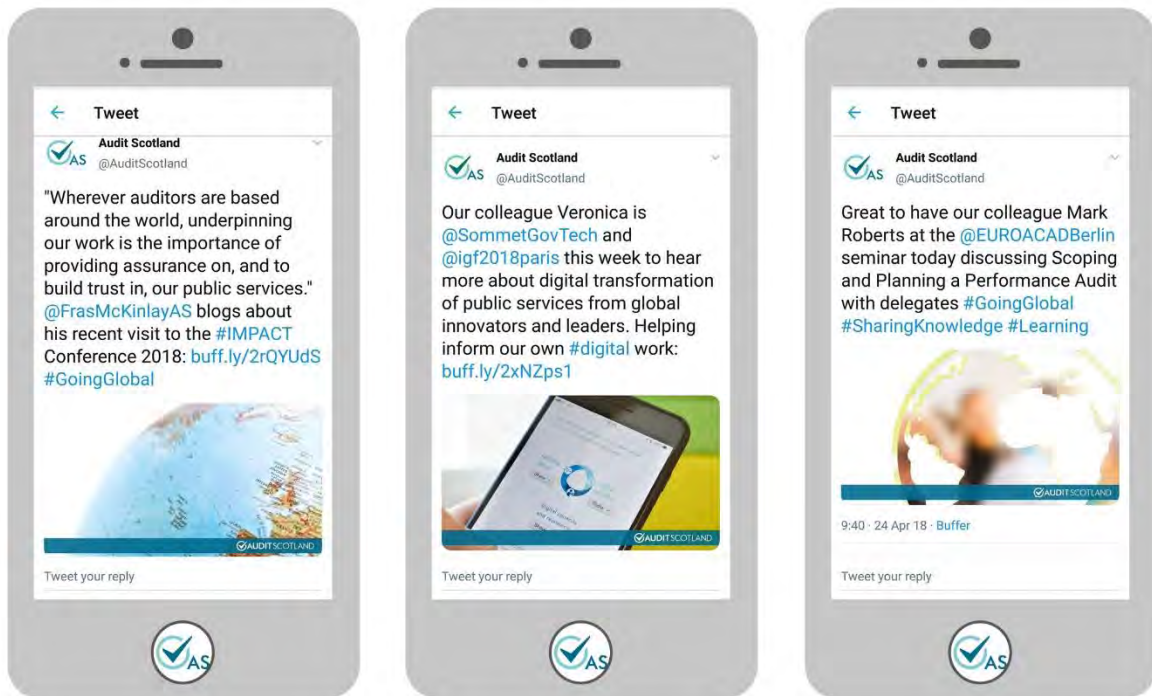
[Going Global](#) is our external-facing web page for our international work. It has been viewed by people from over 160 countries since its launch in 2017, with the most frequent views coming from the UK, Japan, Canada, United States and



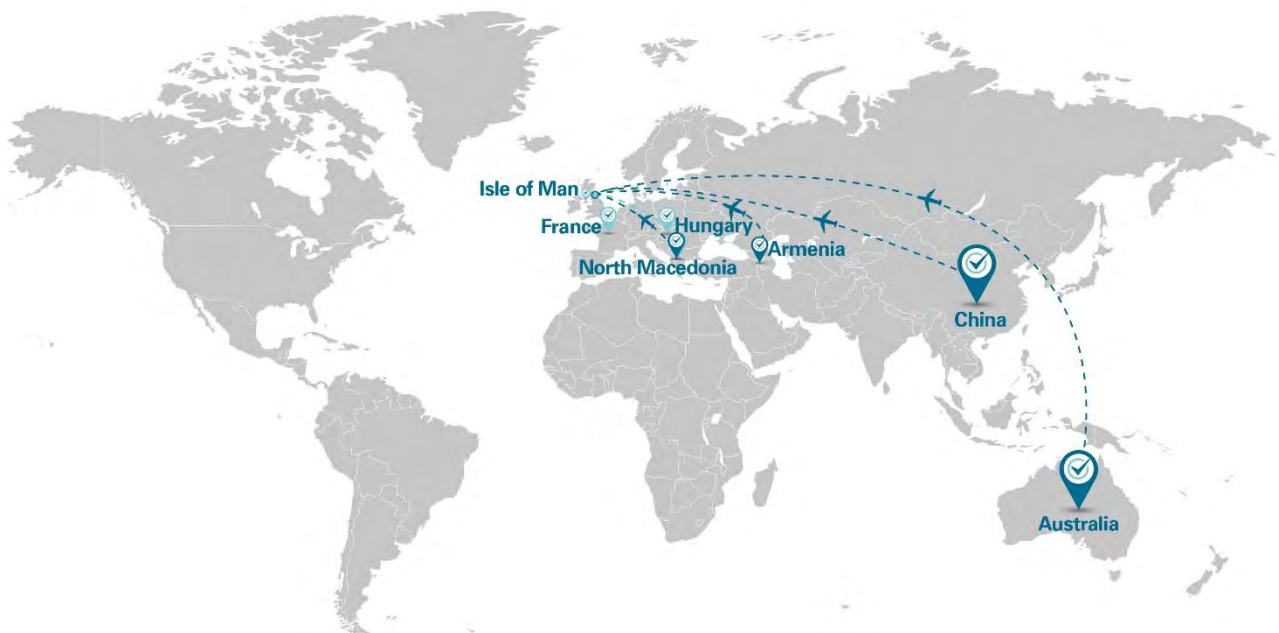
Going global  
webpage



Australia. We use social media posts to reach a wider audience with news and updates of our international work.



Sharing messages within Audit Scotland is an important part of our learning. We use online networking groups to share information across a range of topics. One of these relates to our international work and provides updates on events including points of interest and lessons learned.





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# Spotlight on learning from overseas

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## Our international work brings benefits to Audit Scotland

Building on good practice from other countries is a strong feature of Scottish public policy. It follows that public sector audit should take a similar approach to stay relevant and add value. The following summarises how we use our international work to improve our audit and develop as an organisation:

- Knowledge of overseas good practice helps us scope our audits and shape our recommendations to increase their impact.
- We use international audit standards and good practice networks to improve how we carry out our audits.
- Promoting our work within the UK and internationally helps us build good practice networks and improve as an audit organisation.
- Getting involved in international work is a powerful learning opportunity for our staff, building on their skills and broadening the outlook they bring to our work.

Audit Scotland aims to 'giving something back' through its work. We welcome opportunities to contribute to good public governance in other countries. Our work with other audit agencies and parliaments has been a major highlight this year. All this reminds us that we are in a good place here in Scotland, with strong guiding principles for independent and public scrutiny.

The following 'Spotlight' features give more information about our international work over 2018/19. These focus on the year's two main priorities for our international work: applying good practice, and working with others:

- Spotlight 1: Developing the audit of Scotland's new financial powers.
- Spotlight 2: International lessons for our audit of digital services.
- Spotlight 3: Building on our networks with Australia and Canada.
- Spotlight 4: Promoting good governance and sharing expertise with Armenia, North Macedonia and the Cayman Islands.

## Spotlight 1: Auditing digital services

Digital technology is an increasingly important part of public service delivery. This brings opportunities to improve how people access services; it also brings risks should systems fail or succumb to a cyberattack. In our role as public sector watchdog, it is vital that we keep up to speed with developments in this fast-moving area. So, this is one area where we bring an international dimension to our work.

Our 2017 [Principles for a digital future](#) report reflects our learning from New Zealand and Australia. This year we attended selected international events including the Internet Governance Forum and the OECD [Auditors Alliance](#) conferences on auditors and technology and anti-corruption.

**'It really was a global affair, with insights into data analytic from panellists from Korea, Australia, Chile, Argentina, and Finland to name but a few!'**

All this helps alert us to the risks and opportunities that our growing reliance on digital technology brings. In turn, this helps us assure people here in Scotland about our own digital services. Indeed our [Enabling digital government](#) performance audit (to be published in June 2019) draws on many examples of good governance from other countries.

**Want to find out more:**



**Principles for a digital future**   
**May 2017**

**Digital Audit Strategy 2017**   
**October 2017**

## Spotlight 2: Scotland's new fiscal framework

The Scotland Act 2016 brings many 'firsts' for Scotland through its new financial powers. Since 2017 we have seen the first collection of Scottish Income Tax, the first use of the Scotland Reserve, the first use of new social security powers, and many more. This brings greater complexity and challenges for our audit.

These may be new areas for Scotland, but there is important international experience to draw on. The International Monetary Fund and OECD set standards for fiscal transparency and budgetary governance, and identify examples of good practice, for example in New Zealand.

We drew on such practice when we prepared our [Operation of the fiscal framework](#) briefing paper. Both the UK and Scottish governments reference Canada's sales tax in their methodology for assigning value added tax (VAT) powers to the Scottish budget. As part of our work on VAT, we are looking in more detail at the example of Canada and how sales tax works between its federal state and provinces.

**Want to find out more:**



**The e-Hub** on our website contains further information relating to Scotland's new financial powers

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## Spotlight 3: Building on our networks with Australia and Canada

In March 2018, our performance audit director, Fraser McKinlay spoke at the International Meeting of Performance Audit Critical Thinkers (IMPACT) conference in Australia. Delegates shared their insights on challenges facing the public sector, citizen-centred auditing and cyber security threats.

Audit Scotland have taken forward work resulting from this event. This includes how we apply our audit to community-delivered public services; how we make use of complex data; and how we link our financial and performance audits and report our findings. Our director also shared key learning points at a dedicated knowledge café attended by around 40 colleagues.

He also set up a National Performance Audit Forum to share good practice, based on practice he observed in Australia. This involves performance audit leads from the UK and Irish audit agencies. So far it has highlighted mutual interest around fraud and cybercrime, digital audit, EU-withdrawal, budget management and auditing new financial powers.

We continue to make use of the Canadian Audit and Accountability Foundation database to identify good practice. This helps us scope significant areas of our forward work programme including educational attainment and digital services. It also helps us develop our performance audit practice.

In February 2019 our communications team took part in a conference call with peers from across Canadian audit offices to explore how we promote our audits to different audiences. This was organised by Office of the Auditor General of British Columbia and involved representatives from the federal government, British Columbia, Manitoba and Saskatchewan audit offices.



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## Spotlight 4: Sharing expertise

We participated in a West Balkans Democracy Initiative project funded by the Westminster Foundation for Democracy (WFD). This was to help state institutions apply good practice to improve public spending and democratic participation. Initiatives such as these are a great opportunity for us to influence emerging public audit practice in other countries.



In March 2019, senior representatives from the Assembly of the Republic of North Macedonia visited the Scottish Parliament to find out about their budget office - something they plan to emulate in North Macedonia. As part of that visit they met with us here at Audit Scotland to hear more about our role public scrutiny. This was a productive and engaging meeting and we really welcomed their interest and probing questions.

Mark Roberts, one of our senior audit managers is also working with their State Audit Office (SAO) in a project to increase the impact of their audit. He met with the SAO in February 2019 to share how we promote our audit messages to different audiences.

In September 2018, we met with representatives from the National Assembly of the Republic of Armenia who were visiting Scotland to help them develop their own audit committee. They were interested in our independent role in supporting Scottish Parliament scrutiny.

Last year, one of our directors, Angela Cullen was seconded as Director of Performance Audit to the Office of the Auditor General in the Cayman Islands. This year we provided additional support from Kirsty Whyte, one of our audit managers, who worked on a performance audit of their school education.

"We are grateful for the resource that Audit Scotland provided. This allowed us to audit such an important and wide-ranging area for the first time. The audit manager had extensive experience of auditing education systems and this really helped us identify the areas that would add most value. She was able to draw on her experience and identify good practice that could here in the Cayman Islands.

"She was also able to coach and develop the staff that she worked with, who were doing performance audit for the first time. This has helped us build up our in-house capacity for performance audit, which is one of the objectives in our strategic plan."

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# Our people

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During 2018/19, over 70 colleagues from across Audit Scotland have been involved in international work. This includes presenting to visiting delegations, participating in workshops to share lessons from our overseas work, attending conferences and working with overseas audit institutions. All this is good development experience for our staff in areas such as presentations, understanding our business, and getting a different perspective on our work:

“Presenting to large delegations of senior politicians and officials has really helped build my confidence in public speaking.”

“The reactions often put you on the spot – you need to be able to respond clearly to the ‘*why do you do it this*’ way questions.”

“I really enjoyed presenting to delegations from China and Armenia. Explaining our work to an audience who know very little about Audit Scotland is a bit challenging, but it helped me focus on the key principles of how we work and why we do things.”

We make sure that messages and lessons from our international activity are shared across Audit Scotland. Our online international work group is well subscribed with over 90 members, more than a third of our organisation. We also use blogs and workshops to share our learning on topics ranging from digital auditing through to government-owned companies. Finally, the assignments we have undertaken with overseas audit bodies are a valuable development opportunity for some of our more senior staff:

“Working with colleagues in North Macedonia gave me the opportunity to explain how we focus on key messages and to highlight the range of work we do to maximise the impact of our reports.”

# International work

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 is the 2018/19 annual report to the Board on Audit Scotland's 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.
2. The report concludes that Audit Scotland's FOI/EIR arrangements are working well and that there are no significant issues that should be brought to the attention of the Board. The Board is invited to note the contents of this report.

## Background

3. Audit Scotland, the Auditor General for Scotland and the Accounts Commission are subject to the Freedom of Information (Scotland) Act 2002 (FOISA) and the Environmental Information (Scotland) Regulations 2004 (EIRs).
4. 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.
5. 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.
6. 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 2018/19

7. 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

8. 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.
9. The FOI/EIR policy was reviewed by the KITGG and Management Team and re-approved by the Board in August 2018. Staff acknowledged compliance with the policy via the fit and proper form in November and December 2018.
10. We reviewed our FOI publication scheme to ensure it remained up-to-date.

## Approach to requests

11. It is our policy to be as open and transparent as possible, and therefore our approach to FOI/EIR requests is to treat them as a 'business as usual' activity. This means that where we would normally supply information to those we work with we will continue to do so without treating them as FOI/EIR requests.
12. 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.



13. Where it is appropriate and legal 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. This year a further two managers were trained and joined the FOI panel pool and we have 14 members in total.
14. The following statistics and analysis are based on our recorded FOI/EIR requests for 2018/19.

## Statistics and Analysis

### Number of requests received

15. Audit Scotland recorded 38 FOI and no EIR requests this year. These were received in:

| Requests received       | 2018/19   |          | 2017/18   |          |
|-------------------------|-----------|----------|-----------|----------|
|                         | FOI       | EIR      | FOI       | EIR      |
| Q1 (April – June)       | 11        | 0        | 7         | 0        |
| Q2 (July – September)   | 6         | 0        | 19        | 0        |
| Q3 (October – December) | 13        | 0        | 11        | 0        |
| Q4 (January – March)    | 8         | 0        | 14        | 0        |
| <b>Total</b>            | <b>38</b> | <b>0</b> | <b>51</b> | <b>0</b> |

16. Thirty-six requests were addressed to Audit Scotland and two to the Accounts Commission.

### Type of requester

17. We categorise the requests we receive for analysis purposes. This year we received:

| Requester type        | 2018/19   |          | 2017/18   |          |
|-----------------------|-----------|----------|-----------|----------|
|                       | FOI       | EIR      | FOI       | EIR      |
| Media                 | 7         | 0        | 11        | 0        |
| MSP/MP                | 1         | 0        | 8         | 0        |
| Organisation          | 10        | 0        | 8         | 0        |
| Members of the public | 19        | 0        | 22        | 0        |
| Other                 | 1         | 0        | 2         | 0        |
| <b>Total</b>          | <b>38</b> | <b>0</b> | <b>51</b> | <b>0</b> |

18. Themes emerging from the information being requested are:

- 46% - Reports, draft reports and correspondence relating to those reports
- 22% - Data held on other organisations
- 19% - Audit Scotland's governance, policies, procedures
- 13% - Contract information: Information technology, equipment, other contracts

### Responding to requests

19. Information requested was released in full on 19 (50%) occasions, partially released on seven (18%) occasions, the information requested was not held by us on eight (21%) occasions and there were four refusals (11%). Two of the four refusals were in relation to annual audit reports that were still ongoing, one regarding audit notes relating to Equal pay and one related to information that was subject to an ongoing procurement process. Information on three of the four requests was subsequently released once the information was publicly available. Information on the equal pay request was not released due to exemptions relating to personal information, free and frank exchange of views and the audit exemption.

### Cost of administrating and responding to requests

20. 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 training and development job code.



- 21.** 11 members of staff recorded 416 hours (410 in 17/18) for administering our FOI systems and procedures, replying to some requests and dealing with complex requests at FOI panels. This equates to approximately £23,514 (£20,574 in 17/18) 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

- 22.** 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.
- 23.** Audit Scotland met this requirement on all occasions, this is an improvement on last year's 98%.

### Charging for dealing with requests

- 24.** Public bodies can make charges for dealing with FOI and EIR requests. We issued no fee notices in 2018/19.
- 25.** 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.
- 26.** No requests were refused on excessive cost of compliance this year.

### FOI/EIR panels, reviews and appeals

- 27.** FOI Panels met four times this year to consider applying exemptions to some or all the information being requested. 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.
- 28.** Where an applicant is not satisfied with our initial response to their request they can ask Audit Scotland for a review and in 2018/19 there was one request for a review. Following review, the information was released in full as the initial refusal was due to there being an ongoing procurement exercise that might have been affected by the release of the information at that point in time. At the time of the FOI review the procurement had finished and the information was released in full.
- 29.** 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

- 30.** Audit Scotland staff undertake basic FOI/EIR training when they join Audit Scotland and refresher training is given as necessary.
- 31.** In addition, staff updates are published when changes occur. A staff brief was issued in September 2018 and on FOI Day in March 2019 to remind staff of our FOI/EIR arrangements, performance and changes to legislation.
- 32.** Maintaining training records is dynamic process due to staff joining and leaving the organisation at any point during the year. As at 4 April all staff had undertaken FOI/EIR training.

### Recommendation

- 33.** The Board is invited to note the contents of this report.

## **Purpose**

1. This is the 2018/19 annual report to the Board on complaints received by Audit Scotland about its work. 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.
2. The report on complaints handling concludes that there are no significant issues that should be brought to the attention of the Board.
3. The Board is invited to note the contents of this report.

## **Background**

4. Audit Scotland has three processes which provide for stakeholders to express concerns:
  - Complaints about Audit Scotland – the subject of this report.
  - Complaints/ concerns about the quality of audit – these are covered in the Public Audit in Scotland annual quality report.
  - Issues of concern/whistleblowing disclosures about audited bodies – these are covered on the annual report on correspondence and whistleblowing.
5. 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 have to adhere.
6. Audit Scotland, the Auditor General for Scotland 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.

## **Complaints received**

7. Audit Scotland staff actively engage with the public through a number of channels for example: the inspection period for local government unaudited accounts, the correspondence process, freedom of information requests, our main office receptions and our telephone switchboard, etc. If our interaction with the public is handled well it enhances our reputation and contributes to our goal of delivering world class audit. However, if handled poorly it may harm our reputation and lead to dissatisfaction and complaints.
8. Complaints are dealt with at stage one, front line resolution within five working days. However, when complaints are more complex or are not resolved at stage one they are investigated at stage two, within 20 working days.
9. Corporate Services maintains the register of complaints received. The register shows that there were five complaints received in 2018/19 (four in 2017/18).
10. Three complaints were rejected as being out with the complaints handling process as they were about audit quality.
11. Two complaints were investigated and not upheld. The complaints were that issues of concern about audited bodies were not dealt with to the satisfaction of the complainant. The investigations found that the complaints had been dealt with in accordance with the complaints/issues of concern policy and procedures.

## **Scottish Public Services Ombudsman (SPSO)**

- 12.** The Scottish Public Services Ombudsman Act 2002 (the Act) provides a framework for matters that can be considered by the SPSO for investigation. This year there were no appeals to the SPSO.

## **Recommendation**

- 13.** The Board is invited to note the contents of this report.

## **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. Remco Terms of Reference (ToR) state that a review of Remco past performance and the identification of future priorities is an annual item of business. This process follows good practice for the operation of remuneration committees and the discussion forms the basis of a report to the Audit Scotland Board and Accountable Officer. Remco considered this matter on 22 May 2019.

## **Progress update**

4. During 2018/19, Audit Scotland's Remco met on four occasions. Key items of business considered by Remco are shown below:
  - review of the operation, impact and savings achieved from earlier years' Voluntary Early Release Arrangement (VERA) and redundancy schemes
  - review of employment policies
  - input into the consultation process for the future structure of the Scottish Local Government Pension Scheme
  - consideration of Audit Scotland's approach and effectiveness of talent management and succession planning
  - consideration of Audit Scotland's gender pay gap report
  - progress report on the embedding of improvements flowing from the Building a Better Organisation organisational development programme
  - assurance about the effectiveness of Audit Scotland's recruitment strategy
  - consideration and approval of the parameters relating to the 2019 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, and
  - the review of spot rate salaries for Management Team members.
5. All of 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:
  - transition and business planning arrangements in connection with the change of Accountable Officer in 2020

- Audit Scotland's future pay and reward strategy, and
- the mental, emotional health and wellbeing across Audit Scotland's workforce.

## Conclusion

7. The operation of the Remco during 2018/19 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 Remco during 2018/19, and
  - approve the areas which Remco is planning to take forward as priority areas for 2019/20.

## Next steps

9. The Remco Chair will facilitate the next review of Remco performance at the meeting scheduled in May 2020. A report will then be submitted to the Audit Scotland Board and Accountable Officer in June 2020.

## Purpose

1. To present the 2018/19 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 2018/19. In accordance with its Terms of Reference and the Audit Committee Planner it considered a broad range of work across 108 agenda items, including 80 papers. This included reports on/from:
  - the annual report and accounts and financial management
  - governance, including the annual assurance and statement of control process
  - internal and external audit
  - audit quality and
  - risk.
4. The Audit Committee reviewed the rolling action tracker at each of its meetings.
5. The Audit Committee carries out the annual review of its effectiveness based 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 22 May 2019.

## The annual report and accounts and financial management

6. The Audit Committee considered the annual report from the External Auditors, Alexander Sloan Chartered Accountants, relating to the certification of Audit Scotland's 2017/18 accounts at its meeting on 6 June 2018.
7. The Audit Committee approved the timetable to facilitate the completion of the Statutory Accounts for the year ended 31 March 2019 at its meeting on 27 February 2019. The audit of the 2018/19 accounts has concluded and was reported to the Audit Committee on 5 June 2019.
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 November 2018. 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 August 2018 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 November 2018.
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 the Audit Committee meetings during 2018/19.
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 for 2018/19.
16. At its meeting in February 2019 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 2018/19; 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. Audits and overall assurance assessments were:
  - Core Financial Controls (substantial assurance (design); substantial assurance (operational effectiveness)).
  - Follow-up and Impact (substantial assurance (design); substantial assurance (operational effectiveness)).
  - Complaints Management (substantial assurance (design); substantial assurance (operational effectiveness)).
  - Data Protection (substantial assurance (design); substantial assurance (operational effectiveness)).
  - Cost of Audit (reasonable assurance (design); reasonable assurance (operational effectiveness)).

- Risk Management (assurance audit providing positive assurance and the highest maturity assessment available).
  - Preparedness for New Audit Responsibilities and a Changing Operating Environment (substantial assurance (design); substantial assurance (operational effectiveness)).
  - Follow-up review (good progress).
- 19.** There were eight recommendations from the seven internal audits. All eight recommendations were classed as low significance. Management responses have been provided for all audit recommendations and work is being undertaken to implement them as appropriate.
- 20.** The internal audit service and scrutiny provided by BDO offered substantial assurances in the round for the 2018/19 annual internal audit report.
- 21.** 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.
- 22.** The cost of the internal audit work for 2018/19 was within budget at £23,227.68. The number of days planned to be used for audit by BDO was 48 days and this target was met.

## Audit quality

- 23.** 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 Account's Commission.
- 24.** 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.
- 25.** The quarter three and four audit quality monitoring report and 2018/19 audit quality annual report were presented to the Audit Committee at its meeting on 22 May 2019. The annual report concluded that for all auditors, there is strong evidence of high compliance with auditing standards and the Code of Audit Practice and overall good levels of other evidence of audit quality with some limited improvements required. There are however specific areas where improvements are required to improve compliance with the International Standards of Auditing (ISAs) particularly around documentation, sampling method and sizes and the use of analytical procedures.
- 26.** The Chair of the Audit Committee also attended two meetings of the Audit Quality Committee as an observer in 2018/19.

## Risk management

- 27.** 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.
- 28.** 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 2018/19, the committee considered four detailed risk interrogations on:
- EU withdrawal
  - capacity and one organisational working
  - audit quality and
  - innovation.
- 29.** The Audit Committee considered 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

30. 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.
31. Internal auditors provided Audit Scotland with reasonable assurance that, there are no major weaknesses in the internal control system for the areas reviewed in 2018/19.
32. 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.

## Recommendation

33. The Board is invited to consider and approve the 2018/19 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 5 June 2019. The Board is invited to approve the contents of this report and recommend it to the Accountable Officer to support the Governance Statement.

## **Review of our internal control arrangements in support of the Governance Statement**

3. Audit Scotland uses the Scottish Public Finance Manual's internal control checklist and certificate of assurance process to support the Accountable Officer's Governance Statement in the annual report and accounts. The checklist has been amended to reflect our organisation and is attached to this report for ease of reference.
4. A review of the checklist was conducted in March 2019 to ensure it conforms to the Scottish Government's Finance Guidance Notes as they apply to Audit Scotland.
5. Business groups reviewed their internal controls against the checklist between 1 March and 19 March 2019. Business group Directors reported that generally the controls in their areas have been and are working well. The Directors then returned their signed business group's Certificate of Assurance.
6. Management Team considered a report on the review of internal controls and business group certificates on 2 April 2019. Following discussion, the report was noted and the overall Certificate of Assurance was approved for submission to the Audit Committee. Management Team agreed that there were no issues that should be brought to the attention of the Audit Committee, Board and Accountable Officer.

## **Recommendation**

7. The Board is invited to approve the contents of this report and recommend it to the Accountable Officer.

# CERTIFICATE OF ASSURANCE

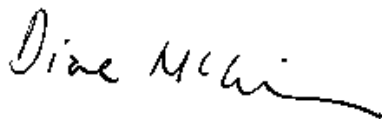
To Audit Scotland's Accountable Officer

## ANNUAL ACCOUNTS 2018/19: ASSURANCE FOR THE GOVERNANCE STATEMENT ON INTERNAL CONTROL

1. I am aware that, as **Chief Operating Officer**, you are required to sign a governance statement for the annual accounts for 2018/19. To assist you in that process, I can confirm that I have received and reviewed the required assurances from Audit Scotland's business group directors.
2. Based on that review, and my own knowledge of internal control matters in **Audit Scotland** I can confirm that these controls have been, and are, working well. There are, in my opinion, no significant matters arising which would require to be raised specifically in the governance statement.

Name: Diane McGiffen

Audit Scotland's Chief Operating Officer



Signature:

Date: 2 April 2019

## Purpose

1. This report invites the Board to approve the updated Policy on the provision of Non-Audit Services by Audit Scotland's external auditor. The policy was considered by the Audit Committee on 22 May 2019 and the Committee agreed to recommend the policy to the Board for approval.

## Background

2. 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.
3. 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.
4. The current policy on the provision of Non-Audit Services was approved in June 2018 and is reviewed annually.

## Update

5. The policy remains appropriate and in line with the FRC's Ethical Standard.
6. The Competitions and Market Authority has recommended market reforms of the audit industry. One proposal is an operational split between audit and non-audit services. It is for the Westminster Government to implement any changes, most of which require primary legislation. No changes are expected in 2019.
7. The policy allows "audit related services" (which includes work normally expected to be undertaken by an external auditor such as grant claim certification) but prohibits "other non-audit services" (which includes management consultancy and tax work). The Competitions and Market Authority recommendation for an operational split between audit and non-audit services would see "audit related services" remain with the audit part of the business.

## Recommendations

8. The Board is invited to approve the updated 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

|          |   |
|----------|---|
| Author:  | Associate Director – Audit Quality and Appointments |
| Version: | 05  |
| Date:    | June 2019, next review June 2020                    |

## 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 2016 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 informs Audit Scotland's Board of the review of policies within the staff handbook in accordance with the standard review cycle.
2. The Board is invited to:
  - note the review of policies
  - provide any comments of feedback, and
  - approve the updated policies annexed to this report.

## Background

3. Audit Scotland's staff handbook sets out policies and guidance for colleagues about their employment and ways of working.
4. The HR & OD team review the handbook each year and liaise with Corporate Governance to ensure that all sections are up to date and accurate. Several parts of the handbook require Board approval, and these are shown in the table shown below.
5. HR & OD sections of the staff handbook are typically reviewed on a biennial basis with review dates falling each June. Content is clear, unambiguous, easy to find and provides a basis for resolving queries, disputes or grievances. Material is often originally based upon good-practice templates provided by our employment law advisers [XpertHR](#). Much of the staff handbook is either directly or indirectly influenced by UK employment law and the style and content reflects this. Sections of the staff handbook would be important documents in the event of a dispute, including determination through an employment tribunal.

## Review process

6. The HR & OD team review the staff handbook to ensure that it is legally compliant, supports Audit Scotland's objectives and is accurate.
7. The HR & OD Manager presents to Audit Scotland's Management Team, Remuneration and Human Resources Committee (Remco) or Board for approval of any new policies with significant or substantive changes to existing policies.
8. The approval levels for policies are shown in appendix 1. Guidelines are general, non-mandatory recommendations that often underpin more specific policy statements. Policies are formalised statements that apply to a specific area or task. Policies are mandatory, employees who violate a policy may face a sanction, perhaps under the disciplinary policy.

## Outcome of the 2019 review process

9. Management Team reviewed and approved a suite of policies that have been reviewed by the HR & OD Manager at meetings during May 2019. Approval for a smaller number of policies is reserved to Remco and these policies were considered at the Remco meeting on 22 May 2019. Approval for four policies is reserved to Audit Scotland's Board, as indicated in the table overleaf.

| Policy description                               | Outcome   | Approval level |
|--|---|----------------|
| Counter Fraud Policy<br>(Annex A)                | Minor revisions to include reference to Acceptable Use Policy and information about the enhanced security vetting (who has responsibility for this and the way in which we hold this confidential data)                         | Board          |
| Diversity and Equality Policy<br>(Annex B)       | Additional statement about our commitment to excellence in recruitment and selection, the training we provide to recruiting managers, how we support our managers and reference to the annual diversity report which we publish | Board          |
| Health, Safety and Wellbeing Policy<br>(Annex C) | Minor, non-substantive revisions  | Board          |
| Whistleblowing Policy<br>(Annex D)               | No changes  | Board          |

10. Appendix 2 contains each of the policies shown above.

11. Subject to Board approval as well as follow-up discussion with the PCS union, the staff handbook will be updated.

## Recommendations

12. The Board is invited to:

- note the review of HR & OD policies and guidance
- provide any comments or other feedback and
- approve the updated policies annexed to this report.

## Appendix 1

### Policies and approval level

| Board  | Management Team   |
|--|---|
| <ul style="list-style-type: none"> <li>• Code of Conduct – Staff</li> <li>• Counter Fraud Policy</li> <li>• Diversity and Equality Policy</li> <li>• Health, Safety and Wellbeing Policy</li> <li>• Whistleblowing</li> </ul>  | <ul style="list-style-type: none"> <li>• Accident and Near Miss Policy</li> <li>• Agency Workers Policy</li> <li>• Alcohol and Drugs Policy</li> <li>• Bullying and Harassment Policy</li> <li>• Children and Young Workers Policy</li> <li>• Clear Screen and Desk Policy</li> <li>• Counter Fraud Policy</li> <li>• Driving for Business Policy</li> <li>• Emergency Leave Policy</li> <li>• Eye Care Policy</li> <li>• Fixed-Term Contract Policy</li> <li>• Flexi-time Policy (ASG &amp; Others)</li> <li>• Gender Reassignment Policy</li> <li>• Ill Health Capability Policy</li> <li>• Induction Policy</li> <li>• Job Evaluation Policy</li> <li>• Manual Handling Policy</li> <li>• New and Expectant Mothers' Policy</li> <li>• Occupational Health Wellbeing Policy</li> <li>• Other Employment Policy</li> <li>• Personal Property Policy</li> <li>• Pool Car – BIK Policy</li> <li>• Recruitment and Selection Policy</li> <li>• References Policy</li> <li>• Religious Beliefs and Observance Policy</li> <li>• Safe Evacuation Policy</li> <li>• Season Ticket Policy</li> <li>• Secondment Policy</li> <li>• Slips, Trips and Falls Policy</li> <li>• Smoking Policy</li> <li>• Working Time Policy</li> <li>• Workplace Parties and Events Policy</li> </ul> |
| Remuneration and Human Resources Committee   | HR&OD Manager   |
| <ul style="list-style-type: none"> <li>• Compassionate Leave Policy</li> <li>• Disciplinary Policy</li> <li>• Equal Pay Policy</li> <li>• Family Friendly Policy</li> <li>• Flexible Working and Career Break Policy</li> <li>• Grievance Policy</li> <li>• Holiday Policy</li> <li>• Home Working Policy</li> <li>• Lease Car Policy</li> <li>• Life Assurance Policy</li> <li>• Lothian Pension Fund Appeal Process</li> <li>• Lothian Pension Fund Policy Statement</li> <li>• Public Duties Policy</li> <li>• Redeployment Policy</li> <li>• Redundancy Policy</li> <li>• Relocation Policy</li> <li>• Retirement Policy</li> <li>• Sickness Absence Policy</li> <li>• Travel and Expenses Policy</li> </ul> | <ul style="list-style-type: none"> <li>• Working from Anywhere Guidance</li> <li>• Asbestos Guidance</li> <li>• Display Screen Equipment Guidance</li> <li>• EAFA – Essential H&amp;S Guidance</li> <li>• Leaving Audit Scotland Guidance</li> <li>• Lone Working Guidance</li> </ul>   |



|  |   |
|--|---|
|  | <ul style="list-style-type: none"> <li>• Lothian Pension Fund Contribution Guidance</li> <li>• Salary Scales &amp; Annual Pay Award Information</li> <li>• Self-Employed Consultants Guidance</li> <li>• Starting Salaries Guidance</li> <li>• Stress Guidance</li> </ul> |
|--|---|

## Counter Fraud Policy

|                          |                 |
|--------------------------|-----------------|
| Owned and maintained by: | Human Resources |
| Date checked/created:    | June 2019       |
| Next review date:        | June 2021       |

1. This policy sets out our approach to preventing, investigating and reporting fraud. All staff must ensure they are familiar with this policy. Audit Scotland takes a zero tolerance approach to fraud including bribery and corruption.
2. Fraud is a common law offence in Scotland and therefore does not have a legal definition. However, the [Fraud Act 2006](#) provides a useful definition which should be referred to. A person commits a fraud if they intend to make a gain for themselves or another, cause loss to another or to expose another to a risk of loss by:
  - dishonestly making a false representation;
  - dishonestly failing to disclose to another person information which they are under a legal duty to disclose; or
  - dishonestly abusing a position that they occupy in which they are expected to safeguard, or not to act against, the financial interests of another person.
3. Audit Scotland requires a standard of absolute honesty and integrity from its staff. Trust is an essential part of this process and there is no room for dishonesty, either within Audit Scotland or with its clients or stakeholders. This approach has been endorsed strongly by Audit Scotland's Board, which requires that all fraud investigations be reported to it via the Audit Committee.
4. Audit Scotland subscribes to the principles outlined in the Scottish National Fraud Initiative (NFI) instructions and the associated privacy notices. We will include data on our staff as part of the NFI exercise. Further information on the National Fraud Initiative is available from our intranet and external website. This policy should be read in conjunction with:
  - Audit Scotland's Code of Conduct
  - [Scheme of Delegation and Financial regulations](#)
  - [Information security management policy and Information Acceptable Use policy](#)
  - Whistleblowing Policy
  - Disciplinary Policy
  - Grievance Policy
  - Ethical Standards Policy.

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5. Copies of these documents are located in Audit Scotland's Staff Handbook within ishare and are also available from Human Resources.
  6. This policy requires Audit Scotland employees to report any instance of suspected fraud to their Director or Audit Director. Where staff do not understand any aspect of the policy, they should seek clarification from their Director or Audit Director.
  7. All staff are required to read and agree to Audit Scotland's Code of Conduct annually. This includes disclosing any potential conflicts of interest. The Compliance Partner/Compliance Manager is responsible for reviewing all disclosures and addressing any conflicts that arise.
  8. Educational information may be issued to staff from time to time by Audit Scotland concerning fraud prevention by way of briefing notes, training programmes or ad-hoc advice. The Board and Management Team strongly support the counter fraud efforts of Audit Scotland. Please ensure you take note of any guidance issued and raise any queries or concerns with your line manager.
  9. It is important to be clear that, as an employee of Audit Scotland, you have stewardship responsibilities for any property and information of Audit Scotland and/or the bodies we audit entrusted to you and under your control. This property and information must be safeguarded from inappropriate access, loss or theft.
  10. It must also be recognised and accepted that fraud is possible in our organisation. If this is not recognised or accepted, then it is unlikely that fraud will be identified even if it is evident. Symptoms of fraud are frequently viewed as administrative errors because staff cannot believe that a colleague could possibly have committed such an act, particularly where affiliation has developed over a long period of time. Therefore, you should consider the following to help reduce the risk of any impropriety:
    - Identify property for which you have responsibility e.g. computers, flashdrives, audit files (including those in archive), departmental expenditure, supplies and company cars.
    - Identify risks associated with safeguarding this property and information. Ask yourself:
      - How could this property or information be misused or improperly used?
      - If this property or information were misused or misappropriated, how would I know?
      - What controls exist to prevent or detect inappropriate use or loss of property or information?
      - What additional controls are necessary to ensure the property or information is adequately protected from loss?
      - Is the cost of these additional controls reasonable in relation to the risk involved?
    - Establish a positive control environment in your department. It is important to demonstrate control consciousness – interest and concern for internal control should be communicated to all staff members. Ensure that an adequate system of internal control exists within your department. The key points to consider are:

- separation of duties
- physical safeguards over property
- proper documentation and authorisations
- adequate supervision e.g. independent checking of key transactions.

11. Audit Scotland aims to recruit honest employees. The degree of background checking is dependant on the level of accessibility to significant Audit Scotland assets. ~~Consultation with Human Resources is required prior to commencing any background check and will help determine the appropriate course of action.~~ Certain information available from background and security checks is classified as personal, sensitive and / or confidential. This means that access to this information is restricted and it must be held in a secure manner. Human Resources lead on security and background checks<sup>1</sup> which is why you should speak with them prior to any formal checks being undertaken.

### **What should you do if you suspect fraud or corruption, or that ‘something is wrong’?**

12. Staff are often the first to realise there may be something seriously wrong. However, they may not express their concerns because they feel to speak up would be disloyal to colleagues or to Audit Scotland. Staff may also fear harassment or victimisation so feel it is easier to ignore the concern rather than report what may just be a suspicion of malpractice.
13. Audit Scotland’s Whistleblowing Policy is intended to encourage staff to report concerns via Audit Scotland’s procedures rather than overlooking a problem. The Board is committed to acting on all reports of suspected fraud and corruption both from within Audit Scotland and across the public sector.
14. Be assured that there will be no recriminations against staff who report reasonably held suspicions. Victimising or deterring staff from reporting any concerns is a serious disciplinary matter. Any contravention of this policy should be reported in accordance with Audit Scotland’s Disciplinary and Grievance Policies.
15. Abuse of this policy by raising malicious allegations could be regarded as a disciplinary matter.
16. If you have good reason to suspect a colleague, contractor or other person of fraud or an offence involving Audit Scotland or an audited body you should discuss it first with your manager. If you suspect your manager, you should go to the next most senior person above them in accordance with Audit Scotland’s approach in the Disciplinary and Grievance Policies. Alternatively you have the option to:
- Discuss the matter confidentially with the Chief Operating Officer; or
  - Advise the Chief Operating Officer anonymously of your concerns.
17. You may find it helpful to read Audit Scotland's Whistleblowing Policy which provides further information.

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<sup>1</sup> Some security vetting and background checks for employees involved with certain clients or work are undertaken by external bodies instead of our HR team. Senior management in each business group should liaise with the HR & OD Manager prior to any such checks being commissioned.

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17.18. If you and your manager decide between you that your suspicion may be justified, the matter must be reported to the Chief Operating Officer. Audit Scotland will then take the appropriate action, as follows:

- Implement its Fraud Response Plan.
- Refer the matter to the Audit Committee.
- Refer the matter to the Police, if appropriate.
- Report back to the Audit Committee in all cases.

18.19. Do not approach the individual(s) about whom you have concerns and do not discuss the matter with anyone else.

## Diversity and Equality policy

|                          |                                |
|--------------------------|--------------------------------|
| Owned and maintained by: | Human Resources                |
| Date checked/created:    | <del>June 2017</del> June 2019 |
| Next review date:        | June 2021 <del>19</del>        |

### Introduction

Audit Scotland is committed to eliminating discrimination, valuing and promoting equality and diversity amongst our workforce and will work towards increasing the diversity of our staff. It is our policy to treat all job applicants and employees fairly and equitably regardless of age, disability, gender, gender reassignment status, marriage or civil partnership status, maternity or pregnancy, race, religion or belief or sexual orientation<sup>1</sup>.

We will strive to take a leading role in advancing equal opportunities practices and diversity both as an employer and in our auditing role. In relation to employment, this policy statement applies to recruitment and selection, promotion, training, terms and conditions of employment, pay and benefits and every other aspect of employment, including general treatment at work and the processes involved in the cessation of employment.

This policy applies to all to job applicants (internal and external), employees, secondees, agency staff, clients, suppliers and contractors, whether permanent or temporary. The policy applies to all processes relating to employment and training and to any dealings with customers and clients .

~~This policy applies to job applicants (internal and external) and all employees and other workers whether full time, part time, temporary or permanent.~~ Audit Scotland will do all it reasonably can to promote good practice in this area in order to eliminate discrimination, harassment and victimisation, advance equality of opportunity and promote good relations.

Audit Scotland aims to be an organisation which is broadly representative of the communities it serves. We will demonstrate our commitment by:

- Ensuring diversity and equality is at the heart of policy-making and taking a lead role in demonstrating best practice.

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<sup>1</sup> These characteristics are called 'protected characteristics' as defined by The Equality Act 2010. Audit Scotland considers Disability under the social model of disability. We recognise that it is often the barriers in society that exclude people with disabilities, rather than individual impairments and conditions.

- Actively promoting equality of opportunity through circulating recruitment vacancy details as widely as possible and monitoring our recruitment practices.
- Treating all our staff with respect and equality of opportunity in order that their selection and subsequent development is based entirely on merit.
- Creating a working environment that promotes dignity and respect for all. No form of discrimination<sup>2</sup>, bullying, harassment or victimisation will be tolerated against any current or prospective member of staff on the grounds of their age, disability, gender, gender reassignment, marriage or civil partnership, maternity or pregnancy, race, religion or belief or sexual orientation.
- Raising staff awareness about equality and valuing diversity and enabling managers to promote and be accountable for equality of opportunity through 3-D developmental discussion and training for all staff.
- Positively valuing the different attributes, perspectives and skills of staff and making full use of these.

## Recruitment and selection

We will carefully consider whether vacancies should be advertised internally or externally. Where externally advertised, we are committed to developing and monitoring our recruitment and employment policies to ensure they are accessible to all sections of the community.

When establishing criteria for recruitment into vacant posts, we will consider carefully what is relevant and necessary for effective performance of the job. Criteria will not be imposed unless there is a proper job-based reason why they are necessary.

All job applicants will be asked to complete an online diversity monitoring section including details of their age, disability, ethnic origin, gender and race, religion or belief, and sexual orientation<sup>3</sup>.

Audit Scotland guarantees the information provided will be used solely for the purposes of monitoring the effectiveness of our diversity and equality policy and will be kept confidential by the Human Resources team.

All managers involved in any form of recruitment or selection will first complete recruitment and selection training, which includes a dedicated diversity and equality module. Our [separate](#) on-line [diversity training package](#) for managers also provides practical examples of diversity and equality issues in recruitment and selection. [Members of the HR & OD team work closely with managers at all stages of the recruitment process, advising and supporting them on good practice and helping with individual questions that arise.](#)

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<sup>2</sup> The non-discrimination principle in this policy includes the prohibition of discrimination against an individual because they associate with someone with a protected characteristic, for example, an employee who is married to someone from a minority ethnic group. It applies equally to situations where someone thinks or perceives (rightly or wrongly) that a colleague has a particular protected characteristic e.g. they are undergoing or have undergone gender reassignment or have a disability.

<sup>3</sup> This [is voluntary and](#) includes a “prefer not to say” option.

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## Monitoring

We are committed to our monitoring requirements under the Equality Act 2010 and meeting our general and specific duties under this act.

To ensure accuracy in our reporting Employees are asked to update their diversity information annually. This includes details of their protected characteristics including gender reassignment status, religion or belief and sexual orientation. We guarantee that the information provided will be used solely for the purpose of monitoring the effectiveness of our diversity and equality policy and will be held securely.

All business groups have representatives on the Equality and Human Rights Steering Group (EHRSG), this group is responsible for our Equality Outcomes and Mainstreaming reporting, a full report is produced every four years. Annual reporting is carried out on equality and diversity across our workforce and recruitment activity by the HR & OD team.

~~We will produce a mainstreaming report annually for consideration by the diversity group and senior management.~~ This reporting information ~~will be~~ used to promote discussion and inform future policy and enhance business processes.

Further information on what information we ask employees to provide and how we use it can be found in Appendix 1. ~~This information is also issued to staff when we ask them to complete their diversity information each year.~~

## Our diversity policies

Audit Scotland has a number of diversity policies in place, including an equal pay policy statement, religion and belief observance policy, gender reassignment policy, and bullying and harassment policy.

Any employee can use the bullying and harassment or grievance policies to complain about discriminatory conduct. Audit Scotland is keen to ensure that staff feels comfortable about raising such complaints. Staff should be able to raise a concern in the knowledge that their complaint will not be held against them unless it is made in bad faith e.g. out of malice. All diversity policies can be accessed through our staff handbook ~~on Ishare.~~

## Disability Confident employer

Audit Scotland has received accreditation as Disability Confident employer (Level 2) under Disability Confident scheme, awarded by DWP. We have made an on going commitment to recruitment, retention and development of staff with disabilities.

Employees who have a disability or a health condition or who become disabled in the course of their employment should inform Human Resources about their disability. Their line manager will then arrange to discuss with the employee what reasonable adjustments to their job or working conditions might assist them in the performance of their duties. The employee will also be



encouraged to suggest any adjustments that they believe would be helpful. Careful consideration will be given to any proposals and, where reasonable, such adjustments will be made.

### **Staff Training**

All staff will receive training in diversity and equality of opportunity as a part of their induction. Further training and development is available to all staff as part of our rolling programme of learning across Audit Scotland. ~~Senior managers will receive in-depth training in their role in leading and promoting diversity.~~

Every person working for Audit Scotland has a personal responsibility for implementing and promoting diversity and equality principles in their day to day dealings with clients and with each other. ~~Inappropriate behaviour is not acceptable.~~

### **Retirement**

Audit Scotland does not operate any compulsory retirement age, and each employee may choose for themselves when to stop working, subject to them continuing to be fit to perform their job to a satisfactory standard.

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## Appendix 1

### **Why do you want my diversity information and what information do Audit Scotland ask for?**

We currently ask you to provide information on your:

- Age
- Disability
- Ethnicity
- Gender
- Gender re-assignment status
- Marital or civil partnership status
- Nationality
- Race
- Religion or belief
- Sexual orientation.

These characteristics (alongside maternity or pregnancy) are covered under the 2010 Equality Act as protected characteristics. The act bans unfair treatment of people because of a protected characteristic they have.

### **Why do you want my information and how will you use it?**

We want to ensure our practices, systems and policies are not directly or indirectly treating people unfairly. Therefore, each year we produce a report which includes an analysis of employee information (the latest report is available from the Audit Scotland [website](#)).

We also produce an equal pay review showing pay gap differences (our latest report is also available on our [website](#)). Under the public sector equality duty, we have a legal obligation to gather information on our employees, particularly in relation to recruitment, development and retention across all of the protected characteristics.

We must use the information to better perform the equality duty<sup>4</sup> and publish a report to show a breakdown of information and details of the progress we have made in gathering and using this information.

We are also required to produce gender pay gap information showing the percentage difference between male and female average pay.

### **Example:**

If our analysis showed a significant difference in the pay between men and women doing work of equal value or a lower proportion of minority ethnic group applicants were making it through our selection processes, then we would examine this further and take action as appropriate.

### **Why should I tell you about my religion or sexual orientation? It has nothing to do with my job.**

We understand that this information is particularly personal and sensitive and you may not want to share it with us. However, we want to ensure our practices, systems and policies are fair are non-

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<sup>4</sup> to eliminate discrimination, victimisation, harassment and other prohibited conduct; advance equality of opportunity and foster good relations across the nine protected characteristics.

discriminatory. If we want to be able to do this, we need your information. Therefore, we encourage you to share your details.

### **What will happen if I disclose a disability?**

If you indicate you have a disability, HR will be prompted by e-HR and give you a call to discuss your particular circumstances. We will always make reasonable adjustments to help you with a disability if required. However, we acknowledge that often those with a disability don't need or want additional support or assistance. We will not make any assumptions, but will listen to you and agree what, if any, support is required.

### **Who will see the information you hold about me?**

Only you and the Human Resources team will be able to access your diversity information. Line managers will not have access. You complete and update the information confidentially on e-HR and it is protected by the Data Protection Act 1998. We actively encourage you to review and update this information at least annually to ensure any changes are made.

When employee information is reported and published, it is not possible to identify individuals. For example, a report will show the percentage/number of gay and bisexual employees LGBT employees compared to the percentage of those who are heterosexual/straight. However, no breakdown is provided where fewer than five staff are in a particular category.

We take confidentiality very seriously and you can be assured we will keep your information safe and secure.

### **Do I have to disclose my information?**

No. It is absolutely up to you. However, we would urge you to seriously consider sharing it with us, as it will help us ensure we are not treating people unfairly.

There is some information we need you to provide e.g. date of birth (age) and marital/civil partnership status for payroll / pension purposes and nationality for right of work in the UK.

### **Who can I go to if I have a question?**

You can discuss with your line manager in the first instance or You can contact a member of the HR team. (Maggie Gebicka (x 1645) in the first instance). Alternatively, all business groups have representatives on the Diversity and Equality Steering Equality and Human Rights Steering -Group (DESGEHRSG), who are will be happy to answer any questions. A list of current members is on Ishare (Working Groups – Diversity and Equality Equality and Human Rights - Steering Group). All discussions will be treated confidentially.

# Health, Safety and Wellbeing Policy

|                                 |                 |
|---------------------------------|-----------------|
| <b>Owned and maintained by:</b> | Human Resources |
| <b>Date checked/created:</b>    | June 2019       |
| <b>Next review date:</b>        | June 2021       |

## Introduction

This document sets out the occupational health, safety and welfare arrangements for all of Audit Scotland's employees and is applicable to contractors, visitors and members of the public who may be affected by the work activities of Audit Scotland.

## Statement of Intent

The management of Audit Scotland recognise that they have a duty under the Health and Safety at Work Act and associated legislation to ensure that all reasonable precautions are taken to provide and maintain working conditions that are safe, healthy and comply with all statutory requirements and codes of practice. Audit Scotland recognises that this duty applies wherever our staff are required to work. To support the application of our intent Audit Scotland will, so far as is reasonably practical, pay particular attention to:

- Providing and maintaining safe systems of work.
- Providing information, training and supervision to ensure the health and safety at work of employees and others.
- Controlling the place of work and maintaining it in a safe condition.
- Providing safe means of access to and exit from the place of work.
- Undertaking assessments to identify health and safety risks, informing employees and others of any identified risk and where practical take action to eliminate or control such risks.
- Carrying out work place inspections to aid compliance with health and safety regulations.
- Consulting and communicating with all staff on matters affecting health, safety and welfare in the workplace.
- Ensuring that, as far as is reasonably practical, clients are aware and take cognisance of Audit Scotland's occupational health, safety and welfare policy.
- Ensuring that, as far as is reasonably practical, clients provide a safe working environment for Audit Scotland Staff when on their premises.

- Carrying out regular reviews of the occupational health, safety and welfare policies and procedures ensuring that they continue to meet the requirements of legislation and the organisation.

## Organisation and Responsibilities

The Auditor General for Scotland as the accountable officer has ultimate responsibility for the administration and implementation of Audit Scotland's arrangements to comply with the Health and Safety at Work Act and associated legislation. In order to ensure that sufficient resources are available, responsibility for administration, implementation and monitoring of the occupational health, safety and welfare policy and procedures is delegated as follows:

### Executive

The Chief Operating Officer is the executive responsible for the implementation, administration and monitoring of health, safety and welfare policy and procedures in the organisation.

### Health and Safety Officer (HSO)

The HSO reports to the Chief Operating Officer. The HSO's responsibilities cover the maintenance of safety records, investigation of accidents and dangerous occurrences, providing accident statistics, preparation of health, safety and welfare policy and procedures and keeping a watching brief on changing legislation.

The HSO will also provide advice and guidance to managers and staff on matters relating to health, safety and welfare at work. Unless otherwise intimated the HR&OD Manager of Audit Scotland will take on the responsibilities of the HSO. As at June 2017<sup>79</sup>, this person ~~was~~ is David Blattman.

### Assistant Health and Safety Officers

Audit Scotland will appoint Assistant Health and Safety Officers who, for this part of their work, will report and be accountable to the HSO. The HSO will make such appointments and ensure that suitable training is provided to the officers so that they can fulfil their role. Typically, the Assistants will be members of the HR&OD team, the Business Support Manager and the ~~Facilities Management Manager~~ Client and Services Team Leader.

### Directors, ~~Assistant Audit~~ Directors and Managers

Managers at all levels have the responsibility to provide leadership and to promote responsible attitudes towards health, safety and welfare at work of all staff. They will:

- Ensure that all new staff, including temporary staff, are given general induction training and any specific safety instructions relevant to their role. All new members of staff MUST be shown the location of first aid boxes, fire exits and fire fighting equipment on commencement of employment. Managers should physically walk the fire routes with new staff.

- ensure new staff also complete the health and safety induction on-line training package and questionnaire available from the New Starters section of the intranet ([Human Resources/New Starters](#)).
- Ensure that all staff, including temporary staff, for whom they are responsible are aware of and have access to the organisations health, safety and welfare policy and procedures.
- Keep up to date with Audit Scotland's health, safety and wellbeing policy and procedures.
- Ensure that good housekeeping standards are applied.
- Assist the HSO in investigating accidents and dangerous occurrences as required.
- Carry out regular health and safety checks of areas where their staff are working including clients premises.
- The [Assistant Audit](#) Director nominated by the relevant Director is deemed to be the responsible person for their office and will ensure the implementation of all Audit Scotland's occupational health, safety and welfare arrangements.

## Employee responsibilities

All employees have a duty under the Health and Safety at Work Act for the health, safety and welfare of themselves and others, including members of the general public who may be affected by what they do or fail to do at work. It is the duty of all employees to co-operate with Audit Scotland in its compliance with the Health and Safety at Work Act and associated legislation. All staff are therefore required to:

- Take reasonable care to prevent any injury or damage to their own and others health, safety and welfare at work.
- Work in accordance with Audit Scotland's occupational health, safety and welfare policy, procedures and training on its own or client's premises.
- Report to their manager, the HSO or health and safety representatives any situation that may present a risk to the health, safety and welfare of themselves or others.
- Report all accidents to their manager.
- Ensure that any equipment or facilities provided in the interest of health, safety and welfare is not damaged or abused in any way.
- Comply with client's health and safety arrangements when on their premises.
- Read, understand and retain relevant documentation provided by Audit Scotland in the interests of health, safety and welfare at work.

## Arrangements

### Reporting accidents

There is a separate policy covering accidents which outlines the procedures which are to be adopted when any employee, visitor, members of the public or contractor experiences an accident, near miss or dangerous occurrence on Audit Scotland's premises or when engaged in business-

related travel during the course of their employment or activity. See our staff handbook:

<http://ishare/handbook/Handbook/Forms/healthandsafety.aspx>.

All reported accidents and “near miss” reports will be reviewed by the Health, Safety & Wellbeing Group Committee and the HSO will provide an annual report to the Chief Operating Officer at the end of each financial year. This will be provided to Audit Committee of Audit Scotland. In the event of a serious incident and at the discretion of the Chief Operating Officer, a special report will be made to the Audit Committee at the earliest opportunity.

### **First aid**

During the induction programme employees will be introduced to the First Aider and shown the location of first aid equipment. The names of qualified First Aiders and how to contact them are given on local notice boards (along with First Aid box locations) and on the intranet site (see Health and Safety, First Aid information).

Staff should ensure they are aware of the first aid arrangements at their work location and when working on client’s premises.

### **Fire safety**

Employees have a duty to conduct their operations in such a way as to minimise the risk of fire. This involves keeping combustible materials separate from sources of ignition and avoiding unnecessary accumulation of combustible materials. In leased premises the building landlord may be responsible for the provision and maintenance of fire prevention and fire alarm equipment.

All employees have a duty to report immediately any fire, smoke or potential fire hazards to their manager, and to operate the fire alarm. If you discover a fire:

- Ring the fire alarm.
- Leave the building and proceed as above.
- Fire Wardens and Fire Incident Controllers are allocated at each of our Audit Scotland locations and receive fire safety training.

All employees must know their evacuation route and assembly point in case of fire or other emergency. Details of fire plans, assembly points, fire wardens and fire incident controllers are available on the intranet site (and on signs at your location). If you hear the fire alarm:

- Immediately leave the building by the nearest fire exit.
- Do proceed calmly to your assembly point.
- Report to your floor's fire warden so you can be accounted for.
- Wait for further instructions.
- Do not delay to put away papers or to collect personal belongings.
- Do not attempt to use the lifts.

Fire exits are clearly labelled and located at strategic points throughout the workplace. Fire doors are designed to slow the spread of fire and smoke throughout the workplace. Fire doors are to be

kept closed at all times and must never be blocked, jammed or tied open and exit corridors must never be locked, blocked or used as storage space.

Fire extinguishers are located at strategic points throughout the workplace. Employees are expected to tackle a fire themselves only if trained and it would pose no threat to their personal safety to do so. If the situation is dangerous or potentially dangerous, the employee should activate the alarm and evacuate the building immediately.

### Emergency evacuation procedure

In the event of the fire alarm being activated or in any other emergency situation (such as a bomb scare), all employees must leave the building by the nearest available exit and assemble at the designated assembly point. Practice fire drills will be conducted at regular intervals, at least annually, to ensure employee familiarity with emergency evacuation procedures, or in accordance with the landlord requirements.

### Smoking

Audit Scotland operates a non-smoking environment in all its offices. Please see our separate policy within the staff handbook ([http://ishare/Staff\\_hand/Staff\\_handbook/Smoking%20Policy.pdf](http://ishare/Staff_hand/Staff_handbook/Smoking%20Policy.pdf)). Disciplinary action may be taken against staff that fail to comply with this arrangement.

### Mobile phones

~~Mobile phones are available to Audit Scotland employees and help to meet A line manager or director is authorised to request that an individual should receive an Audit Scotland mobile phone. For example, it may be deemed as necessary for any employee that has~~ an operational or strategic need e.g. those expected to be on-call, lone workers (health and safety issues), travelling on a frequent basis or where access to a pooled phone or use of a personal phone is considered to be inappropriate.

In the event that a phone is lost, stolen or damaged, the Helpdesk must be notified immediately by raising a Support Works ticket, stating who the replacement phone is for, their cost centre code, their existing mobile number and a delivery address. They will then cancel the existing phone and a replacement will be ordered and a sum equivalent to the cost of the phone will be billed to your cost centre.

~~Many staff do not want to carry a personal phone and a business phone. As a result, staff may use their personal phone and claim expenses for any calls relating to Audit Scotland business, where the costs can be clearly identified. Staff must submit a detailed list of the calls containing the costs of each call, date and time as part of any expenses claim.~~

Mobile phones and other hand-held electronic information and communication devices should only be used in a car when you are parked safely and legally or via a legally compliant hands-free system. ~~You must not use your device at any other time, including when you are stopped in traffic. Mobile phones, etc. must not be used whilst driving.~~



~~For the avoidance of doubt, the organisation will not reimburse individuals for any fines, costs, etc. that may be imposed in the event that they are prosecuted for any driving offence as a result of using a mobile phone whilst driving.~~

Failure to comply with this policy (whether or not such failure leads to an accident or prosecution) may lead to formal disciplinary action being taken under the organisation's disciplinary procedure.

### **Risk assessments**

Risk Assessment is a tool to help manage safety. Risk assessments shall be completed for all activities where there is significant risk to employees and Audit Scotland periodically undertakes generic risk assessments for all job roles across Audit Scotland (this is undertaken by are held within Human Resources and Business Support Services). Risk Assessments should be reviewed whenever there is any major change in working processes or changes to individual circumstances, for example new and expectant mothers or relating to a specific medical issue or disability.

### **Manual handling operations**

It is the policy of Audit Scotland to reduce the risk of manual handling injuries and provide guidance on the measures that should be taken to ensure safe lifting and carrying. Please see our separate Manual Handling Policy in respect of this within the staff handbook ([http://ishare/Staff\\_hand/Staff\\_handbook/Manual\\_Handling\\_Policy.pdf](http://ishare/Staff_hand/Staff_handbook/Manual_Handling_Policy.pdf)).

### **Display screen equipment**

It is the policy of Audit Scotland to comply with the law as set out in the Health and Safety (Display Screen Equipment) Regulations 1992 (as amended in 2002). Please see our separate Display Screen Equipment policy within the staff handbook ([http://ishare/Staff\\_hand/Staff\\_handbook/Display\\_Screen\\_Equipment\\_Guidelines.pdf](http://ishare/Staff_hand/Staff_handbook/Display_Screen_Equipment_Guidelines.pdf)).

### **Workplace inspections**

Regular formal workplace inspections are carried out annually for all Audit Scotland base locations. In addition, inspections will be conducted in the relevant areas whenever there are significant changes in the nature and/or scale of our operations. An annual inspection will be undertaken by an external health and safety expert, and a report will be made available to local management, the HSO and the hHealth, sSafety and wWellbeing group Committee. Workplace inspections will also provide an opportunity to review the continuing effectiveness of the policy and to identify areas where revision of the policy may be necessary. Please see our separate workplace inspection statement (<http://ishare/healthsafe/SitePages/Workplace%20Inspections.aspx>).

## **Commitment to Health, Safety and Wellbeing**

Audit Scotland has prepared this policy to demonstrate the commitment of the Board to providing a safe and healthy working environment for all staff and to meeting its statutory obligations.

Audit Scotland is committed to working in partnership with its staff and their representatives to ensure that safe systems of work are established and maintained. To this end a Health, Safety Wellbeing (HSW) ~~Group Committee has been formed~~exists to promote co-operation between management and employees in the development and implementation of measures to ensure the health, safety and welfare at work of employees and other who may be affected by the work of Audit Scotland. Further details about the HSW ~~group~~ Committee and its terms of reference can be viewed within ishare (<http://ishare/healthsafe/SitePages/Home.aspx>) .

# Whistleblowing Policy

|                                 |                 |
|---------------------------------|-----------------|
| <b>Owned and maintained by:</b> | Human Resources |
| <b>Date Checked/created:</b>    | June 2019       |
| <b>Next review date:</b>        | June 2021       |

## Introduction

1. Audit Scotland encourages an open culture in dealings between its employees and all people with whom we engage. In particular, we recognise that effective and honest communication is essential if concerns about breaches or failures are to be effectively dealt with and the organisation's success ensured.
2. All of us at one time or another have concerns about what is happening at work. Usually these concerns are easily resolved. However, when they are about unlawful conduct, financial malpractice or actions that could damage the reputation of Audit Scotland it can be difficult to know what to do.
3. Audit Scotland has introduced this policy to enable all those who work with or within the organisation to raise their concerns about such malpractice at an early stage and in the right way. We would rather you raised the matter when it is just a concern rather than wait for proof.
4. There may be occasions when, due to individual acts, omissions or failings, it may be necessary to bring certain matters which give cause for serious concern to the attention of Audit Scotland. If you are concerned about an aspect of individual behaviour or Audit Scotland practice, you should raise it. Your concerns may fall under one (or more) of the following categories:
  - A criminal offence has been committed, is being committed or is likely to be committed.
  - A person has failed, is failing or is likely to fail to comply with any legal obligation to which he/she is subject.
  - A miscarriage of justice has occurred, is occurring or is likely to occur.
  - The health and safety of any individual has been, is being or is likely to be endangered.
  - A person has supplied, is supplying or is likely to supply Audit Scotland and / or client information, without appropriate authorisation.
  - The environment has been, is being or is likely to be damaged.

- Information tending to show any matter falling within any of the above has been, is being or is likely to be deliberately concealed.
5. You may be worried about raising such issues or may want to keep the concerns to yourself, perhaps feeling it's none of your business or that it's only a suspicion. You may feel that raising the matter would be disloyal to colleagues, managers or the organisation. You may decide to say something but find you have spoken to the wrong person or raised the issue in the wrong way and are not sure what to do next.
  6. If something is troubling you and you think we should know about it, please follow the section on how to raise a concern internally. However, if you are aggrieved about your personal position, please use the Grievance Policy within the staff handbook in [ishare](#). This policy is primarily for concerns where the interests of others or of the organisation itself are at risk. It should be read in conjunction with our Counter Fraud Policy.

## Our Assurances to you

### Your safety

7. The Board and Management Team are committed to this policy. If you raise a genuine concern under this policy, you will not be at risk of losing your job or suffering any form of retribution as a result. Provided you are acting in the public interest, Audit Scotland are satisfied you had a genuine belief and no personal gain was involved, it does not matter if you are mistaken. Of course, we do not extend this assurance to someone who maliciously raises a matter they know is untrue.
8. If your concern is subsequently shown to be false or inaccurate, employees will be informed of the discrepancy between their report and the facts at hand.

### Your confidence

9. We will not tolerate the harassment or victimisation of anyone raising a genuine concern. However, we recognise that you may nonetheless want to raise a concern in confidence under this policy. If you ask us to protect your identity by keeping your confidence, we will not disclose it without your consent. If the situation arises where we are not able to resolve the concern without revealing your identity (e.g. because your evidence is needed in court), we will discuss with you whether and how we can proceed.
10. Remember if you do not tell us who you are, it is much more difficult for us to look into the matter, protect your position or give you feedback. Accordingly, while we will consider anonymous reports, this policy is not appropriate for concerns raised anonymously.
11. We strive to create a working environment that promotes dignity and respect for all. No form of bullying, harassment or victimisation will be tolerated against any member of staff on the grounds of them raising a concern.
12. If you believe that you are being subjected to a detriment as a result of raising concerns under this policy, you should raise the matter under the staff grievance policy and procedure, as

appropriate. Any staff member who victimises or retaliates against those who have raised concerns under this policy will be subject to disciplinary action.

### **How we will handle the matter**

13. Once you have told us of your concern, we will look to assess what action should be taken. This may involve an internal inquiry or a more formal investigation. We will tell you who is handling the matter, how you can contact them and whether your further assistance may be needed. If you request, we will write to you summarising your concern and how we propose to handle it.
14. Due to the varied nature of these sorts of concerns, which may involve internal investigators and / or the police, it is not possible to lay down precise timescales for such investigations. The investigating officer will ensure that the investigations are undertaken as quickly as possible without affecting the quality and depth of those investigations.
15. When you raise the concern, you may be asked how you think the matter might best be resolved. If you do have any personal interest in the matter, you should tell us at the outset. If your concern falls more properly within the Grievance Policy, we will tell you.
16. While the purpose of this policy is to enable us to investigate possible malpractice and take appropriate steps to deal with it, we will give you as much feedback as we properly can.
17. If requested, we will confirm our response to you in writing. However, please note that we may not be able to tell you the precise action we take where this would infringe a duty of confidence owed by us to someone else.
18. We will keep summary details of each whistleblowing matter raised and investigated to enable annual reporting of disclosures made under this policy.

### **How to raise a concern internally**

19. Step one - If you have a concern about malpractice, we hope you will feel able to raise it first with your manager. This may be done orally or in writing.
20. Step two - If you feel unable to raise the matter with your manager, for whatever reason, please raise the matter with Diane McGiffen, Chief Operating Officer on 0131 625 1608. Please say if you want to raise the matter in confidence so that they can make appropriate arrangements.
21. Step three - If these channels have been followed and you still have concerns, or if you feel that the matter is so serious that you cannot discuss it with any of the above, please contact Heather Logan, Board Member on 07976 631836.

### **Personal and Vicarious Liability**

22. Amendments made to the Public Interest Disclosure Act 1998 which came into force in 2013 included new rules introducing personal and vicarious liability. These changes mean that individuals can face personal liability to whistleblowers, and employers can be “vicariously”

liable for the acts of their staff (irrespective of whether the acts are done with their knowledge or approval).

### **Independent advice**

23. If you are unsure whether to use this procedure or you want independent advice at any stage, you may contact:
- your union (if applicable); or
  - the independent charity Protect (formally known as Public Concern at Work) on 020 3117 2520. Their lawyers can give you free confidential advice at any stage about how to raise a concern about serious malpractice at work. Alternatively, visit their [website](#).

### **External contacts**

24. While we hope this policy gives you the reassurance you need to raise such matters internally, we recognise that there may be circumstances where you can properly report matters to outside bodies, such as regulators or the police. Protect (or, if applicable, your union) will be able to advise you on such an option and on the circumstances in which you may be able to contact an outside body safely.

### **If you are dissatisfied**

25. If you are unhappy with our response, you can go to the other levels and bodies detailed in this policy. While we cannot guarantee we will respond to all matters in the way you might wish, we will try to handle all matters fairly and properly. By using this policy, you will help us achieve this.

Wednesday 18 September 2019 at 10.15am

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

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

## 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 5 June 2019 For approval
  8. Review of action tracker For information
- 

## Business management

9. 2019/20 Q1 Financial performance report For information
  10. 2019/20 Q1 Corporate performance report For information
  11. 2019/20 Q1 Strategic improvement programme update For information
- 

## Strategy and planning

12. Financial devolution and constitutional change update For information
  13. Business continuity planning: EU withdrawal For information
- 

## Governance

14. Annual policy review: Corporate governance policies For approval
    - a) Financial regulations
    - b) Scheme of Delegation
    - c) Staff code of conduct
    - d) Members code of conduct
  15. Annual policy review: Freedom of information and environmental information For approval
  16. Annual policy review: Records management For approval
-

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## Conclusion

18. Any other business

19. Review of meeting

20. Date of next meeting: 27 November 2019

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## Items to be taken in private

21. 2019/20 Spring budget revision

For approval

[Item to be taken in private to support the effective conduct of business, intended for future publication]

22. 2020/21 Budget proposal

For approval

[Item to be taken in private to support the effective conduct of business, intended for future publication]

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

For discussion

[Item to be taken in private to support the effective conduct of business, intended for future publication]

24. New audit appointments update

For discussion

[Item to be taken in private to support effective conduct of business]

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

For approval

[Item to be taken in private to support the effective conduct of business, intended for future publication]

26. Communication and engagement strategy

For approval

[Item to be taken in private to support effective conduct of business, intended for publication]



# Minutes

Wednesday 5 June 2019, 11.30am

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

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## Present:

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

## Apologies:

None

## In attendance:

Stuart Dennis, Corporate Finance Manager  
Martin Walker, Assistant Director, Corporate Performance and Risk  
Antony Clark, Audit Director, Performance Audit and Best Value  
Peter Worsdale, Audit Manager/International Liaison Manager, Performance Audit and Best Value  
Gayle Fitzpatrick, Corporate Governance Manager  
Diane McGiffen, Chief Operating Officer  
Elaine Boyd, Associate Director, Audit Quality and Appointments  
Fiona Daley, Consultant, Audit Quality and Appointments  
John Gilchrist, Manager, Audit Quality and Appointments  
David Blattman, Human Resources and Organisational Development Manager  
Simon Ebbett, Communications Manager  
Bruce Stoddart, Senior Graphic Designer, Communications  
Stuart Dennis, Corporate Finance Manager  
Joy Webber, Senior Executive Assistant

### 1. Welcome and apologies

The Chair welcomed members and attendees to the meeting in public of the Audit Scotland Board, the agenda and papers for which had been published on Audit Scotland's website on Monday 3 June 2019.

### 2. Declarations of interest

There were no declarations of interest.

### 3. Decision on items to be taken in private

The Board agreed the items to be taken in private.

### 4. Chair's report – verbal update

The Chair provided a verbal update on meetings with Caroline Gardner and Diane McGiffen on general business matters and on preparations for the meeting with the Scottish Commission for Public Audit on 19 June 2019 to consider Audit Scotland's Annual report and accounts.

The Board welcomed the update.

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

Caroline Gardner invited the Board to note recent sessions with the Public Audit and Post Legislative Scrutiny committee (PAPLS) on Scottish Income Tax on 6 May 2019, the Social Security Committee on 13 May 2019 together with the forthcoming discussion session on Planning for Outcomes on 6 June 2019.

Caroline invited members to note the planned publication of the Colleges Overview on 13 June 2019 and advised that the last session of PAPLS would take place on 27 June 2019 prior to Summer Recess.

Caroline advised the Board of a meeting with the Welsh National Assembly on 13 June 2019 to discuss their Public Audit (Wales) Act 2013 and the Scottish budget process. Caroline advised that Diane McGiffen, Chief Operating Officer and Mark Taylor, Audit Director, Audit Services would be attending the meeting.

Caroline advised the Board of her appointment to the University of Edinburgh Court and of her forthcoming interview in New York on 10 June 2019 for the IFAC Board, following her nomination by CIPFA.

Caroline invited the Board to note Fiona Kordiak's appointment as Chair of CIPFA Scotland, the Business Support Services team's Committed to Excellence accreditation and advised that the team will be attending the Quality Scotland Awards event on 19 June 2019 in Glasgow.

Following discussion, the Board welcomed the update and congratulated Caroline on her appointment to the University of Edinburgh Court, Fiona Kordiak on her appointment as Chair of CIPFA Scotland and recognised the achievement of colleagues in the Business Support Services team for their accreditation.

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

Graham Sharp invited the Board to note that the Accounts Commission considered its Annual report, Strategy and Engagement Strategy and the draft Annual Audit Quality report at its meeting on 9 May 2019.

Graham advised that the Accounts Commission would consider the Best Value Assurance Report for Midlothian Council and the follow-up Best Value report on Clackmannanshire at its next meeting on 13 June 2019. In addition, the Commission will consider an update report from the Strategic Scrutiny Group and a Briefing on Community Empowerment.

Graham invited members to note that he and Fraser McKinlay, Controller of Audit, had attended the evidence session at the Local Government and Communities Committee on 8 May 2019 which had considered the Local Government in Scotland: Challenges and Performances 2019 overview report.

Graham also advised the Board that interviews for a new deputy chair for the Accounts Commission had been concluded and a recommendation had been made to the Minister for the appointment.

## **7. Review of minutes: Board meeting 22 May 2019**

The Board considered the minutes of the meeting of 1 May 2019, which had been previously circulated. Graham Sharp requested that the wording at item 7 be amended to state that the Accounts Commission was 'content with the overall timeframe' set out in the report.

**Action ASB92: Joy Webber to revise the minute. (June 2019)**

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

The Board noted the updates provided by the action tracker.

Diane McGiffen provided clarification that action ASB89 referred to a report considered at 1 May 2019 and it was recorded as a completed action.

Martin Walker advised that in relation to action ASB90, the additional information on the strategic improvement programme will be shared with members shortly. Diane McGiffen recorded her thanks and appreciation to Heather Logan and Alan Alexander for their time and comments on the project following the Board meeting on 1 May 2019.

## 9. Q4 Financial performance report

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

Stuart Dennis introduced the Q4 Financial performance report, a copy of which had been previously circulated.

Stuart Dennis invited the Board to note the financial performance for the final quarter of 2018/19 to the end of the financial year.

The Chair sought clarification of the form of words in paragraph 7 and Diane McGiffen advised that the wording about Audit Scotland's pay negotiations had been amended to ensure consistency with Audit Scotland's Annual report and accounts.

Graham Sharp referred to the fee income and expenditure of the audit firms for local government in section 2 of the Appendix and requested a breakdown of increased fees for Aberdeen, Edinburgh and Midlothian Councils. Stuart Dennis advised that the increased fees related to complexities in the respective audits and agreed to send the information sought to Graham Sharp.

Alan Alexander noted the costs for IT set out on page 5 of the Appendix and acknowledged the competitive labour market in Edinburgh for IT specialists. Diane McGiffen advised that agency costs had been incurred during a recruitment campaign which had been successfully concluded. Diane McGiffen confirmed that recruitment in the IT market was often challenging and advised that the Digital Services Team had implemented innovative ways of working.

The Board discussed the potential to align the annual leave holiday year with the financial year. Diane McGiffen advised that given the range of work deadlines that the business deals with, there were also disadvantages with other options. Diane McGiffen advised that the PCS union had recently invited discussion about Easter holidays.

The Board noted the report.

**Action ASB93: Stuart Dennis to provide additional fee breakdown to Graham Sharp. (June 2019)**

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

## 10. Q4 Corporate performance report

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the Q4 Corporate performance report, a copy of which had been previously circulated.

Martin invited the Board to note the progress reported in quarter four and highlighted the inclusion of the summary of the 2018/19 overall performance.

Martin highlighted the high level of audit quality, covered in more detail in the annual quality reports, the level of engagement at Parliament and through social media activity and the positive feedback from audited bodies and other key stakeholders. Martin also highlighted that Audit Scotland has been running at establishment with low levels of absence reported and that some areas are feeling resource pressures given the demand for outputs, competing priorities and resourcing challenges.

Heather Logan queried the IT downtime reported in each quarter and whether the instance reported in quarter one was significant given the level of downtime reported was significantly higher. Martin

advised that the downtime reported in quarter one related to a one off incident which had had a significant impact.

Heather Logan advised that she would welcome a refreshed approach to performance reporting together with the Becoming World Class Improvement programme reporting which appears at Item 11. Heather Logan advised that with the performance indicators all green across both reports could better highlight risk in some areas, for example around the Electronic Working Papers and Performance Management Framework projects or the concerns around capacity. She noted that both reports state that the new Performance Management Framework will provide additional analysis of these areas but that these projects had suffered from some slippage and had been rescheduled.

Diane McGiffen welcomed the feedback and advised that the team continue to look for ways to simplify reporting and would present proposals to the Board at a future meeting. Diane also advised the Board that it currently receives the same information as reported to Management Team to ensure openness and transparency and that the cover report seeks to highlight any areas of concerns.

Caroline Gardner advised that the reporting pulled together information on the overall good corporate performance and the performance indicators will be refreshed as part of the next refresh of our Corporate priorities.

Following discussion, the Board welcomed the proposal to refocus the performance reporting, 'raising the bar' or refining some key performance measures and the proposals to consider future reporting.

Alan Alexander requested clarification on the variances between reports planned versus those delivered in 2018/19. Martin Walker advised that the Housing benefit audits are part of a rolling programme and subject to change as risks are identified. In addition, Martin advised that Audit Scotland plan for an estimated number of statutory reports and that more statutory reports had been required in 2018/19 than in any previous year. He advised that this was, in part, indicative of the pressures facing public bodies. Diane McGiffen advised of the challenge this presents to accommodate the additional work required in preparing for evidence sessions at Parliament and the follow up on some reports. Diane advised that this has contributed to the pressure of work on audit teams to accommodate the increased demand.

Alan Alexander asked how Audit Scotland measure impact at national and local level. Martin Walker advised that a range of indicators are used including statistics on the effectiveness of getting the audit messages out in the form of downloads, media coverage and social media metrics. He also advised that impact is measured through follow-up work as part of the annual audit process and specific follow-up work to assess the extent to which recommendations had been accepted and actioned.

Following discussion, the Board welcomed the report.

**Action ASB94: Martin Walker to bring a further report on proposals on the format of future corporate performance reporting. (September 2019)**

## **11. Q4 Becoming world class improvement programme update report**

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the Q4 Becoming world class improvement programme update report, a copy of which had been previously circulated.

The Chair noted the discussion at item 10 had covered this report subject to any specific comments or queries.

Graham Sharp noted the number of Section 22 reports and low level of Section 102 reporting and asked whether Audit Scotland expected the number to increase in light of the current environment. Diane McGiffen advised that a stocktake over the summer will provide early indication of potential increases in volume, with planning to reschedule other work to accommodate and resource additional work if required.

Caroline Gardner welcomed the strong overall performance in the year.

Following discussion, the Board noted the report.

## 12. 2018/19 Annual report on International work

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

Antony Clark, Audit Director, Performance Audit and Best Value, introduced the 2018/19 Annual report on International work, a copy of which had been previously circulated.

The Board welcomed the international activities reported, noting the impact of adopting best practice approaches to audit and reporting, including digital reporting, learning from Canadian and North American agencies and shared learning opportunities with over 70 colleagues being involved throughout the year.

Antony Clark advised that the International Strategy would be refreshed next year and would look at the scope to extend its reach through social media. Diane McGiffen advised the data for social media activity is reported to Management Team on a monthly basis and highlighted the global reach on Twitter.

The Board welcomed the report and suggested some presentational amendments before approving it for publication as part of the suite of annual reporting in support of the 2018/19 Annual Report and Accounts.

**Action ASB95: Anthony Clark to make minor revisions to the annual report on international work prior to publication. (June 2019)**

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

## 13. 2018/19 Annual report on Freedom of information and environmental information requests

*Gayle Fitzpatrick, Corporate Governance Manager, Corporate Services, joined the meeting.*

Gayle Fitzpatrick, Corporate Governance Manager, introduced the 2018/19 Annual report on Freedom of information and environmental information requests, a copy of which had been previously circulated.

Gayle Fitzpatrick invited the Board to note that Audit Scotland's arrangements are working well and confirmed that 38 Freedom of Information (FOI) requests had been received. Gayle invited the Board to note that no requests has been received under Environmental Information (Scotland) Regulations 2004 (EIR).

Caroline Gardner reminded the Board that the Scottish Information Commissioner had commended Audit Scotland's approach to FOI and advised that PAPLS had recently issued a consultation on whether current FOI legislation meets the policy objectives of openness and transparency in the public sector.

The Chair asked whether requests which fell within business as usual were recorded in the statistics and Martin advised that only requests which required a more detailed response or a review by an FOI panel were recorded.

The Board noted the report.

## 14. 2018/19 Annual report on complaints

Gayle Fitzpatrick, Corporate Governance Manager, introduced the 2018/19 Annual report on complaints, a copy of which had been previously circulated.

Gayle Fitzpatrick invited the Board to note the report and take assurance that there are no issues to bring to the Board's attention.

Heather Logan sought clarification on the three complaints rejected as being outwith the complaints handling process and Martin advised these were complaints in relation to audit quality for which there is a different process and are recorded accordingly.

Following discussion, the Board noted the report.

*Gayle Fitzpatrick, Corporate Governance Manager, Corporate Services, left the meeting.*

#### **15. 2018/19 Annual report from the Chair of the Remuneration and Human Resources Committee**

Alan Alexander introduced the 2018/19 Annual report from the Chair of the Remuneration and Human Resources Committee (Remco), a copy of which had been previously circulated.

Alan Alexander invited the Board to note and comment on the work of Remco and future priority areas for 2019/20.

The Board welcomed the report.

#### **16. 2018/19 Annual report from the Chair of the Audit Committee**

Heather Logan introduced the 2018/19 Annual report from the Chair of the Audit Committee, a copy of which had been previously circulated.

Heather Logan invited the Board to consider and approve the 2018/19 Annual report which highlighted the Committee's recommendation 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.

The Board welcomed the report.

#### **17. 2018/19 Governance statement on internal control and certificate of assurance**

Diane McGiffen, Chief Operating Officer, introduced the 2018/19 Governance statement on internal control and certificate of assurance, a copy of which had been previously circulated.

The Chair invited members to note the Governance statement on internal control and certificate of assurance which had been considered at the earlier Audit Committee meeting

The Board welcomed the assurance provided and approved the contents of the report subject to the amendment discussed at the earlier meeting of the Audit Committee and recommended it to the Accountable Officer.

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

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

Elaine Boyd, Associate Director, Audit Quality and Appointments, introduced the Policy on the provision of non-audit services by Audit Scotland's external auditor, a copy of which had been previously circulated.

Elaine Boyd invited the Board to consider and approve the update policy as recommended by the Audit Committee.

The Board considered and approved the updated policy as recommended by the Audit Committee.

*Elaine Boyd, Associate Director and John Gilchrist, Manager, Audit Quality and Appointments, left the meeting.*

## **19. Review of HR policies**

*David Blattman, Human Resources and Organisational Development Manager, joined the meeting.*

David Blattman, Human Resources and Organisational Development Manager, introduced the review of HR policies, copies of which had been previously circulated.

David Blattman invited the Board to note the review of the Counter Fraud, Diversity and Equality, Health, Safety and Wellbeing and Whistleblowing policies and guidance and approve the updated policies.

The Board considered and approved the updated Counter Fraud, Diversity and Equality, Health, Safety and Wellbeing and Whistleblowing policies.

*David Blattman, Human Resources and Organisational Development Manager, left the meeting.*

## **20. Any other business**

There was no further business.

## **21. Review of meeting**

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

## **22. Date of next meeting: 18 September 2019**

The members noted the draft agenda for the next meeting of the Audit Scotland Board scheduled for 18 September 2019 in the offices of Audit Scotland, 102 West Port, Edinburgh.

## **Items taken in private**

## **23. 2018/19 Draft Annual report and accounts**

*Simon Ebbett, Communications Manager, Bruce Stoddart, Senior Graphic Designer and Stuart Dennis, Corporate Finance Manager, joined the meeting.*

Simon Ebbett, Communications Manager and Stuart Dennis Corporate Finance Manager, introduced the 2018/19 Audit Scotland Annual Report and Accounts, a copy of which had been previously circulated.

The Board approved the draft annual report and accounts which had been previously circulated and discussed at the earlier meeting of the Audit Committee and recommended that the Auditor General for Scotland, as Accountable Officer for Audit Scotland, sign the accounts on 11 June 2019.

*Simon Ebbett, Communications Manager, Bruce Stoddart, Senior Graphic Designer and Stuart Dennis, Corporate Finance Manager, left the meeting.*

## **24. 2018/19 Annual report on Quality of public audit in Scotland**

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

Elaine Boyd, Associate Director, Audit Quality and Appointments, introduced the 2018/19 Annual report on Quality of Public Audit in Scotland, a copy of which had been previously circulated.

Elaine invited the Board to consider and approve Audit Scotland's 2018/19 Annual report on Quality of Public audit in Scotland for publication as part of the suite of annual reports.



Alan Alexander sought clarification that all of the annual reports being considered were to be published on the same day and Diane McGiffen confirmed they will be published on Audit Scotland's website at the same time as laying Audit Scotland's Annual report and accounts with the Scottish Commission for Public Audit.

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

*John Gilchrist, Manager, and Owen Smith, Senior Manager left the meeting.*

## **25. Preparations for audit procurement: project update**

*Fiona Daley, Consultant, Audit Quality and Appointments, joined the meeting.*

Elaine Boyd, Associate Director, Audit Quality and Appointments, introduced the report on Preparations for audit procurement: project update, a copy of which had been previously circulated.

Elaine Boyd invited the Board to note the progress reported and Alan Alexander advised of discussions with Elaine Boyd and Fiona Daley ahead of the first meeting of the Steering Group which would take place following today's Board meeting.

Following discussion, the Board welcomed the report.

*Elaine Boyd, Associate Director and Fiona Daley, Consultant, Audit Quality and Appointments left the meeting.*



| REF   | FORUM | Agenda Item No | Item Title                                   | Action Description   | Meeting Date | Due Date   | Responsible   | Assigned to   | Complete/Ongoing | Reported Yes/No | Progress Notes   |
|-------|-------|----------------|--|--|--------------|------------|---------------|---------------|------------------|-----------------|--|
| ASB88 | Board | 9              | Q3 Financial performance report              | Stuart Dennis to liaise with Audit Quality and Appointments to provide a briefing on fee setting as part of the forthcoming procurement strategy. (May 2019) | 18/03/2019   | 31/05/2019 | Stuart Dennis | Stuart Dennis | Ongoing          |                 | This action falls within the procurement strategy for the new audit appointments exercise. Once strategy has been agreed by the project Steering Group, the fees and funding model will be updated. This is likely to be March 2020. |
| ASB90 | Board | 15             | Strategic Improvement programme              | Martin Walker to circulate additional information on the projects.   | 01/05/2019   | 05/06/2019 | Martin Walker | Martin Walker | Complete         | No              | The additional information was emailed to members on 11 July 2019.   |
| ASB91 | Board | 16             | Review of audit market update                | Fiona Kordiak to circulate a copy of the proposed response to the Brydon Review  | 01/05/2019   | 05/06/2019 | Fiona Kordiak | Fiona Kordiak | Complete         | No              | A copy of Audit Scotland's response to the Brydon Review was circulated to members on 5 June 2019 prior to submission on 7 June 2019.  |
| ASB92 | Board | 7              | Review of minutes: Board meeting 22 May 2019 | Joy Webber to revise the minute.   | 05/06/2019   | Jun-19     | Joy Webber    | Joy Webber    | Complete         | No              | The minute of the meeting was revised and published on Audit Scotland's website.   |
| ASB93 | Board | 9              | Q4 Financial performance report              | Stuart Dennis to provide additional fee breakdown to Graham Sharp.   | 05/06/2019   | Jun-19     | Stuart Dennis | Stuart Dennis | Complete         | No              | The additional information was emailed to Graham Sharp on 6 June 2019.   |
| ASB94 | Board | 10             | Q4 Corporate performance report              | Martin Walker to bring a further report on proposals on the format of future corporate performance reporting.  | 05/06/2019   | Sep-19     | Martin Walker | Martin Walker | Complete         | No              | The Q1 performance report in revised format will be considered at today's meeting at agenda item 10.   |
| ASB95 | Board | 12             | 2018/19 Annual report on International work  | Anthony Clark to make minor revisions to the annual report on international work prior to publication.   | 05/06/2019   | Jun-19     | Antony Clark  | Antony Clark  | Complete         | No              | The annual report on international work was updated and published on 14 June 2019.   |

## Purpose

1. This report presents the financial results for the three months to 30 June 2019.

## Background

2. The detailed finance performance report for the three months to 30 June 2019 is provided in Appendix 1 to this paper.
3. The report was discussed by Management Team on Tuesday 13 August 2019.

## Discussion

4. In the three months to 30 June 2019, Audit Scotland's Net Operating Expenditure was £1,233k which was £189k less than budget.
5. In-house income for 2018-19 audits was in total £84k more than budget with a positive volume variance of £40k and a positive price variance of £44k.
6. Fee income earned for 2018-19 audits carried out by external firms net of fees and expenses paid to the firms was £91k better than budget. Income recognition was £93k worse than budget with fees and expenses payable to the external firms being £184k less than budget.
7. Staff costs including agency expenditure was £29k less than budget.
8. Other expenditure £20k worse than budget. The main positive variance was recorded in travel and subsistence (£10k) with the main adverse variances in training (£13k) and printing/office costs (£9k).
9. More detailed variance analysis and explanation is provided in Appendix 1 attached to this report.

## Virement

10. The Net Expenditure budget has been increased from £7,414k to £7,442k, an increase of £28k from the approved operational budget. This increase has been applied following the receipt of Scottish Government correspondence confirming additional funding will be provided to cover the increase in employer contributions for the civil service pension pension scheme.
11. There were no other instances of budget virement in excess of £20k in the three months to 30 June 2019.

## Recommendation

12. The Board is invited to note the financial results for the 3 months to 30 June 2019.

## Headline Results

The summary financial position to 30 June 2019:

| £000                                | Annual Budget  | Actual         | Budget         | Var.       | % Var.       | Prior Year     | Note |
|-------------------------------------|----------------|----------------|----------------|------------|--------------|----------------|------|
| Fee Income - In House               | 7,777          | 2,291          | 2,207          | 84         | 3.8%         | 2,044          | 1    |
| Fee Income - Audit Firms            | 4,673          | 1,419          | 1,512          | (93)       | -6.2%        | 1,637          | 2    |
| Central Charges                     | 5,530          | 1,383          | 1,383          | 0          | 0.0%         | 1,363          |      |
| Rebate                              | 0              | 0              | 0              | 0          | -            | 0              |      |
| Interest                            | 0              | 1              | 0              | 1          | -            | 0              |      |
| Other Income                        | 0              | 4              | 0              | 4          | -            | 0              |      |
| IAS 19 Income                       | 0              | 0              | 0              | 0          | -            | 0              |      |
| <b>TOTAL INCOME</b>                 | <b>17,980</b>  | <b>5,098</b>   | <b>5,102</b>   | <b>(4)</b> | <b>-0.1%</b> | <b>5,044</b>   |      |
| Approved auditors                   | 4,189          | 1,288          | 1,472          | 184        | 12.5%        | 1,497          | 2    |
| Staff salaries and oncosts          | 16,629         | 4,124          | 4,154          | 30         | 0.7%         | 3,845          | 3    |
| Payroll provisions incl. severance  | 0              | 0              | 0              | 0          | -            | 0              |      |
| Agency and secondment costs         | 75             | 20             | 19             | (1)        | -5.3%        | 20             | 3    |
| IAS 19 Pension costs                | 100            | 0              | 0              | 0          | -            | 0              |      |
| Property costs                      | 904            | 202            | 206            | 4          | 1.9%         | 209            |      |
| Travel and subsistence              | 867            | 207            | 217            | 10         | 4.6%         | 227            |      |
| Legal, professional and consultancy | 577            | 87             | 83             | (4)        | -4.8%        | 54             |      |
| Training                            | 481            | 80             | 67             | (13)       | -19.4%       | 49             | 4    |
| Recruitment                         | 130            | 30             | 23             | (7)        | -30.4%       | 27             | 4    |
| Printing and office costs           | 249            | 70             | 61             | (9)        | -14.8%       | 66             | 5    |
| Information technology              | 444            | 107            | 102            | (5)        | -4.9%        | 115            |      |
| Audit                               | 60             | 14             | 15             | 1          | 6.7%         | 16             |      |
| Depreciation                        | 323            | 95             | 95             | 0          | 0.0%         | 94             |      |
| Other costs                         | 394            | 7              | 10             | 3          | 30.0%        | 7              |      |
| <b>EXPENDITURE</b>                  | <b>25,422</b>  | <b>6,331</b>   | <b>6,524</b>   | <b>193</b> | <b>3.0%</b>  | <b>6,226</b>   |      |
| <b>NET OPERATING (EXPENDITURE)</b>  | <b>(7,442)</b> | <b>(1,233)</b> | <b>(1,422)</b> | <b>189</b> | <b>13.3%</b> | <b>(1,182)</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 2019 for the in-house audits:

|                        | 2018/19 Audit Year |            |            | Prior Years | Total      |
|------------------------|--------------------|------------|------------|-------------|------------|
|                        | Volume             |            | Price      |             |            |
|                        | WIP %              | £          | £          | £           | £          |
| Local Government       | +2.34              | +102       | +9         | -           | +111       |
| Health                 | -2.66              | -38        | +17        | -           | -21        |
| FE                     | +6.47              | +3         | -          | -           | +3         |
| Central Government     | +1.29              | +13        | +4         | -           | +17        |
| Non-statutory          | -5.00              | -40        | +14        | -           | -26        |
| <b>Total – June 19</b> | <b>+0.26</b>       | <b>+40</b> | <b>+44</b> | <b>-</b>    | <b>+84</b> |

#### Local Government

Local Government audits are 2.34% ahead of plan leading to a positive volume variance of £102k. The positive price variance of £9k is due to increased fees being applied to local government bodies with the most significant increases being applied to Aberdeenshire Council, Angus Council, Fife Council and Scottish Borders Council.

#### Health

Overall health audits are 2.66% behind plan leading to an adverse volume variance of £38k. The positive price variance is due to an increase in the fee for NHS Tayside.

#### Further Education (FE)

ASG undertake 2 FE audits, Dundee & Angus College and Edinburgh College. Progress on 18/19 audits is currently 6.47% ahead of schedule.

#### Central Government

Central Government chargeable audits are 1.29% ahead of schedule leading to a positive volume variance of £13k. The positive price variance of £4k is attributable to increased fees being applied to audited bodies with the most significant increase being applied to the Scottish Police Authority.

#### Non-statutory

The European Agricultural Fund Account (EAFA) audits are behind schedule by 5.00%. It is projected that the completion percentage will be on target by the end of the next quarter. The accounts assume that audit work we have delivered will be fully recovered even if the UK leaves the EU on 31<sup>st</sup> October 2019 with no deal. If there is no deal it is uncertain if audit work will be required for the new audit year and how this would be funded. For 2019/20 budget purposes the assumption is that there will be a transition period and we will be reimbursed for any new audit year work. The expected income budget for the new audit year work is £131k.

## 2. Fee income and expenditure – Audit Firms

The adverse income variance of £93k is offset with the positive expenditure variance of £184k for approved auditors. Effectively this approach highlights a net favourable variance of £91k 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 2019:

|                        | 2018/19 Audit Year |             |            | Prior Year | Total      |
|------------------------|--------------------|-------------|------------|------------|------------|
|                        | Volume             |             | Price      | Price      |            |
|                        | WIP %              | £           | £          | £          | £          |
| Local Government       | -4.21              | -117        | +21        | -          | -96        |
| Health                 | +0.52              | +6          | +7         | -          | +13        |
| Water                  | -5.00              | -7          | -          | -          | -7         |
| FE                     | -1.66              | -7          | -          | -          | -7         |
| Central Government     | -0.85              | -3          | +7         | -          | +4         |
| <b>Total – June 19</b> | <b>-2.95</b>       | <b>-128</b> | <b>+35</b> | <b>-</b>   | <b>-93</b> |

### Local Government

Audits on the local government sector are 4.21% behind plan leading to an adverse volume variance of £117k. Audit firms have agreed fees above expected fees leading to a price variance of £21k. The most significant increases to fees have been agreed by City of Edinburgh Council and Shetland Islands Council.

### Health

Health audit completion was 0.52% ahead of trajectory based on the prior year actuals generating a positive volume variance of £6k. In addition to the volume variance there is a £7k price variance due to agreed fees being higher than expected for 2 health boards (Highland and NHS 24).

### Water

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

### Further Education (FE)

Progress on 2018/19 audits is 1.66% behind schedule leading to a minor adverse position of £7k.

### Central Government

Central government audits are slightly behind schedule leading to a minor negative volume variance of £3k. The £7k price variance is mainly due to the recognition of agreed fee increases for Crown Estate Scotland and Bord na Gaidhlig.

### 3. Staff & Agency Costs

| Business Group                                      | Annual Budget<br>£000 | Actual<br>£000 | Budget<br>£000 | Variance<br>£000 | Actual Average<br>w.t.e. | Budget<br>w.t.e. | Note |
|---|-----------------------|----------------|----------------|------------------|--------------------------|------------------|------|
| ASG staff costs (incl NFP)                          | 8,860                 | 2,152          | 2,215          | 63               | 151.5                    | 155.4            | a)   |
| ASG agency & secondments                            | 75                    | 12             | 19             | 7                |                          |                  |      |
| PABV (incl Professional Support) staff costs        | 3,887                 | 1,000          | 972            | (28)             | 67.0                     | 65.1             | b)   |
| PABV agency & secondments                           | 0                     | 6              | 0              | (6)              |                          |                  |      |
| CSG (incl Audit Quality & Appointments) staff costs | 2,143                 | 548            | 535            | (13)             | 38.8                     | 36.9             | c)   |
| CSG agency & secondments                            | 0                     | 0              | 0              | 0                |                          |                  |      |
| Business Support staff costs                        | 684                   | 166            | 171            | 5                | 17.9                     | 18.7             | d)   |
| Business Support agency & secondments               | 0                     | 2              | 0              | (2)              |                          |                  |      |
| Governance & Other staff costs                      | 1,155                 | 258            | 261            | 3                | 20.0                     | 20.0             | e)   |
| Governance & Other agency & secondments             | 0                     | 0              | 0              | 0                |                          |                  |      |
| <b>Total staff costs</b>                            | <b>16,729</b>         | <b>4,124</b>   | <b>4,154</b>   | <b>30</b>        | <b>295.2</b>             | <b>296.1</b>     |      |
| <b>Total agency &amp; secondments</b>               | <b>75</b>             | <b>20</b>      | <b>19</b>      | <b>(1)</b>       |                          |                  |      |

- a) In the first 3 months of the year the average number of staff employed in ASG has been 3.9 w.t.e. less than the funded budget. The establishment is based on 158.0 w.t.e. with the application of a 2% vacancy/turnover factor reducing the funded w.t.e. to 155.4. Overall the saving to budget is due to lower than planned staffing levels (£56k) and reduced average actual salary costs per employee (£7k). As in previous years there will be an intake of professional trainees in October. Currently agency costs are on budget, however, it is projected that these costs will increase significantly during the next quarter to meet demand. These additional costs will be met through staff cost savings due to lower than planned w.t.e.
- b) PABV is on average 1.9 w.t.e. above budget for the first quarter (£28k) and this is due to the provision of cover for essential posts (e.g. maternity leave) and the 2% vacancy factor. It is projected that this overspend will decrease as the year progresses with the final position being within the allocated budget. Secondment costs of £6k relate to a Scottish Parliament member of staff seconded to assist with housing benefit audit work. This will be funded by underspend on the consultancy budget.
- c) The average staff resource requirements in CSG has been higher than the funded w.t.e. (£27k) due to the 2% vacancy factor. This overspend is currently funded by the favourable variance on average actual salary costs (£14k), savings within other expenditure budget headings and a contribution from management contingency.
- d) Business support w.t.e. below funded figure (£7k) due to phased start dates of the modern apprenticeships. The actual average salary costs are slightly worse than budget (£2k). Agency expenditure provided cover for the vacant modern apprenticeship posts.
- e) The budget in Governance & Other includes a pay award from the 1<sup>st</sup> April 2019. To date no external confirmation has been received to implement any increase.

### 4. Training and recruitment

Training and recruitment expenditure overspend mainly due to timing issues with some significant spend incurred in the first quarter of the new financial year. The training and recruitment plans have been developed to ensure that the total expenditure will be within the budget allocation and future budget phasing will reflect this.

### 5. Printing and Office costs

The main reason for the overspend is due to mobile telephone costs. A contract has been negotiated with a new supplier effective from August 2019 which will reduce the current monthly costs.

### Management Contingency

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

To date there been an allocation of £22k for essential Digital Services work and the sum of £100k has been ringfenced as potential additional cover for the pay award.

## **Capital Expenditure and Funding**

Capital investment for the three months to June 2019 was £18k, with the total available budget for 2019/20 being £150k.

The £18k year to date expenditure is on IT software for the Cascade HR system.

**Stuart Dennis**

Corporate Finance Manager

4 September 2019

## Purpose

1. This report provides the Board with a review of organisational performance in quarter one (Q1) 2019/20 which highlights issues for management action.

## Background

2. The Quarter four 2018/19 report was considered at meetings of the Management Team and the Board on 14 May and 5 June 2019 respectively. At the meeting of the Board on 5 June 2019, it was agreed that the performance report would be simplified to highlight performance headlines and actions more readily.
3. In line with the Corporate plan the performance information is reported under the two strategic objectives of 'delivering world class audit' and 'being a world class organisation'.
  - Appendix 1 provides a one-page summary of performance for each strategic objective.
  - Appendix 2 provides the detailed performance information.

## Key performance messages

4. Audit Scotland is delivering on all key areas under our objective 'Delivering world class audit'. We are exceeding the number of audits and reports we have set out to deliver in quarter one and achieving this within budget and to high levels of quality.
5. Audit Scotland continues to perform well in our objective of 'Being a world class organisation'. We are operating within budget and our staffing levels remain robust. There are however two areas which have slipped from Green to Amber. Capacity and resource levels in some areas of the business are indicating early signs of pressure echoing performance trends towards the end of 2018/19.
6. The organisation is taking action to address these areas including increased recruitment and the development of more trainees. In addition, an internal review of management and resourcing has provided valuable information on the strategic issues affecting resourcing. The review has highlighted useful insights on the gaps in our systems and processes, and our approach to workforce planning. Proactive discussion has taken place with the PCS Branch Executive to provide assurance that the organisation is committed to implementing practical and long-term improvements.

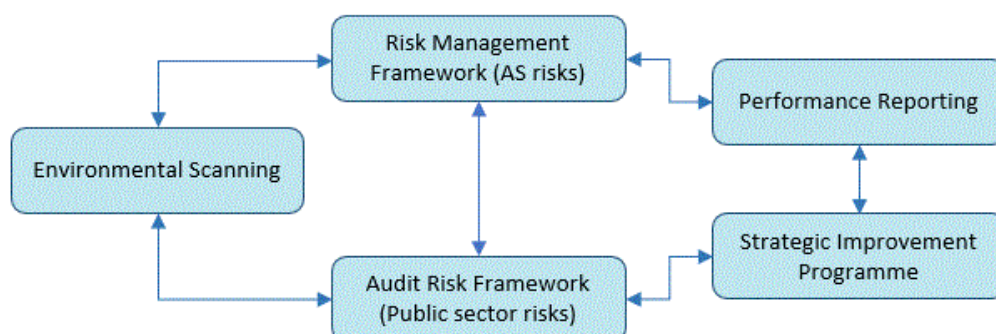
## Development of performance management reporting

7. Organisational performance is scrutinised regularly through a number of linked processes and forums at business group and corporate level as detailed below:
  - business groups have individual monitoring mechanisms and forums in place
  - the Performance and Risk Management Group (PRMG), attended by representatives from across all business groups, meets on a quarterly basis to ensure a clear line of sight through all areas of Audit Scotland business



- Management Team and the Board review quarterly reporting on corporate performance, financial performance and the Strategic Improvement Programme update (this includes development projects such as the new Code of Audit Practice and the Performance Management Framework)
- Management Team and the Audit Committee review quarterly updates on the risk register (this captures strategic risks including those around EU withdrawal, organisational capacity and audit quality). Risks are also considered in more depth via risk interrogations (these have included 'deep dives' into reputation, innovation and focus and scope).

8. The diagram below summarises the links between these management processes.



9. The Q1 report uses a refined format to better express the key performance messages and associated actions.
10. In August the PRMG concluded that while the current suite of indicators for performance reporting are extensive, they could be expanded to better reflect potential issues around organisational delivery and growth. This will include new performance indicators, for example on untaken annual leave, flexi balances and audit versus non audit time. In addition, new measures around ethics will be developed.
11. It is intended that the addition of these new indicators will allow management to have a clearer picture of complex organisational performance issues and assist with strategic planning.

## Recommendations

12. The Board is invited to:

- review the quarter one performance report
- consider whether any additional management attention is required.

## 2019/20: Q1 performance



| Objectives  | 2018/19 |    |    |    | 2019/20 |
|---|---------|----|----|----|---------|
|   | Q1      | Q2 | Q3 | Q4 | Q1      |
| We conduct relevant and timely audits and report in public.                               | G       | G  | G  | G  | G       |
| Audit work is of high quality and we are systematically improving the quality of our work | G       | G  | G  | G  | G       |
| We get our messages out effectively   | G       | G  | G  | G  | G       |
| We systematically deliver impact through our work   | G       | G  | G  | G  | G       |
| We develop new and improved processes, products and services                              | G       | G  | G  | G  | G       |

## Key performance messages

- We delivered 108 audits/reports in quarter one, more than the 83 planned. This included the earlier certification of accounts (12 Central Government and one Local Government) and the earlier delivery of annual audit reports (11 CG and one LG). This is 33 percent above last years' quarter one comparative figure.
- We also published six briefings and guides to key public sector developments on a range of subjects including [planning for outcomes](#), [safeguarding public money](#), [drugs and alcohol](#), [public health reform](#), [Enterprise and Skills review](#) and [General Medical Services contracts](#). These provide public reporting on issues, developments and intelligence gathered through the course of our audit and development work and help to inform the future work programme.
- In quarter one we published two annual reports on audit quality. [The Transparency report 2018](#) and the [Quality of public audit in Scotland annual report 2018/19](#) indicate a high level of audit quality including an increase from 77 per cent last year to 82 per cent of audits being satisfactory or above.
- We responded to all FOIs within the statutory 20-day deadline and 94 per cent of correspondence within the 30-day deadline.
- Overall audit work has delivered 5.95 per cent under budget, however some audits were outwith the budget range.

## Key actions

- Audits outwith budget tolerances are being reviewed to understand the reasons and identify any lessons learned.
- We plan to add additional KPIs covering ethical standards. These will include the percentage of fit and proper forms completed and the percentage of staff subject to Disclosure Scotland certification.

| Objectives   | 2018/19 |    |    |    | 2019/20 |
|--|---------|----|----|----|---------|
|  | Q1      | Q2 | Q3 | Q4 | Q1      |
| We manage our resources effectively  | G       | G  | G  | G  | A       |
| We maximise our efficiency   | G       | G  | G  | G  | A       |
| We manage information and intelligence effectively (internal)                    | Y       | Y  | G  | G  | G       |
| We empower and support our people to be engaged, highly skilled and perform well | G       | G  | G  | G  | G       |

### Key performance messages:

- Our net operating cost was 13 per cent under budget and staff levels were 97.8 per cent of establishment.
- We are managing internal information and intelligence well in quarter one. Our digital systems 'up time' was over 99 percent. We had three minor data incidents (none of which required reporting to the Information Commissioners Office)
- We received three Internal Audit reports during the quarter that contained a total of two low category recommendations.
- Our Business Support Services Team attained the first level European Foundation for Quality Management (EFQM) committed to excellence.
- Despite being at establishment, sustaining a low absence rate and positive Best Company engagement results we are aware of continued pressures on some colleagues and limited 'spare capacity' to respond to increasing demands, the increasingly complex and rapidly changing operating environment and an ambitious improvement agenda.
- The RAG status for the 'we manage our resources effectively and maximise efficiency' has changed from green (on target/no need for additional management action) to amber (progressing and additional management action planned) as a number of KPIs point to the need for further action.
- There were several small changes arising in quarter one which in and of themselves do not indicate a significant change in performance but point to an underlying issue. Both absence and staff turnover indicators are performing well but we note there is a slight increase in both compared to previous year's performance. There were 30 starters in quarter one including new starts, summer placements and 22 temporary auditors (compared to six last year).

### Key actions

- The 2019/20 Corporate Plan Update highlights wellbeing, resourcing and learning and development as key areas of focus for 2019/20. Audit Directors are reviewing the capacity and resource pressures in terms of the volume and nature of outputs, audit methodologies and our improvement agenda, with a focus on prioritisation and streamlining. More detail on this is provided in the Strategic Improvement Programme update report (item 11 on today's agenda). Management Team will consider an update report medium/long term resourcing options in November 2019
- Issues will be monitored, and developments included in future performance reports. The additional flexi balance/annual leave KPIs will be introduced when the new HR system goes live in September 2019.

## Q1 2019/20



**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        |    |    |    |
| Are audits delivered on time?        | G       | G  | G  | G  | G        |    |    |    |
| Are audits delivered on budget?      | G       | G  | G  | G  | G        |    |    |    |

### Key messages

We produced 30 percent more outputs in Q1 compared to last year. We planned 83 audit/reports in Q1 and delivered 108. The additional 25 reports published in Q1 were 12 Central Government (CG) and one Local Government (LG) Accounts certified and 11 CG and one LG Annual Audit reports produced.

We have published all Annual Audit Plans and all NHS annual audit certificates and reports.

We have published 23 CG annual audit outputs and two LG ahead of schedule.

The Auditor General has requested a range of statutory reports on central government and health bodies. Reports will be produced and laid before Parliament from Autumn through to the end of the calendar year. The number and timing of some of reports in the schedule below will change once the number of statutory reports are confirmed.

Audits expenditure is 5.95 per cent below budget.

### Actions

We are aware of resourcing pressure on some audit teams and have put in place resourcing solutions to support the increased volume of statutory reporting in 2019. We are also liaising with PAPLS to agree a schedule of statutory and performance report up to early 2020.

To reduce the number of reports submitted after internal deadlines we have tightened up administrative process for receiving and recording AAPs, AACs and AARs. The delay in submitting some AAPs were due to waiting until after the audited bodies audit committee had considered the plans (four cases) and a delay in agreeing plan with audited body (two cases).

### Issues/risks

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

- Increasing number of Statutory reports may impact on our ability to deliver/ publish to schedule.
- Disruption due to EU withdrawal/ general election.
- Increase in staff absence.
- Not running to WTE establishment.

**Audit/report schedule 2019/20.** The highlighted text shows additional outputs in Q1 and notes that the total number of planned outputs may increase once the number of statutory audits are known.

|   | Q1  | Q2   | Q3  | Q4  |
|---|---|--|---|---|
| Annual Audit Plans – Audit Scotland (123)   | FE - 2✓   |  |   | LG 66, NHS 10, CG 45  |
| Annual Audit Plans – Firms (99)             | FE -19✓   |  |   | G 39, NHS 13, CG 28   |
| Accounts certified – Audit Scotland (123)   | NHS - 10✓<br>CG - 9✓  | LG - 66  | CG - 45   | FE - 2  |
| Accounts certified– Firms (99)              | NHS - 13✓<br>CG – 3✓<br>LG - 1✓   | LG - 39  | CG - 28   | FE - 19   |
| Annual Audit Reports – Audit Scotland (123) | NHS - 10✓<br>CG – 8✓  | LG - 66  | CG - 45   | FE - 2  |
| Annual Audit Reports – Firms (99)           | NHS - 13✓<br>CG – 3✓<br>LG - 1✓   | LG - 39  | CG - 28   | FE - 19   |
| Performance Audit (7)                       | <ul style="list-style-type: none"> <li>•Social security✓</li> <li>•Enabling digital government✓</li> </ul>  | <ul style="list-style-type: none"> <li>•Revenue financing of assets: The Non-profit distributing (NPD) and Hub models</li> <li>•NHS workforce planning 2: primary care clinical workforce</li> <li>•Finances of Scottish universities</li> </ul> | <ul style="list-style-type: none"> <li>•Scotland's City Region and Growth Deals</li> </ul>  | <ul style="list-style-type: none"> <li>•Early learning and childcare: follow up</li> </ul>  |
| Best Value Assurance Report (7)             | <ul style="list-style-type: none"> <li>•Stirling Council✓</li> <li>•North Lanarkshire ✓</li> <li>•Clackmannanshire Council: follow-up✓</li> </ul>                                       | <ul style="list-style-type: none"> <li>•Midlothian Council</li> <li>•Perth and Kinross Council</li> </ul>  | <ul style="list-style-type: none"> <li>•Scottish Borders Council</li> <li>•Highland Council</li> </ul>  |   |
| Overview Report (3)                         | <ul style="list-style-type: none"> <li>•Scotland's colleges 2019 ✓</li> </ul>   |  | <ul style="list-style-type: none"> <li>•NHS in Scotland 2019</li> <li>•Local government in Scotland: Financial overview</li> </ul>                                    |   |
| Statutory (TBC)                             | <ul style="list-style-type: none"> <li>•Scottish Public Pensions Agency✓</li> </ul>   | <ul style="list-style-type: none"> <li>•Central government</li> </ul>  | <ul style="list-style-type: none"> <li>•Health – number to be agreed</li> <li>•Central government</li> </ul>  |   |
| Other (23)                                  | <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> </ul> | <ul style="list-style-type: none"> <li>•Impact - NHS workforce planning</li> <li>•Impact - Transport Scotland's ferry services</li> </ul>  | <ul style="list-style-type: none"> <li>•Briefing - Operation of the fiscal framework</li> <li>•Equal Pay Impact Report</li> <li>•Briefing - Cyber Security</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> </ul> |

|               |  |  |  |                          |
|---------------|--|--|--|--------------------------|
|               | <ul style="list-style-type: none"> <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 - Self-directed support: 2017 progress report</li> <li>•Impact - Equal pay in Scottish councils</li> <li>•Briefing - Student Loans briefing</li> <li>•Principles for community empowerment</li> <li>•National Scrutiny plan for local government</li> </ul> |  | •EU withdrawal: briefing |
| Planned (707) | 83   |  |  |                          |
| Published     | 108  |  |  |                          |

#### Relevant audit:

We also published six briefings and guides to key public sector developments on a range of subjects including [planning for outcomes](#), [safeguarding public money](#), [drugs and alcohol](#), [public health reform](#), [Enterprise and Skills review](#) and [General Medical Services contracts](#). These provide public reporting on issues, developments and intelligence gathered through the course of our audit and development work and help to inform the future work programme.

#### On time

All reports scheduled for Q1 were delivered and one Annual Audit Plan (AAP) was delivered late:

- NHS Annual Audit Reports – all 10 Audit Scotland and 13 Firms NHS Annual Audit Reports (AARs) were delivered on time in June 2019
- One CG AAP was delivered later than the planning deadline, this was the Scottish Fiscal Commission (SFC) which published on 5 April 2019 (deadline of 28 February). This was because the AAR could not be agreed until it had been formally presented to the SFC's Audit and Risk Committee.
- Best Value– the Stirling Council BVAR report was scheduled for completion in April 2019, the report was published on 25 April 2019. This was the only BVAR output scheduled for Q1.
- CG Annual Audit Reports (ASG) are due in Q3 by 31 October 2019, nine were delivered Q1.
- [Transparency Report 2018](#) – the transparency report was published on 14 June 2019. The report includes the quality monitoring results of audits undertaken by Audit Services Group (ASG) and the Performance Audit and Best Value (PABV). It covers all aspects of our audit work in 2018 and the work we did to support audit quality during the year. The report summarises our audit quality arrangements and our performance in delivering audits in 2018 in accordance with the Code.

| On time in Q1 (YTD)             | No. delivered | % delivered | On time | Late | % on time | Comment  |
|---------------------------------|---------------|-------------|---------|------|-----------|--|
| Annual Audit Plans – AS (123)   | 123           | 100%        | 107     | 16   | 87%       | All annual audit plans (AAPs) due to be published in Q1 were published on time<br>The 13% (16) not on time were from Q4. Ten were with the audited body on time but were late in being forwarded to Audit Scotland. This administrative process will be tightened up. In six cases, the delay was due to waiting until after the audited bodies audit committee had considered the plans (four cases) or a delay in agreeing plan with audited body (two cases). |
| Annual Audit Plans – Firms (99) | 99            | 100%        | 86      | 13   | 87%       | One AAP was late due to an Audit Committee date. The 12 AAPs not on time in Q4 were submitted to AQA later than scheduled.   |

|   |            |            |            |           |            |  |
|---|------------|------------|------------|-----------|------------|--|
| Accounts certified – Audit Scotland (123)   | 19         | 15%        | 19         | 0         | 100%       | 10 NHS certified<br>9 CG certified                                     |
| Accounts certified – Firms (99)             | 17         | 17%        | 17         | 0         | 100%       | 13 NHS certified<br>3 CG Accounts certified<br>1 LG Accounts certified |
| Annual Audit Reports – Audit Scotland (123) | 18         | 15%        | 18         | 0         | 100%       | 10 NHS AAR<br>8 CG AAR   |
| Annual Audit Reports – Firms (99)           | 17         | 17%        | 17         | 0         | 100%       | 13 NHS AAR<br>3 CG AAR<br>1 LG AAR                                     |
| Performance Audit (8)                       | 2          | 25%        | 2          | 0         | 100%       |  |
| Best Value Assurance Report (7)             | 3          | 43%        | 3          | 0         | 100%       |  |
| Overview Report (4)                         | 2          | 50%        | 2          | 0         | 100%       |  |
| Statutory (TBC)                             | 1          | 13%        | 1          | 0         | 100%       |  |
| Other (23)                                  | 9          | 35%        | 8          | 0         | 100%       | 1 HB annual report   |
| <b>Total</b>                                | <b>310</b> | <b>43%</b> | <b>281</b> | <b>29</b> | <b>91%</b> |  |

**On budget:** In Q1 the expenditure on audit is 5.95% under budget and outwith our 5 percent budget tolerance.

|              | Budget           | Actual           | £ Variance      | % Variance  |
|--------------|------------------|------------------|-----------------|-------------|
| ASG          | 7,072,632        | 6,663,520        | -409,112        | 5.79        |
| PABV         | 818,428          | 758,415          | -60,013         | 7.33%       |
| <b>Total</b> | <b>7,891,060</b> | <b>7,421,935</b> | <b>-469,125</b> | <b>5.95</b> |

Audits completed during quarter 1 have been completed 5.95% under budget. Within this there were audits with notable variances from the agreed budget:

- Enabling digital government performance audit was 23% over budget. This is being discussed with the team to see if any lessons can be learnt.
- Protecting public money: How Councils Work was 36% under budget. Less input time required for fresh audit work due to greater availability of information from annual audit and other sources and the report drafting proving more straightforward than anticipated.
- The following ASG NHS audit were underspent in terms of input days: NHS Lanarkshire (38 days), NHS Borders (42 days), NHS National Services Scotland (25 days) and Education Scotland (20 days).

**Forward look:**

- Sector leads met with the Auditor General in June to confirm the statutory reports to be produced in the central government sector.
- The AGS met health sector leads in July to discuss potential health statutory reporting.



| 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       |    |    |    |
| Are we improving the quality of our work?     | G       | G  | G  | G  | G       |    |    |    |

### Key messages

Assurance on Quality was informed by two annual quality reports, published in Q1, The [Transparency report 2018](#) and the [Quality of public audit in Scotland](#) annual report 2018/19. Both reports indicate a high level of audit quality including an increase from 77 per cent last year to 82 per cent of audits being satisfactory or above.

### Action

AQA monitors progress against areas for improvement. A common area for improvement in the last two years has been the need for better documentation of audit evidence. In 2018/19 further areas for improvement were identified in the use of analytical procedures the application of sampling methodology. We produced a detailed action plan which includes a range of immediate improvement actions. In the longer-term, we will review our approach to financial audits, including our sampling methodology and our approach to digitally-enabled auditing.

In PABV, all new performance audits commencing from 1 April 2019 are adopting the newly revised approach to the AMF that covers both the planning and evidence stages of a Performance Audit.

We have improved our ethical arrangements by rolling out Disclosure Scotland certification to all staff. Previously only Audit Services and certain other staff were required to complete this process. We plan to add two new KPIs to improve reporting in this area:

- Percentage of fit and proper forms completed.
- Percentage of staff subject to Disclosure Scotland.

We will develop data collection for these KPIs for presentation in future reports.

### Quality assurance and improvement

We published two quality reports in Q1:

- **The transparency report 2018** includes the quality monitoring results of audits undertaken by our Audit Services Group and Performance Audit and Best Value team.
  - Of the 13 internal quality reviews, ten were classed as 'good' or 'limited improvements required' and three as 'improvements required'. The seven external reviews show one 'limited improvements required' and six 'improvements required'. We have addressed key points and further action is in progress in our commitment to continuous improvement in audit quality.
- The **Quality of public audit in Scotland annual report 2018/19**
  - Independent external reviews of audit quality carried out by The Institute of Chartered Accountants of Scotland (ICAS) show evidence of compliance with expected standards and did not identify any concerns with audit opinions.
  - 55 per cent of financial audit files reviewed by ICAS over the last two years were graded as limited improvement required, the remaining reviews were graded as improvement required.

**Technical guidance** notes published in Q1 included:

- Audit of 2018/19 annual accounts (local government), and 2018/19 independent auditor's reports (local government).
- General Grant claims, Housing Benefit certification and Non-Domestic Rates.
- Quarterly technical bulletin.



- 3 technical updates on financial statements and the National Fraud Initiative.
- Annual audit report, ISA 580 and TRAM 2 agenda templates have been issued to assist auditors in reporting outcomes from the annual audit across all sectors.
- A good practice note has been published on colleges' governance statements.
- Revised Evidence Section of AMF was approved by the Project Board.

We delivered 6 technical training workshops in Q1 (housing benefit subsidy certification, auditing liabilities and the performance report).

Four audit reports (two performance audit and two s22 statutory reports) were peer reviewed by our fellow UK audit agencies. The feedback from these reviews was considered by PABV Leadership Team during Q1, with the suggested opportunities for improvement being explored by Professional Support.

All new performance audits commencing from 1 April 2019 are adopting the newly revised AMF that covers both the planning and evidence stages of a Performance Audit. Professional support are working directly with the six audit teams adopting the new approach, providing regular support and mentoring as required.

**Forward look:**

- A peer review framework for Performance Audit reports has been agreed between Audit Scotland, Northern Ireland Audit Office, Wales Audit Office, and Irish Audit Office. Each agency will participate in reviewing a sample of each other's audit reports. External peer review forms an important component of the quality assurance process in performance audit work.

| 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       |    |    |    |

## Key messages

In Q1 we engaged regularly with Parliament and the Accounts Commission, responded to seven consultations, received 36 new correspondence concerns and responded to five Freedom of Information requests.

There were significant downloads of Audit Scotland reports in Q1, somewhat surprisingly some were of reports published up to eight years ago including:

- The Justice Overview from 2011 (3,000+ downloads)
- 2016 Social Work report (2400+ downloads)
- 2012 Health Inequalities report. (2400+ downloads)

There is no obvious reason as to why these reports were so popular in Q1. Of the more recent reports, the 2018 Health and Social Care report and 2018 NHS Overview report received over 2,000 downloads.

## Engagement

We attended:

- 14 Parliamentary engagements including; Five - Health and Sport, three - Local Government and Communities, one each for Culture Tourism Europe and External Relations, Economy, Jobs and Fair Work, Scottish Commission for Public Audit, Social Security and two others.
- Members of the Scottish Parliament's Local Government and Communities Committee heard evidence from the Accounts Commission Chair and audit team members on the Local government in Scotland: Challenges and performance 2019
- Six meetings of the Account Commission and it's committees.
- Four external working group meetings to ensure Audit Scotland is engaging with relevant standard setters as they prepare and review relevant codes, manuals, standards and guidance.

We responded to seven **consultations**:

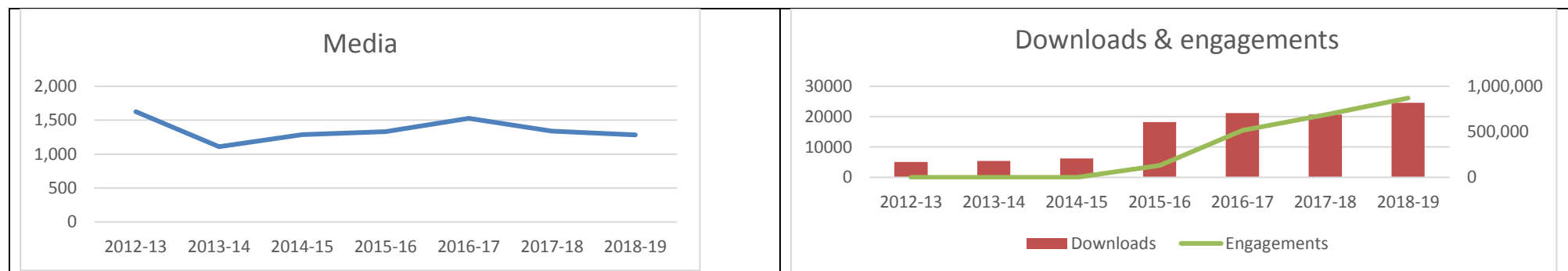
- Informing the work of your National Human Rights Institution.
- Freedom of Information Act 2002.
- The quality and effectiveness of audit - Brydon review.
- Devolved Taxes: Policy Framework.
- NAO Code Consultation.
- Health and Sport Committee consultation on the proposals for new Independent National Whistleblowing Officer role.
- Scottish National Investment Bank Bill.

Our communication figures across all three categories are down on last year (Q1 18/19 -Media 477, Downloads 215,008 and engagements 7,286). The media download and engagement trend data shows the fluctuation, over time, whilst media levels remain consistent over the years, both downloads and engagements are continuing to rise. It is difficult to compare one quarter with another, and we will continue to monitor the communication figures.

Q1 our communication figures were:

|              | Q1      | Q2 | Q3 | Q4 | YTD | 18/19   |
|--------------|---------|----|----|----|-----|---------|
| Media        | 304     |    |    |    |     | 1,283   |
| Downloads    | 123,448 |    |    |    |     | 817,436 |
| Engagements* | 5,881   |    |    |    |     | 26,118  |

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



## Media

The top three published reports by media coverage were the [Colleges Overview](#), [SPPA update](#); [Drugs & Alcohol update](#)

- In April we published and promoted the Accounts Commission publication, *How Councils Work*, despite it being primarily aimed at councillors and officers. This was due to anticipated levels of media and public interest in the report. A similar approach was taken for Audit Scotland's *Drug and Alcohol update* report. Both reports generated keen interest.
- External issues keeping Audit Scotland's name in the press included the management of Cairngorm Mountain, a Public Audit and Post-legislative committee report on the management of NHS Tayside and high severance payments to senior public sector staff.
- Although the ground covered in the Colleges Overview report was similar to 2018, there continues to be a high level of media interest in this area. It was the most heavily-covered report in this quarter. The challenges are getting tougher for colleges, giving the audit findings a strong news line. Similarly, the SPPA update report laid out an ICT project that had gone badly wrong, and the levels of media coverage reflected that.
- Two major performance audits – on digital government and social security – had more balanced stories to tell but lacked the same news values of the other AGS reports. Both produced national coverage but, by their nature, there wasn't such a straightforward story to tell.
- The BVAR reports generated a small amount of local coverage, consistent with historical levels of BVAR media coverage.

## Downloads

- Across the quarter, the National Fraud privacy notice accounted for around 10,000 downloads. The Justice Overview from 2011 also proved popular with around 3,000 downloads.
- Other reports continuing to prove popular included the 2016 Social Work report and 2012 Health Inequalities report.
- Of the more recent reports, the 2018 Health and Social Care report and 2018 NHS Overview report received over 2,000 downloads.

## Social media activity

- This quarter reinforced that 'fresh content is king' – more reports in May and June allowed the communications team to produce more engaging content.
- Video and audio content – this continues to be the most popular on Twitter, an audiogram on our social security report was one of the highest performing tweets in Q1.
- Facebook content worked well around the 'Hairy Haggis marathon relay' fundraising for our corporate charity, Scottish Association for Mental Health. This is likely because a lot of staff follow us, were interested to see colleagues taking part and were receptive to the emotional/positive nature of the post. Posts related to our reports had a much more limited reception, reinforcing the primacy of Twitter as our top social media engagement tool.
- This quarter was also a reminder that there is an ongoing appetite for our WordPress blogs. In June, when three blogs were produced, there were nearly twice as many reads as in May. Two were from the Audit General and touched on current talking points in the public sector sphere. It should be noted that traffic to these blogs is still largely coming from Google searches, although a significant amount of traffic also comes through from Twitter.

## Engagement with the profession

Professional Support has attended four 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.

## Correspondence

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

| New correspondence cases                 | Q1  | Q2 | Q3 | Q4 | YTD | 18/19 |
|--|-----|----|----|----|-----|-------|
| Number of cases                          | 36  |    |    |    |     | 99    |
| Acknowledgement within five working days | 100 |    |    |    |     | 99    |
| Final response within 30 working days    | 94  |    |    |    |     | 98    |

- Figures above are for new and reopened cases.
- Two final responses missed the deadline; one case raised multiple issues which required liaising with the auditor at a very busy time in the annual audit. The other was delayed until a decision about the scope of planned performance audit work had been made.
- In addition, we had 17 audit enquiries (compared to 25, Q1 18/19) – 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 in Q1. All FOIs were answered with the 20 day deadline (three were answered within four working days).

**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       |    |    |    |
| Are our recommendations leading to improvements?   | G       | G  | G  | G  | G       |    |    |    |
| Are we offering insight and foresight and making information and intelligence available to others? | Y       | G  | G  | G  | G       |    |    |    |

## Performance

### Examples of where our work has made a positive impact include:

Central Gov: In our 2017/18 our AAR recommended that the client develop a framework that clearly outlines its role in financial interventions in private companies. In June 2019, the body reported to the Audit and Assurance Committee that guidance had been produced and is now ready for inclusion in the Scottish Public Finance Manual.

Central Gov: Through annual audit reports, s22s and Scotland Acts reports we highlighted the need for the Scottish Government to finalise the internal policies and principles within which it will manage its borrowing powers and reserves. In Spring 2019, the Scottish Government developed principles and policies for capital borrowing powers and published these in the Medium-Term Financial Strategy in May 2019.

Central Gov: Following criticism about the lack of openness and transparency we engaged with the body in question. It now holds all Board and committee meetings in public with items only held in private with a clear justification.

Central Gov: In 2017/18 we reported that the Internal Audit did not comply with significant aspects of Public Sector Internal Auditing Standards (PSIAS) and made recommendations for improvement. In 2018/19, as a result of our work and recommendations, clear improvements have been made to better reflect the requirements of PSIAS.

Central Gov: Our 2017/18 annual audit report highlighted shortcomings in the financial due diligence assessments of suppliers during the lifespan of contracts. We recommended that the body review and confirm that the level and selection of contracts for due diligence assessments during the lifespan of the contract is appropriate to manage this risk. The Contract and Supplier Management team are now developing a module-based training programme which will be made available to all staff during 2019-20.

LG Sector: Throughout 2018/19 the Chief Executive referenced our reports in discussions about the key risks (financial sustainability, Educational attainment, transformation) facing the council. In our 2017/18 Annual Audit report we recommended cross-party working and the administration took this recommendation on board and used it to successfully deliver the 2019/20 budget.

LG Sector: Our 2017/18 AAR highlighted that the unaudited annual accounts were of poor quality and did not comply with the good practice note issued by Audit Scotland's Professional Support Team in early 2018. An initial review of the 2018/19 unaudited accounts confirmed that our recommendation has been implemented and there has been a significant improvement in the content and format of the accounts.

NHS: We worked with officers to support significant improvements in the quality of the performance report section within annual report and accounts. This resulted in performance report being revised and the Chief Executive providing a more effective overview of performance and the circumstances in which the board operated during the year. Further improvements are planned for the performance report in 2019/20, including earlier drafting.

NHS: Our 2018/19 Annual Audit Report emphasised the importance of the SPFM accountable officer duty to ensure that arrangements are in place to secure best value. The NHS body agreed to undertake a formal review of best value in 2019/20.

**Insight and foresight**

Two BVAR reports published in Q1 contained eighteen recommendations including:

- Improvement plans arising from self-evaluation exercises should include measurable actions and clear deadlines.
- The council and its partners should develop locality plans for the 16 planning priority areas.
- The council needs to approve the three outstanding locality action plans without delay, to comply with the requirements of the Community Empowerment (Scotland) Act 2015.
- The council needs to improve its public performance reporting, to show a summary of the council's performance against the business plan objectives.

We responded to seven consultations and the Director of PABV attend the "Developing Scotland's telecoms infrastructure: investment, regulation and meeting future needs conference" to talk about our findings of the Superfast Broadband: further update report (published in Q2 2018/19).

As part of our ongoing engagement with a NHS Audit and Risk Committee, the NHS Overview team has been invited to present the report findings around improvement and learning from best practice.

**Feedback received:**

Positive feedback was received about for one council on the team's professionalism, how they engaged and worked with the council.

| 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       |    |    |    |
| Are products and study programmes suitable and appropriate for emerging issues? | G       | G  | G  | G  | G       |    |    |    |

**Key messages:**

The Business Support Services team attained the first level of recognition offered by the European Foundation for Quality Management (EFQM) – Committed to Excellence.

In Q1 we delivered a number of briefings and guidance and introduced a new process of triaging technical queries to ensure a consistent response.

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

The Q1 Strategic Improvement Programme update report, also on the agenda for today's meeting provides more detailed information on a broad range of improvement work under way. This includes:

- Code of audit practice and appointments - Steering group and project teams in place (Code, Procurement, Tendering), detailed project plans in development.
- Audit approach - progress on wide range of areas including; risk assessment, sampling and substantive analytical procedures.
- BV audit of local government and IJBs - engagement with Accounts Commission's BV working group on development priorities.
- Initiation of the Electronic Working Papers system project and progress on digital auditing.
- Resourcing - numerous short and long term actions focussed on addressing capacity pressures.
- Digitally enabled projects - upgraded Finance system, new HR and Time Recording systems being implemented.

We published briefings and guides (shown in the schedule on pages 2/3) to key public sector developments. These enable public reporting of issues, developments and intelligence gathered through the course of our audit and development work and inform the future work programme. We are also developing a new process for approving briefings.

Professional Support introduced an IT system to record technical queries and the responses sent to auditors. This will improve management information about technical queries and allow the system to be data mined for trends.

We have developed a one-year training and development programme for all new starts to PABV.

We have issued new improved Annual Audit Report templates for use in the 2018/19 audits.

Other improved processes, products and services include:

- updates for ISA's including templates and TRAM2 agendas
- Technical Mapping exercise 2018/19 has been completed for all sectors and issued to auditors.
- Data Analytics has been added to the 2019/20 Audit Guide to advise auditors of the use of data analytics within their audits.

| 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       |    |    |    |
| Are we maximising efficiency?             | G       | G  | G  | G  | A       |    |    |    |

**Key messages**

The RAG for this objective has changed from green (On target/no need for additional management action) to amber (Progressing and additional management action planned) because a number of KPIs, in this objective, are outwith targets and, taken with a number of other indicators, point to the need for action.

In the three months to June 2019 we are operating at 97.8 per cent of establishment and are currently under budget and across a range of budget headings.

The legal, professional and consultancy (LPC) spend is both higher than Q1 last year and above budget. This is in part due to the use of consultancy in an audit in Q1 this year and not last year, rather than a significant increase in expenditure.

Audit Scotland plans to use temporary auditors at certain periods of the year to help support the delivery of final audits. In Q1 there were 30 starters including new starts, temporary auditors and summer placements. There were 22 temporary auditors compared to six last year.

**Action:**

A review of audit resourcing arrangements is under way by Audit directors from PABV and ASG and we will continue to monitor and report on the LPC budget.

**Resource management**

The favourable net operating (expenditure) to June 2019 is mainly due to the recognition of higher than planned in-house income and the net position in respect of audit firm's income and expenditure. As sector audits near completion the favourable net position in respect of audit firms is forecast to decrease. For in-house audits costs are projected to increase to meet resourcing pressures which will be funded by increased fee income.

|          | Q1      | Q2 | Q3 | Q4 | 18/19   |
|----------|---------|----|----|----|---------|
| Actual   | (1,233) |    |    |    | (9,827) |
| Budget   | (1,422) |    |    |    | (9,891) |
| Variance | 13.3%   |    |    |    | 0.6%    |

**Staff** - The average number of staff in the quarter was 97.8% of the establishment.

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



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

|                            | Annual Budget<br>£000 | Actual<br>YTD | Budget YTD | Variance | Actual Average<br>WTE | Budget<br>WTE |
|----------------------------|-----------------------|---------------|------------|----------|-----------------------|---------------|
| Total Staff costs          | 16,729                | 4,124         | 4,154      | 30       | 295.2                 | 296.1         |
| Total agency & secondments | 75                    | 20            | 19         | (1)      |                       |               |

**Legal, professional and consultancy** spend is both higher than Q1 last year and slightly above budget. This is in part due to the use of consultancy in an audit in Q1 this year and not last year, rather than a significant increase in expenditure.

|                  | Q1 | Q2 | Q3 | Q4 |
|------------------|----|----|----|----|
| Actual           | 87 |    |    |    |
| Budget           | 83 |    |    |    |
| Prior year spend | 54 |    |    |    |

**Estate** - Estate costs in the three months to June 2019 are

|                  | Q1  | Q2 | Q3 | Q4  |
|------------------|-----|----|----|-----|
| Actual           | 202 |    |    | 938 |
| Budget           | 206 |    |    | 930 |
| Prior year spend | 209 |    |    |     |

**Costs of travel** - Travel costs in the three months to June 2019 are

|                  | Q1  | Q2 | Q3 | Q4  |
|------------------|-----|----|----|-----|
| Actual           | 207 |    |    | 866 |
| Budget           | 217 |    |    | 922 |
| Prior year spend | 227 |    |    |     |

**Capital Expenditure and Funding** – Capital investment in the three months to June 2019 is £18k year to date expenditure is on IT software for the HR system. The budget for 2019/20 being £150k.

**IT network up time**

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

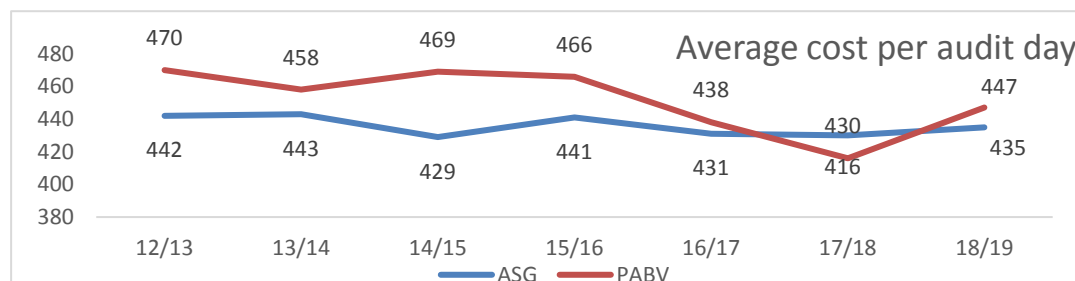
The majority of the downtime this quarter was due to two major outages, an internet outage affecting all staff for over an hour which meant that services such as Skype and e-HR were unavailable for most of a day. There were minor issues with the Glasgow connection and ishare and MKI availability which 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%)

- 98.42% (2485/2525) of incidents were accepted within the response time SLA.
- 91.84% (2319/2525) of requests were closed within the fix time SLA.
- An average of 8.4 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) and to programme development including includes the production of internal and external briefings and other outputs (including those reporting through PRMG as published outputs), audit appraisal, policy analysis, stakeholder engagement, correspondence. Non audit time includes time off, corporate working and learning and development.

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



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

**Forward look:**

- Audit Directors leading the joint resourcing projects met with colleagues in ASG & PABV. These discussions have informed the priorities for improvement Management Team has now agreed will form the basis of the work being taken forward during the remainder of the year to improve resourcing arrangements.
- The Environmental and sustainability report will be published in November 2019.

**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       |    |    |    |

**Key messages:**

There are several critical information projects on the go. Progress on these projects is reported through the Strategic Improvement Programme update. Data security and data incidents are the subject of regular reports to the KITGG, Management Team and the Audit Committee.

**Action:**

Following one data incident procedures for archive boxes were reviewed and improved.

**Key projects**

- Navision finance upgrade and migration - Mar - July 19 - complete
- HR system upgrade and migration - Mar - Sept 19
- Time Recording and expenses - Mar - Nov 19
- Performance Management Framework - Oct 19 - Mar 20
- Office 365 (SharePoint Online) - Ongoing - Dec 19

All new performance audits, overview reports, and Best Value audits are now managed within the new SharePoint online information management environment. As at the end of Q1 approximately 30% of historic performance audit and best value audit sites have been migrated into the new environment.

There were three data incidents in Q1, none warranted reporting to the Information Commissioner Office. The incidents included loss of a mobile phone (that was later recovered) and the theft of bag including laptop and notebook. In both cases the equipment was encrypted, and no personal data was lost. The third incident involved archive boxes containing confidential information being left in a locked storage cupboard longer than was required.

In June we welcomed our 2019 intake of Q Step students. These students join Audit Scotland on placement as part of their statistics degree at the University of Edinburgh. They support colleagues in complex data analysis and developing new approaches to the use of statistical methods.

**Issues/risks/actions:**

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

**Forward look:**

- ISO 27001 reaccreditation is in August 2019.

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

### Key messages

Indicators in this objective remain green but there are signs of a change in direction i.e. absence and staff turnover are up slightly in and of themselves they are not significant, but we will monitor these closely in the context of the resource pressures being felt in some areas.

### Action

We will introduce two new KPIs under this objective:

- Flexi balance leave will be monitored and compared to previous years.
- Annual leave taken/ carried forward will be monitored and compared to previous years.

### Empowered and engaged

- Following discussion of business group Best Companies results in Q4, an organisation-wide Slido discussion took place in Q1 (April). This looked at two main themes, what is working well, and how we can improve our sense of team. Results of both polls and the MT Q&A session fed into a subsequent Leadership Group meeting which discussed priorities for the year ahead.

### Career Paths

- The PDGG concluded the L&D Report in June 2019, this contains a review of 2018-19 L&D activity and the L&D strategy and plan for 2019-20.
- The L&D calendar of events (and portal) is being updated to reflect forthcoming technical, behavioural and management training.
- The mentoring programme was re-launched in April. 20 mentoring matches have now been made and colleagues have started mentoring. Further training/information sessions have been scheduled for these colleagues, particularly those new to mentoring.
- The self-directed learning programme (initially piloted in PABV) was shared with the wider organisation in April. There were a small number of applicants and all ideas have been agreed and are being progressed.
- One CDG approved in PABV during Q1. PABV welcomed an inward secondment from SPICe to support the Affordable housing performance audit.

### Wellbeing

- In April the Health, Safety and Wellbeing committee considered the aggregated results of the 178 wellness checks. Following discussion on the key messages, priorities were set to promote healthy eating, and managing our mental health with support from SAMH and the Mindful Enterprise. We are working towards the next levels of Healthy Working Lives (Silver) and Carer Positive (Established).
- In June over 20 colleagues attended a personal resilience Q&A session with the Keil Centre. The Keil Centre will be doing further development work in this area with a number of teams (BSS, ASG Superteam, PABV, Trainees).

- A third Mindfulness training session took place with the Inverness team on 30 April and feedback from the group has been positive. The HR&OD team are working with the Mindful Enterprise to look for other ways to integrate some of the more practical learning points from mindfulness into the workplace.
- We have joined **Stonewall's Diversity Champions Programme**. The programme is designed to support organisations to improve their policies and practices, and can provide training where necessary to ensure that their LGBT staff can be themselves and help battle discrimination. The programme allows access to a library of research and best practice guides, amongst many other benefits.

**Absence levels** - Our absence levels are low but have increased slightly in relation to previous quarters/years.

|                               | Q1<br>days | Q2<br>days | Q3<br>days | Q4<br>days | ytd days |
|-------------------------------|------------|------------|------------|------------|----------|
| <b>Audit Scotland – 19/20</b> | 1.6        |            |            |            |          |
| 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 (1.68) are slightly higher than the same quarter last year (1.08). The whole year turnover is currently projected to be like last year and is expected to be below the CIPD benchmark.

|                | Q1   | Q2 | Q3 | Q4 | YTD  | 18/19 | CIPD benchmark |
|----------------|------|----|----|----|------|-------|----------------|
| Resignations % | 1.34 |    |    |    | 1.34 | 6.72  |                |
| All Leavers %  | 1.68 |    |    |    | 1.68 | 11.26 |                |

#### Career paths

| Vacancies filled | 19/20 YTD | 18/19     |
|------------------|-----------|-----------|
| Internal         | 1         | 15        |
| External         | 6         | 15        |
| <b>Total</b>     | <b>7</b>  | <b>30</b> |

**Exam results:** There were eight exams taken and 6 passes. The percentage pass rate is below last years, however the small numbers involved means the percentage rate varies sharply.

|              | Q1 | Q2 | Q3 | Q4 | YTD | 18/19 |
|--------------|----|----|----|----|-----|-------|
| Exams taken  | 8  |    |    |    | 8   | 112   |
| Exams passed | 6  |    |    |    | 6   | 96    |
| % pass rate  | 75 |    |    |    | 75  | 86    |

**Highly skilled** - L&D events are summarised below.

|                            | Q1     |           | Q2     |           | Q3     |           | Q4     |           | YTD    |           | 18/19  |           |
|----------------------------|--------|-----------|--------|-----------|--------|-----------|--------|-----------|--------|-----------|--------|-----------|
|                            | Events | Attendees | Events | Attendees | Events | Attendees | Events | Attendees | Events | Attendees | Events | Attendees |
| Health & Safety            | 2      | 28        |        |           |        |           |        |           | 2      | 28        | 1      | 25        |
| Knowledge Cafes            | 2      | 10        |        |           |        |           |        |           | 2      | 10        | 12     | 266       |
| Learning & Development     | 2      | 17        |        |           |        |           |        |           | 2      | 20        | 8      | 64        |
| Management Development     | 5      | 19        |        |           |        |           |        |           | 5      | 19        | 8      | 54        |
| Organisational Development | 8      | 38        |        |           |        |           |        |           | 8      | 38        | 26     | 496       |
| Technical Training         | 7      | 151       |        |           |        |           |        |           | 7      | 142       | 31     | 469       |
| Total                      | 26     | 263       |        |           |        |           |        |           | 26     | 257       | 86     | 1,374     |

**Forward look:**

- Trainees - we are currently preparing the induction and onboarding programme for the new professional trainees and school leavers (starting Sept 2019). This includes relevant learning and development sessions for them.
- Mentoring - additional mentoring information sessions have been scheduled for August and September in Edinburgh and Glasgow.
- Management Development - delegation coaching clinics are taking place in August and September. A third management development cohort is coming together to begin working through the Managing Individuals' module resources and training.

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

## Purpose



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

## 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. A summary of the whole strategic improvement programme is available [here](#).

## Strategic improvement programme – Q1 headlines

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

|  <b>Delivering world-class audit</b>  |  <b>Being a world-class organisation</b>  |
|--|--|
| <ul style="list-style-type: none"> <li>• Code of audit practice and appointments - Steering group and project teams in place (Code, Procurement, Tendering), detailed project plans in development</li> <li>• Audit approach – progress on wide range of areas including; risk assessment, sampling and substantive analytical procedures</li> <li>• BV audit of local government and IJBs – engagement with Accounts Commission’s BV working group on development priorities</li> <li>• Initiation of the Electronic Working Papers system project and progress on digital auditing.</li> </ul> | <ul style="list-style-type: none"> <li>• Resourcing – numerous short and long term actions focussed on addressing capacity pressures</li> <li>• Wellbeing – ongoing communications and initiatives</li> <li>• Learning &amp; development -L&amp;D plan, programme of development opportunities and L&amp;D portal</li> <li>• Digitally enabled projects – upgraded Finance system, new HR and Time Recording systems being implemented.</li> </ul> |

6. The appendix provides more detailed information on key projects.

## Recommendations

7. The Board is invited to note the Q1 update, next steps and milestones.



## Delivering world-class audit



Audit quality



Code of audit practice



Digital audit



Communications and engagement



Diversity &amp; equality



Audit appointments

| Project/ initiative/ workflow  | Status update  | Next steps  |
|--|--|---|
| Audit Quality Framework  | <p>Reporting on quality - the <a href="#">Quality of public audit in Scotland annual report 2018/19</a> and <a href="#">2018 Audit Scotland quality report</a> were published in June 2019.</p> <p>Revised AQF drafting under way – main areas of focus are:</p> <ul style="list-style-type: none"> <li>• Reporting</li> <li>• KPIs</li> <li>• Stakeholder surveys</li> <li>• Revised audit quality complaints procedure.</li> </ul>   | <p>Revised AQF in draft to:</p> <ul style="list-style-type: none"> <li>• Management Team, AGS and Accounts Commission committees - Sept 2019</li> <li>• Audit Quality Committee and Management Team - Oct 2019</li> <li>• Audit Committee and Board - Nov 2019.</li> </ul>  |
| New Code of Audit Practice and procurement strategy for the next round of audit appointments | <p>Steering group in place, three meetings to date.</p> <p>Project manager appointed and project teams in place for the three workstreams:</p> <ul style="list-style-type: none"> <li>• Code of Audit Practice</li> <li>• Procurement strategy</li> <li>• Tendering and appointments.</li> </ul>   | <p>The key project workstreams are:</p> <ul style="list-style-type: none"> <li>• 2020 Code development and approval (Jul 2019 to June 2020).</li> <li>• Procurement strategy development and approval (Aug 2019 to Mar 2020).</li> <li>• Tender and appointments exercise (Mar 2020 to May 2021 tbc).</li> </ul>  |
| Audit approach   | <p>Early stage scoping under way, with increasing focus as Professional Support staff and others become available on completion of 2018/19 annual audits.</p> <p>Refresh of financial audit approach based on audit quality findings and developments in the auditing profession generally, including:</p> <ul style="list-style-type: none"> <li>• Risk assessments and audit assertions</li> <li>• Audit sampling, approach and coverage</li> <li>• Application of substantive analytical procedures</li> <li>• Criteria for applying digital audit approach.</li> </ul> | <p>Early stages, but good progress in establishing governance, including respective roles and responsibilities. Working/outline schedule:</p> <ul style="list-style-type: none"> <li>• Detailed project plan by Oct 2019, including confirmation of resource and timings</li> <li>• Application of refreshed approach for 2020/21 audits i.e. from Oct 2020, supported by training around that time.</li> </ul> |



| Project/ initiative/ workflow   | Status update   | Next steps   |
|---------------------------------|---|--|
| Auditing Best Value             | <p>At its meeting on 8 August the Accounts Commission considered <a href="#">proposals</a> for taking forward priorities agreed at its Strategy Seminar. The main priorities are:</p> <ul style="list-style-type: none"> <li>• Best Value in councils - agreed approach considered by the BV working group on 8 August 2019</li> <li>• Best Value in IJBs - initial options considered by the BV working group on 8 August 2019. Development work under way</li> <li>• Community empowerment - a joint briefing paper by the Commission and the Auditor General on the <a href="#">Principles for Community Empowerment</a> published on 25 July 2019.</li> </ul> | <ul style="list-style-type: none"> <li>• BV in councils - BVAR five-year programme to be completed as planned. New CoAP to reflect BV audit work being fully integrated with the annual audit for new appointments.</li> <li>• BV in IJBs - update paper to BV working group - Sept 2019</li> <li>• Community empowerment - Accounts Commission Chair and Deputy Chair discussing how to develop the approach to CE. Work continuing as part of programme development to support local audit teams and consider future audit work in this area.</li> </ul> |
| Digital auditing                | <ul style="list-style-type: none"> <li>• Management Team digital audit summit 21/05/19</li> <li>• NIAO led GovTech analytics project – proposals presented to assessment group 14/08/19</li> <li>• Digital training (Data Camp license) procured July 2019</li> <li>• Management Team agreed proposal for expanding digital capacity - 3 Sep 2019.</li> </ul>   | <ul style="list-style-type: none"> <li>• GovTech – assessment of shortlisted bids by Government Digital Services - Sept 2019. Phase 2 commences Autumn 2019.</li> <li>• Recruitment of additional digital capacity - Autumn 2019.</li> </ul>   |
| Electronic working papers (EWP) | <ul style="list-style-type: none"> <li>• Management Team approved project objectives and scope at its meeting on 16/07/19</li> <li>• Project team and project management resources being identified.</li> </ul>   | <ul style="list-style-type: none"> <li>• Detailed project implementation plan - Oct 2019</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>• Engagement with business groups to inform the new Communications and Engagement Strategy.</li> </ul>   | <ul style="list-style-type: none"> <li>• Update on New Communications and Engagement Strategy to Board 18/09/19.</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/ workstream | Status update  | Next steps   |
|---------------------------------|--|--|
| Resourcing                      | <p>Management Team considered report on <a href="#">resourcing</a> pressures and solutions from Audit Directors 16/07/19 and discussions took place on its content at the Audit Scotland Partnership Forum 31/07/19. Ongoing all staff communications and members of Management Team attendance at business group meetings.</p> <p>Development areas include:</p> <ul style="list-style-type: none"> <li>• Engagement with AGS and Accounts Commission on priority areas</li> <li>• Urgently assessing options for the Modern Apprentices in audit teams and the development of a pool of temporary auditors for deployment during peak periods</li> <li>• Allocation of Temporary staff and Professional Support and PABV colleagues to support annual audit work</li> <li>• Resourcing leads considering more extensive use of secondments where this will offer specialist expertise in specialist, new or particularly complex audit areas</li> <li>• Engaging with universities to explore full-year placements with Audit Scotland as part of degree courses or in conjunction with ICAS training</li> <li>• Revisions to the new Audit Scotland Workforce Plan to reflect these potential new developments</li> <li>• Medium term financial plan - ongoing review and development</li> <li>• 2020/21 budget proposal - ongoing development</li> <li>• Moving to a single resourcing model for ASG and PABV that is accessible and transparent</li> <li>• Conducting an options appraisal of digital systems for resource planning, staff deployment and programme management .</li> </ul> | <p>Key actions/ milestones are:</p> <ul style="list-style-type: none"> <li>• Finalisation of the updated workforce plan - Aug 2019</li> <li>• Draft 2020/21 budget proposal to Board 18/09/19</li> <li>• Update report to Management Team on medium/long term resourcing options - Nov 2019</li> </ul> |

| Project/ initiative/ workstream  | Status update   | Next steps   |
|--|---|--|
| Wellbeing  | <ul style="list-style-type: none"> <li>• Mental health awareness week w/c 13/05/19</li> <li>• Publication of Health, Safety and Wellbeing Annual Report 05/06/19</li> <li>• Mapping wellbeing activity at organisation, team and individual levels discussed with PDGG and Partnership Forum.</li> </ul>  | <ul style="list-style-type: none"> <li>• Further communications and events on wellbeing - Autumn 2019</li> <li>• Specific teams working with the Keil Centre.</li> </ul>   |
| Learning and development <ul style="list-style-type: none"> <li>• planning careers</li> <li>• developing skills</li> <li>• professional training scheme</li> </ul> | <ul style="list-style-type: none"> <li>• <a href="#">Learning and development annual report 2018/19 and 2019/20 strategy</a> published July 2019</li> <li>• Promotion of the <a href="#">L&amp;D learning hub portal</a> and on-line booking process.</li> </ul>  | <ul style="list-style-type: none"> <li>• Implementation of the rolling strategy and plan including focus on digital skills.</li> </ul>   |
| Leadership and management development  | <ul style="list-style-type: none"> <li>• Themed Leadership Group meetings continue to take place</li> <li>• 360 feedback exercise for members of the Leadership Group is ongoing .</li> </ul>   | <ul style="list-style-type: none"> <li>• Completion of 360 feedback roll out - Autumn 2019</li> <li>• Ongoing programme of Leadership Group development sessions.</li> </ul>   |
| Harnessing digital technology - Digitally enabled projects   | <ul style="list-style-type: none"> <li>• SharePoint on-line - build and data transfer ongoing</li> <li>• Navision finance system upgrade - completed July 2019</li> <li>• New HR system - system procured and system build/ data transfer and training under way</li> <li>• New Time Recording System - Single TR and expenses system approved by Management Team 23/07/19</li> <li>• PMF project.</li> </ul> | <ul style="list-style-type: none"> <li>• SharePoint On-Line - completion by December 2019</li> <li>• New HR system live - by September 2019</li> <li>• New TR system - in place for all users November 2019</li> <li>• PMF project recommences Oct 2019 on completion of TR implementation.</li> </ul> |
| Sustainability   | <ul style="list-style-type: none"> <li>• Green Future Team monitoring ongoing projects and drafting annual report and developing 5 year climate change plan in the context of recent FM emergency climate declaration in May.</li> </ul>  | <ul style="list-style-type: none"> <li>• Draft environmental and sustainability annual report to Management Team and Board - Sept with publication November 2019.</li> </ul>   |

## Purpose

1. This report provides the Board with 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 January 2019 on financial devolution and EU withdrawal. Significant developments since then include:
  - HMRC published the first set of outturn data for Scottish income tax (for 2017/18), which showed that forecasts were optimistic about how much income tax would be raised in Scotland and the rest of the UK. The way that the fiscal framework works means that there will be a £204 million reduction in the Scottish budget for 2020/21, to address the difference between forecast and outturn figures.
  - Social Security Scotland has started delivering the remaining two elements of the Best Start Grant (early learning and school age) and Best Start Foods payments. It is now delivering five devolved benefits. The Scottish Government has set out provisional timescales for the phased introduction of further devolved benefits and some new Scottish benefits through to the end of 2022. It expects all existing claims to transfer from the Department for Work and Pensions (DWP) to Social Security Scotland by 2025. The first annual audit of Social Security Scotland is underway and will be completed by the end of September 2019.
  - The date that the UK is due to leave the EU moved from 29 March to 31 October 2019. There have been major changes to the UK Government cabinet, including a new Prime Minister, and preparations for leaving without a withdrawal agreement are intensifying. The annual audit reports for 2018/19 will include assessments of how public bodies are preparing for EU withdrawal and responding to any emerging risks.
  - The Scottish and UK Governments published a framework for audit and accountability arrangements for devolved services provided by UK public bodies (such as HMRC) in March 2019. We are working with the National Audit Office (NAO) to further develop audit arrangements where the principles of the audit and accountability framework will apply.

## Managing the public finances

3. Scotland's new financial powers, including tax raising, borrowing and reserve powers, have introduced much greater complexity, volatility and uncertainty into the Scottish budget. Forecasts now play a significant part in setting the block grant for Scotland. The Office for Budget Responsibility forecasts the revenues foregone by the UK Government as a result of devolving income tax (deducted from the block grant) and the Scottish Fiscal Commission forecasts the tax revenues raised in Scotland (added to the block grant). Once the actual amounts raised (outturn) are known, the Scottish budget is adjusted to account for the differences between the forecasts on which the original budget was based and the outturn. These adjustments are known as reconciliations. Final outturn data on income tax is not published until over a year after the end of the tax year, and so these reconciliations are reflected in future year's budgets.
4. In July, HMRC published outturn data on income tax for 2017/18, which was the first year that powers over tax rates and bands were devolved. The outturn data showed that the forecasts that determined the Scottish block grant for 2017/18 were optimistic about how much income tax would be raised in Scotland and the rest of the UK. The difference between forecasts and outturns for 2017/18 will be reconciled in the Scottish budget for 2020/21. The net reconciliation effect will be a £204 million reduction in the Scottish Government's funding for that year. Reconciliations are part of the new fiscal arrangements and will happen each year. They may not always be negative, although the Scottish Fiscal Commission has forecast shortfalls totalling £1 billion over the next three budget cycles (to

2022/23). The Scottish Government will need to manage the impact of negative reconciliations on its budget, for example through borrowing, use of the Scotland Reserve, cutting back on spending or increasing taxes.

5. The Scottish Government published its second medium-term financial strategy on 30 May 2019.<sup>1</sup> The document, which is an element of the revised Scottish budget process, is intended to set out the challenges and opportunities facing the public finances and the Scottish Government's broad financial plans and projections for the next five years. The Budget Process Review Group recommended the annual publication of the strategy, to help inform detailed budget proposals by providing a medium-term perspective on the public finances. The strategy sets out, for the first time, the principles and policies the Scottish Government will use to manage its new borrowing and reserve powers, which is something the Auditor General for Scotland (AGS) has been calling for.
6. The UK's departure from the EU continues to cause uncertainty over the UK and Scottish budgets. In August, the Chancellor announced a one-year spending review to set UK Government departmental budgets for 2020/21. This is expected to be completed in September. The UK Government announced that a full multi-year spending review will be held in 2020, once the UK has left the EU. The Scottish budget would normally be published within three weeks of the UK budget but, at the time of writing, the timing has not been confirmed. In its medium-term financial strategy, the Scottish Government anticipated that it will publish its budget in December 2019. It noted that it plans to undertake a review of spending beyond 2020/21 "irrespective of the UK Government's decision about its Spending Review", although it also states that this "may not be possible if we do not have sufficient clarity from the UK Government on its spending plans at that stage".
7. As further devolved tax and spending powers start to be implemented, the Scottish budget will become increasingly complex. There are further responsibilities to be implemented, although it is not yet clear when this will happen:
  - The Scottish and UK governments agreed that a share of VAT revenues would be assigned to the Scottish budget from 2020/21 after a transition year in 2019/20. This would be the second largest source of tax revenue for the Scottish Government (around £5.7 billion) after income tax (around £11.7 billion). It is currently not possible to identify how much VAT is raised in Scotland, so the amount of VAT assigned to Scotland would be based on estimates. The Scottish Government has concerns about the methodology for producing these estimates, which it is developing jointly with HMRC and HM Treasury, and the level of volatility and risk they could introduce to the Scottish budget. In May, the Scottish Government proposed delaying the implementation of VAT assignment until the approach can be reviewed alongside the fiscal framework in 2021.<sup>2</sup>
  - The Scottish Government originally intended to replace the UK-wide Air Passenger Duty with a Scottish Air Departure Tax in April 2018. It has delayed introduction of the tax beyond April 2020 because of EU state-aid rules relating to the tax exemption for flights departing Highlands and Islands airports. In May 2019, the Scottish Government announced that its policy to cut and eventually scrap the tax to encourage economic development was incompatible with its climate change policies and that it would no longer seek to reduce the tax rates.
  - The Scottish Government has not yet set a timetable for the devolution of Aggregates Levy. The UK-wide levy has been subject to EU and UK legal proceedings around EU state-aid rules, and the Scottish and UK governments agreed that it wouldn't be devolved until these issues had been resolved. The legal proceedings concluded earlier this year and the UK Government is now reviewing the levy, including ensuring its design is suitable for devolution. The UK Government expects to report the findings of the review and next steps by the end of 2019.
8. Understanding the risks that the new financial powers and operation of the fiscal framework present to the Scottish budget, and monitoring how they are unfolding, is critical to the effective oversight of the Scottish public finances. The team leading on our work in this area has agreed a year-round programme

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<sup>1</sup> <https://www.gov.scot/publications/scotlands-fiscal-outlook-scottish-governments-medium-term-financial-strategy-2019/>

<sup>2</sup> [https://www.parliament.scot/S5\\_HealthandSportCommittee/General%20Documents/20190515\\_-\\_Derek\\_Mackay\\_to\\_CST\\_-\\_VAT.pdf](https://www.parliament.scot/S5_HealthandSportCommittee/General%20Documents/20190515_-_Derek_Mackay_to_CST_-_VAT.pdf)

of work to assess and report on this. The focus of its work is on scrutinising how well the Scottish Government directs and manages public money to deliver financial sustainability and to support overall outcomes for the people of Scotland.

## Social security powers

9. Social Security Scotland, which began operating in September 2018, currently delivers five devolved benefits (Carer's Allowance Supplement; Best Start Foods; and three Best Start Grant payments for pregnancy and baby, early learning, and school age). A further two benefits are expected to be introduced during 2019 (Funeral Support Payment and Young Carer Grant). Social Security Scotland will take on fiscal responsibility for all remaining devolved benefits in April 2020. This means that, although the majority of claimants will continue to receive payments from DWP at that point, all devolved benefit payments will appear in Social Security Scotland's accounts. The Scottish Government has set out provisional timescales for the phased introduction of devolved social security benefits and some new Scottish benefits through to the end of 2022. It expects all existing claims to transfer from DWP to Social Security Scotland by 2025.
10. The Scottish Government recently announced that it was introducing a new benefit payment, the Scottish Child Payment, earlier than originally planned. The payment, which will be administered by Social Security Scotland, will be introduced for children under six in early 2021 and rolled out to all eligible children under 16 by the end of 2022. The timings for the introduction of other benefits has changed to accommodate the earlier introduction of this new payment. Social Security Scotland and DWP are assessing the likely risks and impacts of this new payment for their work and the wider Scottish social security programme.
11. At the end of July, Social Security Scotland launched a campaign to recruit 100 new staff to its Glasgow office. This is to support its delivery of the seven benefits that will be in place by the end of 2019 and to prepare for the remaining benefits that are still to be introduced. Social Security Scotland expects to employ over 1,900 people once it is fully operational.
12. Audit Scotland is the appointed auditor for Social Security Scotland and the payments that it administers. The first annual audit of Social Security Scotland is currently underway and will be completed by the end of September 2019. The audit includes the accounts of the agency and the two benefit payments that were introduced in 2018/19 (Carer's Allowance Supplement and Best Start Grant: pregnancy and baby). We also report on how the Scottish Government is managing the delivery of the devolved social security powers through our performance audit programme. The latest report was published in May 2019. The cross-organisation team we established to lead on all our social security audit work is working well. We continue to review our resource needs for this work and will build additional capacity as more social security benefits are devolved.

## EU withdrawal

13. At the time of writing, there remains significant uncertainty about when and how the UK will leave the EU. In March 2019, the UK Government and European Commission agreed to extend Article 50 (the legal process for leaving the EU) until either 22 May, subject to the UK Parliament approving the withdrawal agreement, or 12 April. Following the UK Parliament's rejection of the withdrawal agreement for a third time on 29 March (the day the UK was originally meant to leave the EU), the Prime Minister requested a further extension. The European Commission agreed to extend Article 50 to 31 October 2019, at the latest, on the condition that the UK participated in European Parliament elections in May. Since then, there has been a Conservative Party leadership contest and the new Prime Minister took office in July. The political environment around EU withdrawal has shifted, with the UK Government stating that they are willing to leave the EU on 31 October without a withdrawal agreement if necessary.
14. 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. As part of the annual audits for 2018/19, auditors assessed how public bodies are preparing for EU withdrawal and responding to any emerging risks. We are also reporting on this in our performance audits, where relevant, such as audits on local government and the NHS in Scotland, NHS workforce planning, and higher education finances.
15. We are supplementing our audit work with ongoing engagement with key stakeholders. In addition, we hosted two roundtable sessions in August, which gave people from a range of sectors the opportunity to discuss the short and longer-term risks presented by EU withdrawal and how they are responding to



them. The impact of EU withdrawal will feature in our audit work for the foreseeable future. We will continue to share information from our work in this area both internally and externally, for example through briefing papers, blogs and presentations.

16. We are also monitoring the implications of the UK leaving the EU for Audit Scotland and managing any organisational risks. We have established a cross-organisation working group to lead on contingency planning for EU withdrawal. Business risks and our response are discussed regularly at Management Team. This includes detailed consideration of the potential impact of leaving the EU on the audit of the European Agricultural Fund Account (EAFA). The Board will consider a paper on how we are planning for the potential risks presented by EU withdrawal at its meeting on 18 September.

## 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>3</sup> The Board considered an update report on the framework at its meeting in May 2019. The Board welcomed the agreed framework but shared the concerns of the AGS that it may not fully satisfy arrangements for Audit Scotland's access to UK public bodies.
18. We continue to work constructively with the NAO to develop audit arrangements for existing and potential future work in cross-border areas. We already work with the NAO to provide assurance to the Scottish Parliament on HMRC's administration of Scottish income tax, and we are currently reviewing our Memorandum of Understanding for this work. We have also established arrangements with the NAO for the financial audit of devolved social security payments, to allow us to obtain assurance over areas administered by DWP. This is working well, and we will develop arrangements further as more social security powers are devolved. We are holding a workshop with the NAO in October 2019, to help inform the continuing development of audit arrangements, in line with the principles in the audit and accountability framework.

## Audit reporting

19. The AGS published a performance audit report on implementing the devolved social security powers on 2 May 2019.<sup>4</sup> The report was considered by PAPLSC on 16 May and by the Social Security Committee on 30 May. The report outlined the challenges of delivering such a complex programme of work. The key messages from our report were as follows:
  - The Scottish Government has done well to establish a new agency and start making benefit payments. It has also undertaken important groundwork needed to deliver future benefits in line with its overall policy direction. But the high pace of delivery and the complexity of the social security system has been a significant challenge and meant that the Scottish Government found delivering on its initial commitments harder than expected.
  - Implementing the second wave of benefits is more difficult as the complexity and amount of work increases further. This means a significant change for the implementation programme. The processes and systems currently being used to plan, and support implementation have worked well to date. But they will not be enough to support the delivery of the second wave.
  - The programme team is aware of these challenges and is doing the right things, revising arrangements to try to address them. Continuous short-term pressures mean that it is difficult for the team to pause and refocus activity, presenting risks to overall delivery. Many decisions about future benefits and how they will be delivered in the long term are still to be made.
  - The Scottish Government does not yet have a clear understanding of the key things needed to deliver all remaining benefits in the way it intends. This includes not monitoring and reporting on how much it will cost to fully implement all the benefits. It is currently developing financial and

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<sup>3</sup> <https://www.gov.scot/publications/scottish-devolution-framework-audit-accountability/>

<sup>4</sup> <https://www.audit-scotland.gov.uk/report/social-security-implementing-the-devolved-powers>

workforce plans to support its implementation timescales. It is critical that these are agreed and aligned to the intended outcomes for service users.

20. We will be reporting on the Scottish Government's management of the public finances over the next few months. In late September, the AGS will publish a section 22 report on the 2018/19 audit of the Scottish Government consolidated accounts. In early October, the AGS will publish a section 22 report on the 2018/19 audit of Social Security Scotland's accounts. Later this year, we plan to publish a second briefing on the operation of the fiscal framework, building on the issues identified in our October 2018.5 Paper.
21. The NAO reports annually on its audit of HMRC's implementation of Scottish income tax. The AGS publishes a report alongside this, providing additional assurance to the Scottish Parliament. Work on the 2018/19 audit is underway and will be reported later this year.

## Organisational arrangements

22. The SCPA approved proposals for growth in Audit Scotland's budget for 2018/19 and 2019/20, to accommodate additional work in response to financial devolution and constitutional change. In 2019/20 we have used this to continue 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 are building 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.
23. 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 grow. The Board will consider proposals for Audit Scotland's 2020/21 budget at its meeting on 18 September, which would support further growth for our work in this area.
24. A new budget process was introduced for the 2019/20 Scottish budget, which promotes a year-round approach to budget setting, scrutiny and evaluation, with increased emphasis on outcomes and what spending is achieving. In March, we hosted two workshops with parliamentary officials and auditors to reflect on the first year of the new budget process and discuss what more we can do to help embed and improve the process. Our parliamentary engagement lead is coordinating our ongoing engagement with committees and working with colleagues across the organisation to identify how our audit work can help to support improved budget scrutiny.
25. We are continually monitoring the audit and business risks in this area, considering the implications for our work and determining our response. For the remainder of 2019/20, our priorities are to continue to:
  - work with the Scottish Parliament and others to support the implementation of the revised Scottish budget process and identify ways we can help further embed and improve the process
  - work with the NAO to implement the Audit and Accountability Framework, ensuring that it meets the needs of the Scottish Parliament as far as possible
  - continue to coordinate our audit work relating to financial devolution and constitutional change, to help maximise the impact of our work and minimise duplication of effort
  - review our resource needs and build the necessary capacity (staff numbers, knowledge, skills) for our work in response to financial devolution and EU withdrawal.

## Conclusion

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

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<sup>5</sup> [https://www.audit-scotland.gov.uk/uploads/docs/report/2018/briefing\\_181016\\_financial\\_powers.pdf](https://www.audit-scotland.gov.uk/uploads/docs/report/2018/briefing_181016_financial_powers.pdf)



## Business continuity planning: EU withdrawal

Audit Director, Performance Audit and Best Value and  
Associate Director, Corporate Performance and Risk

Item 13  
18 September 2019

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### Purpose

1. This report provides an update on the business continuity planning arrangements for potential disruption arising from EU withdrawal and in particular a 'no deal' exit.

### Background

2. The Board last considered an update report on the business continuity (BC) arrangements around EU withdrawal at its meeting on 18 March 2019. The report advised members of a broad range of activity under way, including scenario and preparedness planning, refinements to the business continuity processes and regular review by Management Team.
3. In April 2019, the European Union agreed to extend Article 50 (the legal process for leaving the EU) until 31 October 2019, on the condition that the UK participated in European Parliament elections in May 2019.
4. Since then, there has been a Conservative Party leadership contest and the new Prime Minister took office in July 2019. The political environment around EU withdrawal has shifted, with the UK Government stating that they are willing to leave the EU on 31 October 2019 without a withdrawal agreement if necessary. There appears to be a general consensus that an exit from the EU at the end of October without an agreement is much more likely than earlier in the year.
5. On 28 August 2019 it was announced that Parliament would be prorogued, and parliamentary business suspended for five weeks ahead of the 31 October 2019 deadline. This means that a new parliamentary session will start on 14 October 2019.
6. During early September, the UK Government failed to secure Parliament's agreement to a general election on 15 October 2019 and lost its parliamentary majority. Parliament approved legislation that stated that unless the House of Commons approved an agreement with the EU or agreed a "no-deal" exit, the Government had to seek an extension to the Article 50 period until 31 January 2020. The UK Government has made it clear that it does not want any further extension. The European Council meeting in mid-October will be a critical point. Events are developing rapidly, and a verbal update will be provided at the meeting.
7. We continue to monitor issues relating to EU withdrawal as they develop and identify potential risks to the bodies we audit and implications for our work. This is outlined in more detail in the update report on New Financial Powers and Constitutional Change on today's agenda as item 12.
8. The risks associated with EU departure are captured on the risk register and reported to each meeting of the Audit Committee. The risk register was last considered by the Audit Committee at its meeting on 4 September 2019.
9. This report provides an update in two main areas:
  - the implications for the audit work
  - the implications for Audit Scotland as an organisation.

### Audit implications

10. In October 2018, we published a paper which highlighted the key issues facing public bodies in preparing for EU withdrawal. In December 2018 we issued planning guidance to auditors which asked them to assess what action public bodies had taken to prepare for EU withdrawal.

11. We are currently collating and analysing commentary on EU withdrawal in 2018/19 annual audit reports. We have plans in place to prepare a report for the Auditor General and Accounts Commission on how the public sector has responded to EU withdrawal in winter 2019/20. Given the uncertainty about the next few months will unfold, we will keep these plans and the content of any report under review.
12. In addition, we have hosted a number of roundtable meetings with stakeholders to discuss the implication of EU withdrawal as well as regular bilateral meetings with the Scottish Parliament, Scottish Government and CoSLA.
13. In July 2019, the NAO advised that in the event of an exit from the EU without an agreement, there could be an immediate end to the requirement to undertake work associated with the EAFA audit which would otherwise have continued until February 2020. There was some reassurance from the NAO that Audit Scotland would continue to be reimbursed until the end of February 2020 - even if no further audit work is undertaken. Normally, we would have begun activity as part of the 2020 audit but are waiting to see how the next few weeks unfold.
14. Subsequently, we have held exploratory discussions with the Scottish Government's Paying Agency on their options for a post EU withdrawal regime. Their preparations are being guided by the European Union (Withdrawal) Act 2018 which brings EU regulations forward into UK law for 2020, and the UK Agriculture Bill which will provide for Common Agricultural Policy (CAP) laws to be carried forward beyond that to the period 2021-2024. The Scottish Government is anticipating that some form of audit will be required.
15. We are keeping our audit publication programme under review especially around 31 October 2019. If a UK general election is called before the end of the calendar year, we would consider a moratorium on publishing new audit reports. This would place our autumn/winter publications programme, which is already very busy, under acute pressure. It would also have implication for laying audit reports in the Scottish Parliament. We are actively engaging with the Scottish Parliament to manage this risk and its implications.

## Organisational implications and business continuity

16. Each year the Audit Committee reviews and approves Audit Scotland's business continuity (BC) arrangements. These consist of a business continuity policy and guide, major incident plan and recovery plans, all of which are revised and updated regularly. The BC arrangements were last reviewed and approved by the Audit Committee in November 2018.
17. The BC arrangements cover a range of scenarios, including loss of building or services for a period. We have continued to build on these arrangements to plan for potential disruption arising from EU withdrawal, including a 'no deal' departure.
18. EU withdrawal is currently a standing item on the agenda for the Management Team meetings. A working group has been carrying out planning and development work to support Management Team's considerations.
19. We have carried out scenario planning, including identifying a range of scenarios and responses, in terms of:
  - disruption to the public bodies we audit
  - disruption to Audit Scotland's operations
  - the nature, scale and duration of disruption
  - 'trigger points' which might require action in terms of audit work and organisational priorities.
20. This has informed preparedness planning, with a particular focus on the potential for short term disruption and what that means for:
  - internal and external communications - where a communications plan is in place covering key messages, key stakeholders and communications channels

- maximising flexibility, including enhanced digital services to support remote working and effective communication
  - engagement with key stakeholders
  - ensuring core support functions can operate effectively including, the Comptroller and Auditor General function, Finance, Communications, Human Resources and Digital Services
  - how colleagues can use their time productively in the event of significant disruption.
21. We have been communicating regularly with colleagues through posts on a dedicated 'Yammer channel'. All colleagues are signed up to this channel and it provides a flexible method of communication as it is easily accessible on mobile devices. This may prove particularly useful in the event of severe disruption.
  22. A small number of colleagues are EU citizens and we have offered support to these colleagues by way individual meetings and workshops.
  23. The announcement in the week commencing 19 August about Freedom of Movement for EU27 citizens ceasing on 1 November 2019 introduced further uncertainty and complexity to the situation. The HR team are currently reviewing all employee's file to assess the right to work in the UK beyond 1 November 2019 in the event of a change of UK Government policy. This will be completed 30 September 2019.
  24. We are reminding colleagues who may be affected that it would be prudent to apply for the pre-settlement or settlement status if they have not already done so. As things currently stand if someone is here as a UK resident on 31 October, they should be able to continue working and can apply to one of the schemes at any point prior to December 2020. We continue to monitor government statements and its policy position closely in this area.
  25. A National Audit Office (NAO) led consortium of the NAO, Audit Scotland, Wales Audit Office and the Northern Ireland Audit Office fulfils the role of Certification Body for the UK European Agricultural Fund Account (EAFA) audits. The audit is a requirement of the receipt of funding from the EU's Common Agricultural Fund. It is conducted under EU regulations and follows guidance issued by the European Commission (EC).
  26. As the EAFA audit relates to EU funding and reports to the EC, issues relating to the UK's withdrawal from the EU will have a clear impact on the future of the audit. Engagement with UK consortium colleagues, the UK Co-ordinating Body and the Scottish Government is ongoing to develop an agreed understanding of post Brexit requirements for the audit of agriculture funds
  27. Currently the EAFA audits require significant resource and the agreed 2018/19 audit fee income is £1,034k. Changes to the audit regime could therefore have an impact on income. The Management Team considered an update report on the EAFA audit at its meeting on 3 September 2019. The financial and resourcing implications of changes in this area are covered in the Budget report on today's agenda at item 21.
  28. We have also reviewed and refined the arrangements in place to support Management Team, should the Business Continuity Plan (BCP) be activated and the Disaster Management Team (DMT) come into operation.
  29. The BCP defines a disaster as: 'any incident which seriously affects business operations, to the detriment of the services that Audit Scotland delivers to its clients'. Here our focus has been on:
    - reviewing and updating membership of the DMT (DMT comprises Management Team and the Communications Manager)
    - ensuring resilient and flexible digital communications to support effective DMT discussion and decision making where members of the DMT are in different locations.
  30. The BCP states that 'it is the responsibility of the DMT member to decide whether the plan should be activated and, if necessary, to do so. On activation of the plan a member of the DMT is to notify the Audit Scotland Board members.'

31. We engaged our external business continuity consultants to run a 'walk through scenario response session' with the DMT on 17 September 2019 to test the operation of the arrangements in practice.

## **Recommendation**

32. The Board is invited to consider and discuss the implications of EU withdrawal and the business continuity arrangements in place.

## Purpose

1. This report invites the Board to review and approve the updates as appropriate to the Financial Regulations, Scheme of Delegation and Codes of Conduct for members and staff for a further year.

## Background

2. The Standing Orders state that the Audit Committee is to keep under review the Standing Orders, Financial Regulations and Scheme of Delegation and recommend to the Board any amendments. The last update was in November 2018 and came into force on 1 December 2018.
3. The Audit Committee's Terms of Reference (TOR) states that it will advise the Board on corporate governance requirements and are to be provided with a report on policy documentation reviews.
4. This report covers updates to the Financial Regulations, the Scheme of Delegation and the Codes of Conduct for members and staff. Amendments, shown as tracked changes, were considered by Audit Committee on 4 September 2019 and recommend these to the Board for approval.
5. Subject to approval by the Board on 18 September 2019, the policies will come into effect on 1 November 2019.

## Annual review of corporate governance policies

6. A review of our Financial Regulations and Scheme of Delegation took place in August 2019. The review found that they were up-to-date and required no amendments. A copy of these documents are attached for completeness.
7. The Standing Orders are usually also reviewed as part of this process. The Board is currently considering the recommendations arising from Scottish Commission for Public Audit's (SCPA) informal review of governance and will consider a report at its meeting on 18 September. Any changes to the Standing Orders arising from that will be considered by the Audit Committee and the Board meetings on 13 and 27 November 2019 respectively.

## Annual review of codes of conduct

8. The Codes of Conduct for staff and for members are reviewed on an annual basis.
9. The Code of Conduct for staff has been refreshed to reflect:
  - the changes to assistant director titles (whether Audit Director or Associate Director)
  - recent changes to the Disclosure Scotland process
  - guidance on how colleagues conduct themselves on social media platforms given their employment and association with Audit Scotland.
10. All staff are now subject to a Basic Disclosure checks by Disclosure Scotland and this forms part of the Fit and Proper process. Some colleagues are subject to enhanced Disclosures where appropriate. This process has been added to the Code of Conduct at page 12.
11. All staff are expected to act in the best interests of Audit Scotland at all times, and these high standards also apply in relation to how staff post or present on social media platforms. Advice is provided to staff on how to be extra vigilant in their conduct online at page 13.

- 12.** The members Code of Conduct for members did not require any amendments as it remains consistent with national guidance. A copy of the Code is attached for completeness.

## **Recommendations**

- 13.** Board is invited to:
- consider the current Financial Regulations and Scheme of Delegation and approve for a further year
  - consider the revised Codes of Conduct and approve for a further year.

# Financial Regulations



Prepared for Audit Scotland  
September 2019

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



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# Financial regulations

## Introduction

1. Audit Scotland is a body corporate established under section 10 of the Public Finance and Accountability (Scotland) Act 2000. It came into existence on 1 April 2000 under the Public Finance and Accountability (Scotland) Act 2000 (Commencement) Order 2000 (SSI 2000 Number 10(c.1)).
2. The Board of Audit Scotland consists of the Auditor General, the Chair of the Accounts Commission and three other members appointed by the Scottish Commission for Public Audit, one of which will be appointed as Chair.
3. Audit Scotland's function is to provide such assistance and support as the Auditor General and the Accounts Commission require in the exercise of their respective functions and, in particular, is to provide them, or ensure that they are provided, with the property, staff and services which they require for the exercise of those functions.
4. Audit Scotland may impose reasonable charges in respect of the exercise of its functions. In determining the amounts of the charges Audit Scotland must seek to ensure that the total sum received in respect of the charges is, taking one year with another, broadly equivalent to its expenditure. Any expenditure not met out of sums received is payable out of the Consolidated Fund.
5. The Scottish Commission for Public Audit (SCPA), established under section 12 of the Public Finance and Accountability (Scotland) Act 2000, has the duty to designate an accountable officer for Audit Scotland. The SCPA has designated the Auditor General as the Accountable Officer. The responsibilities of the Accountable Officer are set out in section 18 of the 2000 Act. They are:
  - 5.1. signing the accounts of the expenditure and receipts of Audit Scotland;
  - 5.2. ensuring the propriety and regularity of the finances of Audit Scotland; and
  - 5.3. ensuring that the resources of Audit Scotland are used economically, efficiently and effectively.
6. All members of the Board and all employees, shall conduct their business with diligence and with a view to the security of the property of Audit Scotland, avoiding loss, exercising economy and efficiency in the use of resources and conforming with the requirements of Standing Orders, Financial Regulations and the Scheme of Delegation.
7. The Board has made Standing Orders, these Regulations and a Scheme of Delegation to govern the operation of Audit Scotland. They should be read together.

## Definitions and interpretation

8. In these Regulations terms will have the following meanings:

- 8.1. “the 2000 Act” means the Public Finance and Accountability (Scotland) Act 2000
- 8.2. “the 1973 Act” means the Local Government (Scotland) Act 1973
- 8.3. “the Board” means the members of Audit Scotland acting together to discharge the functions of Audit Scotland
- 8.4. “the Management Team” consists of the Auditor General, the Chief Operating Officer, the Director of Audit Service and the Director of Performance Audit and Best Value, or such other combination of officers as may be determined from time to time by the Board.

## Corporate Plan

- 9. 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 possible, it will outline the financial consequences of proposals contained in it.
- 10. The Corporate Plan will be approved by the Board.

## Budget

- 11. The financial year of Audit Scotland is 1 April to 31 March.
- 12. Proposals for the use of resources and expenditure for each financial year will be submitted to the SCPA at such times as the Commission requires to enable it to examine the proposals and report to the Parliament under section 11(9) of the 2000 Act.
- 13. Estimates of expenditure and income will be submitted as budget proposals to the Board for approval prior to the submission to the SCPA. Provided the SCPA report has been submitted to and approved by Parliament, a final version of the budget will be submitted to the Board not later than 31 March in the year preceding the financial year to which it relates.
- 14. In the event that Parliament has not approved the budget, a version of the budget that includes our best estimate of operational changes will be submitted to the Board by 31 March. A final version to be submitted when the Scottish Government budget is passed.
- 15. No expenditure will be incurred unless there is provision for the expenditure within the overall budget approved by the Board. Approval of expenditure where there is no provision within the overall budget will be made by the Board. (Scheme of delegation 3.1)
- 16. There may be virement within the budget, in accordance with the Scheme of Delegation. (Scheme of delegation 3.2 and 3.3)

## Budgetary control and reporting

- 17. Financial performance will be monitored against budget and reported regularly to the Management Team and at least quarterly to the Board.
- 18. Systems of budgetary control will be devised and maintained to include:

- 18.1. Regular financial reports as prescribed above containing -
    - 18.1.1. income and expenditure to date and, when relevant, forecast year end position
    - 18.1.2. explanations of any material variations
    - 18.1.3. details of any corrective action necessary
    - 18.1.4. virement
  - 18.2. The issue of timely, accurate and comprehensible advice on financial reports to each budget holder covering the areas for which they are responsible
  - 18.3. Arrangements for the authorisation of virement.
19. Each budget holder will be responsible for the management of their budgets within the approved policies of the Board.

## Accounting

- 20. An effective system of internal financial control will be maintained including detailed financial procedures and systems incorporating the principles of separation of duties and internal checks. These will be documented and maintained.
- 21. Proper records will be maintained to show and explain Audit Scotland's transactions in order to disclose, with reasonable accuracy, the financial position of Audit Scotland at any time.
- 22. Accounting policies will be set consistent with appropriate guidance and all accounting procedures and records will be consistent with any form of accounts prescribed. Accounting policies will be approved by the Board. (Scheme of delegation 3.4)
- 23. Annual Accounts will be prepared and submitted to the Board for approval no later than 31 August in respect of the financial year finishing on the 31 March.

## Bank accounts

- 24. HM Treasury require public bodies to operate a bank account through the Government Banking Service (GBS), to allow the transfer of monies from central accounts to public bodies and vice-versa.
- 25. Apart from the requirement to use a bank specified by the GBS for the transfer of central funds, Audit Scotland will, for day to day banking and transactions, make arrangements for the appointment of bankers in accordance with the provisions for the letting of contracts set out in these Regulations.
- 26. No Audit Scotland monies will be held in any bank accounts outwith those approved by the Board.
- 27. Detailed arrangements and instructions on the operation of bank accounts will be prepared and maintained as Treasury Management Procedures by the finance department, and will include:

- 27.1. The conditions under which each bank account is to be operated.
- 27.2. The limit to be applied to any overdraft.
- 27.3. Those authorised to sign cheques or other orders drawn on Audit Scotland's bank accounts, and the limits of their authority in accordance with the Scheme of Delegation.
- 28. Banking arrangements will be reviewed at regular intervals to ensure that they reflect best practice and represent best value for money.
- 29. Controlled stationery (e.g. cheques) will be held securely at all times and proper records will be maintained in relation to such stationery.

## Credit Cards

- 30. Credit cards will be offered to members of the Management Team automatically. Credit cards will also be offered to other members of staff, with the specific approval of the Accountable Officer and the Chief Operating Officer, where there is an on-going requirement for credit card use.
- 31. The default credit limit for all cards will be set in the Scheme of Delegation and variations for individual cards will be approved by the Management Team. (Scheme of delegation 3.5)

## Income

- 32. Systems will be designed and maintained for the proper recording, invoicing, collection and coding of all monies due to Audit Scotland.
- 33. All monies received will be banked promptly.
- 34. Arrangements will be made for appropriate recovery action on all outstanding debts.
- 35. Fees and charges, including fees to audited bodies, will be determined in accordance with policies decided by the Board.

## Investments and borrowings

- 36. No borrowing or investments will be made without the expressed agreement of the Board. In exceptional circumstances the Accountable Officer may consult with the Chair of the Board and agree a short term borrowing strategy, but this must be reported to, and ratified by the full Board at the earliest opportunity.
- 37. All short term borrowings will be kept to the minimum period of time possible, consistent with the overall cash flow position.
- 38. Any long term borrowing must be consistent with policies decided by the Board.
- 39. Detailed procedural instructions will be prepared on the operation of investment accounts and regular reports will be made to the Board on the performance of any investments held.

## Insurance

- 40. Arrangements will be made to ensure that all insurance cover is effected, periodically reviewed and adjusted as necessary.
- 41. Insurance arrangements will be reviewed regularly and the market will be competitively tested and costs will be sought for insurance services in accordance with the provisions set out in these Regulations at least every three years.

## Tendering procedures

- 42. Tendering procedures are contained in the Procurement Handbook, which is published on the intranet. This document provides information on the procedures to be adopted by Audit Scotland staff when purchasing any goods and services and the need to follow value for money principles when carrying out this activity.
- 43. No contract for the supply of goods and materials, the provision of services or for the execution of works will be made where the probable cost, over the contract period, exceeds £50,000 unless tenders have been invited by advertisement on Public Contracts Scotland, the Scottish Government procurement system.
- 44. In exceptional circumstances the Chair of the Board, on a report by the Accountable Officer, may except a contract from the above provisions and direct adoption of such other procedure for the letting of the contract as seems appropriate. The decision will be notified to the full Board at the earliest opportunity.
- 45. Standing contracts for the provision of goods, materials, services or works will be kept under review and competitive tenders for such standing contracts will be sought at least every three years, or later if the contract has been extended under the terms of the original contract. No extension will be greater than three additional years before retendering.
- 46. The overall value of the tender will determine who is required to approve the acceptance of the tender and place the order for the goods, materials or service. The Scheme of Delegation will list those authorised to accept and place orders. (Scheme of delegation 3.6)
- 47. All orders will be printed on Audit Scotland headed stationery unless generated through the electronic ordering system. Orders on headed stationery will be signed by the member of staff authorised under the Scheme of Delegation to do so. Where the order has been generated electronically it will be sent for authorisation in accordance with the procedure contained within the Scheme of Delegation (Scheme of Delegation 3.10). All orders must be made in accordance with the procedures and controls and within the terms of the Scheme of Delegation.
- 48. Official orders will be issued for all work, goods or services to be supplied to Audit Scotland except for supplies of public utility services or periodical payments such as rent or rates or such other exceptions as may be approved by the Management Team.

49. Directives by the Council of the European Union prescribing procedures for awarding forms of contracts shall have effect as if incorporated in these Regulations and Audit Scotland's Procurement Handbook should be followed as appropriate.
50. The appointment of auditors under section 97(6) of the 1973 Act and section 21(3) of the 2000 Act will be recommended to the Accounts Commission and the Auditor General respectively at such intervals as they require. With the exception of the interval between awards (see paras 42-44), the procedure relating to these contracts should follow the procedure set out in these Regulations.

## Payment of accounts

51. Before an invoice is paid the certifying officers will satisfy themselves that the account has not been previously passed for payment and is a proper liability of Audit Scotland and that:
  - 51.1. The works, goods or services to which the account relates have been received or carried out satisfactorily.
  - 51.2. Prices, extensions, calculations, trade discounts, other allowances, credits and tax are correct.
  - 51.3. The expenditure has been authorised and is within the relevant estimate provisions.
52. All duly certified invoices shall be authorised for payment by the officer authorised under the Scheme of Delegation. (Scheme of delegation 3.8)
53. An officer shall not add any additional items to an invoice rendered to Audit Scotland by a supplier.
54. When an order has been placed using the electronic purchase ordering (EPO) system, this process incorporates authorisation of the payment prior to an order being placed. In these circumstances the authoriser will be advised of the cost of the goods or services, or an estimate if a firm cost is not available, at the time they receive the EPO. Authorisers are required to satisfy themselves that the cost displayed is reasonable and represents value for money, before they electronically sign the order. Once an EPO is signed the system will not allow any changes to the order by the authoriser or the originator.
55. The EPO system maintains a list of staff with delegated authority to authorise expenditure, as per para. 51 above.
56. When the goods or services have been received the originator records the receipt through the EPO system.
57. On receipt of the invoice, Finance will check whether the goods or services have been marked as received. The invoiced amount charged will be checked against the EPO submitted and, if the amount is within the parameters agreed by the Management Team, the invoice will be accepted and paid. (Scheme of delegation 3.10)

- 58. Management Team will set agreed parameters and if the value of the invoice is outwith the agreed parameters it will be sent back to the authoriser for an additional manual authorisation. The invoice will not be paid until the second authorisation has been received. (Scheme of delegation 3.11)
- 59. The receipt, certification and payment of accounts to approved auditors are subject to separate arrangements under the Scheme of Delegation. (Scheme of delegation 3.12)

## Audit

- 60. The Board will establish an Audit Committee with clearly defined terms of reference under Standing Orders.
- 61. The external auditor is appointed by the SCPA to report on whether expenditure and income have been applied lawfully and the accounts comply with the accounts direction. The external auditor will report to the SCPA who must lay the report and accounts before Parliament and publish them.
- 62. The internal auditor is appointed by Audit Scotland and reports to the Management Team and the Audit Committee on systems of internal control.
- 63. The external and internal auditor are entitled to:
  - 63.1. enter any Audit Scotland establishment at all reasonable times with or without previous notice;
  - 63.2. have access to all records, documents and correspondence (including computer records) relating to financial and other transactions of Audit Scotland;
  - 63.3. require and receive explanations as are necessary concerning any matter under examination;
  - 63.4. require any employee of Audit Scotland to produce cash, equipment or any other property under his/her control; and
  - 63.5. direct access to the Chair of the Audit Committee.

## Security and Fraud Prevention

- 64. Arrangements will be made to develop and document effective policies on:
  - 64.1. Prevention of fraud and irregularity.
  - 64.2. IT security.
  - 64.3. Security of assets.
- 65. Proper security must be maintained, at all times, for all buildings, stores, furniture, equipment, cash, information, etc.



- 66. A register of secure key containers will be maintained by Business Support and kept under review by the Chief Operating Officer. Keys removed from the secure key containers will be signed for and are to be kept safe at all times until returned. The loss of any such keys must be reported immediately to Business Support staff.
- 67. A register of staff ID (office access) badges and building access fobs will be maintained by Business Support. The loss of ID badges will be reported immediately to Business Support and the Corporate Governance Manager. The ID badges will be deactivated immediately.
- 68. The Chief Operating Officer is responsible for maintaining proper security and privacy relative to information held in the computer installations.
- 69. Under the terms of the Counter Fraud Policy, employees are required to notify their Business Group Director or Associate/Audit Director of any financial irregularity or suspected irregularity. Such concerns may be raised under the terms of the Whistleblowing Policy if considered appropriate. The employee, or senior management to whom the concerns are reported, must also advise the Chief Operating Officer. Details of these policies are to be available to all staff through the staff handbook.

## Salaries, wages and pensions

- 70. Arrangements will be made for the payment of all salaries, wages, pensions, compensation and other emoluments due to all employees or former employees of Audit Scotland or the Accounts Commission, the Auditor General for Scotland, appropriate members of the Board and to members of the Accounts Commission.
- 71. Salaries and other payments will normally be paid by direct transfer to a nominated bank account.
- 72. A record of all matters affecting the payment of such emoluments shall be kept and in particular the following information will be recorded:
  - 72.1. appointments, resignations, dismissals, suspensions, secondments and transfers;
  - 72.2. absences from duty for sickness or other reason, including approved leave;
  - 72.3. changes in remuneration, including those arising from normal increments and pay awards and agreements of special and general application;
  - 72.4. information necessary to maintain records of service for superannuation, income tax, national insurance and the like;
  - 72.5. particulars of any deduction from salary for loans, subscriptions and the like, and the authority for such deduction.
- 73. All deductions and changes in gross pay entitlement will be certified by Human Resources or other appropriate person and checked by a second officer prior to payment.
- 74. Pension payments are paid to former staff through the appropriate pension agency. Audit Scotland's role is to make the required deductions from salary and to provide the information

which is required from time to time by the pension supplier to allow them to maintain their records, provide information about pensions and make payments.

75. There are special arrangements in place relating to pensions for former Ombudsman staff and the former Auditor General for Scotland, which are separate from the arrangements for Audit Scotland.

## **Travelling, subsistence, expenses and other allowances**

76. The Secretary to the Accounts Commission shall review, authorise and ensure all travelling or other allowances are paid to Commission Members and advisers who are entitled to claim them upon receipt of a fully completed expense claim form.
77. The Chief Operating Officer shall review, authorise and ensure all travelling or other allowances are paid to Board members and advisers who are entitled to claim them upon receipt of a fully completed expense claim form.
78. All claims by staff for payment of car mileage allowances, subsistence allowances, travelling and incidental expenses and any advances shall be submitted duly certified and made up to the end of each month and in accordance with the current travel and subsistence policy, published in the staff handbook, and the expenses procedures published on the intranet. The officers authorised to certify such records shall be determined by the Scheme of Delegation. Initial delegation is £2,000. (Scheme of delegation 3.13)

## **Observance of Financial Regulations**

79. It shall be the duty of the Accountable Officer to ensure that these regulations are made known to the appropriate Audit Scotland staff and to ensure that they are adhered to.
80. Any breach or non-compliance with these Regulations must, on discovery, be reported immediately to the Chief Operating Officer who will discuss the matter with the Accountable Officer in order to determine the proper action to be taken. Such concerns may be raised under the terms of the Whistleblowing Policy if considered appropriate.

## **Variation of Financial Regulations**

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.

# Scheme of Delegation

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

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# Scheme of Delegation

## Introduction

1. The Board remains responsible for the exercise of all the functions of Audit Scotland. Regardless of the provisions of this Scheme of Delegation the Board may at any time determine any matter within the competence of Audit Scotland either at the Board's initiative or on the recommendation of an officer to whom the matter is delegated.
2. This Scheme sets out the matters reserved for determination by the Board. All powers which have not been retained as reserved to the Board or specifically delegated in this Scheme will be exercised by the Management Team or their nominees.

## Conditions of delegation

3. The delegations made in this Scheme are subject to the following conditions:
  - 3.1. All delegated powers will be exercised in accordance with the relevant policies decided by the Board.
  - 3.2. Before exercising any delegated function, all appropriate consultations will be undertaken and, in particular, decisions with financial or personnel consequences will be the subject of consultation with the Chief Operating Officer.
  - 3.3. Delegated powers will not be exercised in a manner which is likely to be a cause for public concern.

## Reservations to the Board

4. The following matters are reserved for determination by the Board:
  - 4.1. Approval of the Corporate Plan.
  - 4.2. Approval of annual estimates of expenditure and income.
  - 4.3. Approvals of strategic policies relating to the governance of Audit Scotland are a matter for the Board. (Approval of operational policies of Audit Scotland are a matter for the Accountable Officer and the Management Team).
  - 4.4. Approval of Standing Orders, Financial Regulations and Scheme of Delegation.
  - 4.5. Approval of Annual Accounts and Annual Reports.
  - 4.6. Approval of internal audit arrangements.
  - 4.7. Approval of conditions of service affecting all employees.
  - 4.8. Approval of specific matters referred to in the attached Schedule.

5. 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.

## **Quorum for Management Team**

6. The quorum for the Management Team is three, comprising of the Accountable Officer or the Chief Operating Officer plus two others.

## **Making, revocation and variation**

7. The matters reserved to the Board and delegated to officers of Audit Scotland are as detailed above and as shown in the Schedule.
8. This Scheme of Delegation may be varied or revoked by the Board.

## Schedule

|          | Matter  | Reserved or delegated to                                     | Comment  |
|----------|---|--|--|
| <b>1</b> | <b>Appointment of employees</b>                                       |  |  |
| 1.1      | Appointment of Management Team  | Board  |  |
| 1.2      | Appointment of Associate/Audit Directors                              | Management Team  |  |
| 1.3      | All other appointments  | Management Team, Directors or their nominees                 | The Accounts Commission Chair/members will select for appointment the Secretary to the Accounts Commission |
| 1.4      | Appointment of Controller of Audit                                    | Not applicable   | The Board does not have a role here. The Controller of Audit is appointed by the Accounts Commission       |
| <b>2</b> | <b>Personnel matters</b>  |  |  |
| 2.1      | Disciplinary action, including dismissal                              | Appeals Committee and as per approved disciplinary procedure | See Discipline Policy in staff handbook  |
| 2.2      | Grading of Management Team posts                                      | Board  | See also Job Evaluation procedure in staff handbook  |
| 2.3      | Grading of Associate/Audit Director posts and all other posts         | Management Team  | See also Job Evaluation procedure in staff handbook  |
| 2.4      | Changes to Management Team  | Board  |  |
| 2.5      | Changes to approved establishment below Management Team               | Management Team  |  |
| 2.6      | Variation of conditions of service for members of the Management Team | Board  |  |



|          |  |   |  |
|----------|--|---|--|
| 2.7      | Variation of conditions of service for Associate/Audit Directors and all other staff   | Management Team   | All staff have a right of appeal to the Remuneration & Human Resources Committee or the Board following discussion by the Remuneration & Human Resources Committee                     |
| 2.8      | Decisions on applications for early retirement: <ul style="list-style-type: none"> <li>• Management Team</li> <li>• All other employees</li> </ul>   | Board<br>Management Team  |  |
| <b>3</b> | <b>Financial matters</b>   |   |  |
| 3.1      | Approval of expenditure for which there is no provision in the overall budget.   | Board   | Financial Regulations 15   |
| 3.2      | Approval of virement within agreed budget: <ul style="list-style-type: none"> <li>• Virement between budget groups</li> <li>• Virement between budget heads</li> <li>• Virement between budget lines</li> </ul>  | Management Team<br><br>Relevant Directors<br><br>Budget Holders | Financial Regulations 16   |
| 3.3      | Virement of salary budget over £250,000, cumulatively in one year  | Board   | Financial Regulations 16   |
| 3.4      | Approval of Accounting Policies  | Board   | Financial Regulation 22  |
| 3.5      | Approval for the issue of credit cards to members of staff and credit limit to be applied.<br>(To be reported at next Management Team meeting)<br>Credit Card default limits: <ul style="list-style-type: none"> <li>• Management Team £1,500</li> <li>• Other staff £1,000</li> </ul> | Accountable Officer and Chief Operating Officer                 | Financial Regulation 30 – 31<br><br>See also Credit Card Procedures.<br><br>Default amounts may be varied by Management Team for individuals on either a permanent or temporary basis. |

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|------|--|--|---|
| 3.6  | <p>Acceptance of tenders and placing of orders:</p> <ul style="list-style-type: none"> <li>• Above £250,000</li> <li>• Between £100,000 and £250,000</li> <li>• Up to £100,000</li> <li>• Below £50,000</li> </ul> | <p>Board</p> <p>Accountable Officer and Chief Operating Officer</p> <p>Management Team</p> <p>Budget Holders</p> | <p>Financial Regulations 46</p> <p>See also the Procurement Handbook</p>  |
| 3.7  | <p>Acceptance of offers for disposal of assets</p>   | <p>As for acceptance of tenders and placing of orders</p>  |   |
| 3.8  | <p>Approval of expenditure within agreed budget:</p> <ul style="list-style-type: none"> <li>• Any budget group</li> <li>• Specific budget group</li> <li>• Specific cost centre budget</li> </ul>                  | <p>Management Team</p> <p>Relevant Director</p> <p>Budget Holder</p>   | <p>Financial Regulations 52</p>   |
| 3.9  | <p>Payment of accounts other than to approved auditors:</p> <ul style="list-style-type: none"> <li>• Above £50,000</li> <li>• Below £50,000</li> </ul>   | <p>Management Team</p> <p>Member of Management Team or as delegated</p>  | <p>Financial Regulations 51 – 58</p> <p>Delegated signatories are approved by Management Team and are responsible for the expenditure approved. As evidence a delegated purchasing authority letter will be issued. Those with delegated authority may request authority to be passed to members of their staff, but the limit of authority granted must be notified to Management Team and Finance who will maintain a list of those approved.</p> |
| 3.10 | <p>Payment of accounts for orders placed using electronic purchase orders.</p>   | <p>Member of Management Team or as delegated</p>   | <p>Electronic purchase orders are sent, via email, to be authorised. The process requires the authoriser to</p>   |

|      |   |  |   |
|------|---|--|---|
|      |   |  | be selected from a list, maintained within the finance system, of signatories delegated to sign for the cost centre and for the value of goods or services being ordered. The signatories are the same as those delegated in the previous section.  |
| 3.11 | Parameters for automatic payment of electronic purchase orders.   | Management Team  | <p>Financial Regulations 58</p> <p>Where an invoice is received as the result of an order placed using the electronic purchase order system it can be processed by Finance for payment if:</p> <ul style="list-style-type: none"> <li>• The order has been marked as received in the electronic purchase order system,</li> <li>• The value shown on the invoice is within the parameters of +5% or - 10% of the value authorised for that order.</li> </ul> <p>Any invoice where the value is outwith these parameters must be sent for an additional, manual, authorisation before payment can be made.</p> |
| 3.12 | <p>Certification of accounts for payment to approved auditors:</p> <ul style="list-style-type: none"> <li>• Interim invoices up to £50,000 and final invoices up to £10,000</li> <li>• Interim invoices over £50,000 and final invoices over £10,000</li> </ul> | A member of the Audit Quality and Appointments team<br>Associate Director, Audit Quality and Appointments or | Financial Regulations 59  |

|      |  |   |  |
|------|--|---|--|
|      |  | member of Management Team   |  |
| 3.13 | Miscellaneous expenditure (including travel & subsistence) | The Chief Operating Officer, Secretary to the Accounts Commission, senior managers & other line managers as appropriate. (Details available in Finance) | Financial Regulations 76 - 78<br>Delegation requires appropriate Director approval and notification to Finance. The initial delegation is £2,000. Variations from this amount may be agreed by the Budget Holder and notified to the Management Team and Finance who will maintain a list of those approved. |

Budget Holders comprise: Management Team members, and Corporate Services managers.

Note: Management Team is defined in section 8 of the Financial Regulations as follows “the Management Team consists of the Auditor General, the Chief Operating Officer, the Director of Audit Services and the Director of Performance Audit and Best Value, or such other combination of officers as may be determined from time to time by the Board”. Decisions can only be made by Management Team when they are quorate as defined in section 6 of this document as follows “The quorum for the Management Team is three, comprising of the Accountable Officer or the Chief Operating Officer plus two others”.

# Code of Conduct

## Staff policy



Prepared for Audit Scotland

September 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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# Code of Conduct

## Introduction

1. Audit Scotland and our staff must demonstrate high standards of corporate and personal conduct. This can be achieved by embracing our core values, which are:
  - Independence, integrity and objectivity.
  - Valuing people and ensuring equality and fairness.
  - Effective communication.
2. This Code of Conduct gives you clear and helpful advice about the standards of behaviour expected of you as a member of staff. The Code will be reviewed ~~annually~~regularly and is subject to change. A serious breach of the Code may lead to disciplinary action.
3. In addition, you are expected to comply with the principles of the Ethical Standards for Auditors issued by the Financial Reporting Council. Guidance on the application of those standards can be found in the Staff Handbook ('Ethical Standards'), which must be read as part of the annual Fit and Proper process. Our Ethical Standards Application Guide has five main sections which cover:
  - General requirements and guidance.
  - Financial, business, employment and personal relationships.
  - Long association with the audit engagement and with entities relevant to engagements.
  - Fees, remuneration and evaluation policies, gifts and hospitality, litigation.
  - Non-audit / Additional services provided to entities.
4. You should also keep to the Codes of Conduct of the professional bodies of which you are a member.
5. The general principles upon which this Code of Conduct is based are:
  - **Duty** - You have a duty to uphold the law and act in accordance with the law and the public trust placed in you. You have a duty to act in the interests of Audit Scotland of which you are a staff member and in accordance with its core functions and duties.
  - **Selflessness** - You have a duty to take decisions solely in terms of public interest. You must not act in order to gain financial or other material benefit for yourself, family or friends.
  - **Integrity** - You must not place yourself under any financial, or other, obligation to any individual or organisation that might reasonably be thought to influence you in the performance of your duties.
  - **Objectivity** - You must make decisions solely on merit and in a way that is consistent with the functions of Audit Scotland when carrying out public business including making appointments, awarding contracts or recommending individuals for rewards and benefits.



- **Accountability and stewardship** - You are accountable for your decisions and actions to the public. You have a duty to consider issues on their merits, taking account of the views of others and must ensure that Audit Scotland uses its resources prudently and in accordance with the law.
- **Openness** - You have a duty to be as open as possible about your decisions and actions, giving reasons for your decisions and restricting information only when the wider public interest clearly demands.
- **Honesty** - You have a duty to act honestly. You must declare any private interests relating to your public duties and take steps to resolve any conflicts arising in a way that protects the public interest.
- **Leadership** - You have a duty to promote and support these principles by leadership and example, and to maintain and strengthen the public's trust and confidence in the integrity of Audit Scotland and its members in conducting business.
- **Respect** - You must respect colleagues and the role they play, treating them with courtesy at all times. Similarly, you must respect members of the public when performing duties as a staff member of Audit Scotland.

## Diversity and Equality

6. We value and promote diversity and equality of opportunity. We expect you to carry out your work following the principles within our Diversity and Equality policy.

## Relationships

7. You may have contact with audited bodies, other organisations or members of the public. You should deal fairly, equitably and consistently with those you come in contact with, and you should always be polite and portray a positive and professional image of Audit Scotland.
8. People may develop a relationship with you to influence our work or to acquire confidential or sensitive information for personal gain. They may also offer a financial or other benefit to supply them with information. These relationships are inappropriate and bring risks to your personal reputation and that of Audit Scotland (see Bribery and Corruption paragraphs 39 - 41). You must tell your line manager of any such approaches, relationships or offers of financial or other benefits, and you should do this as soon as possible so that Audit Scotland can support and advise you.
- 8-9. Staff must notify the Compliance Partner if applying for any employment in a public body subject to audit by auditors appointed by the Auditor General or Accounts Commission (see the Ethical standard policy, section 2).
- 9-10. Audit Scotland recognises that close personal or domestic relationships with colleagues may exist or develop during the course of their employment. In order that Audit Scotland's business is conducted and perceived to be conducted in a professional and proper manner it is necessary to distinguish between, and take account of, personal relationships which overlap with professional ones in the workplace. If you have any close personal or domestic

relationships where that relationship may impinge on your duties and responsibilities this must be declared in confidence to your line manager or senior manager. If necessary, upon disclosure of such a relationship and after consultation with both parties, reasonable arrangements will be made to ensure that future working arrangements and potential conflicts do not arise.

## **Contractors, suppliers and consultants**

- 40-11.** You must be fair and impartial in your dealings with contractors, suppliers and consultants. If you are involved in the procurement or tendering process to appoint contractors, suppliers or consultants you must follow Audit Scotland's procurement handbook, and any other guidance issued.
- 41-12.** If you have access to confidential information on tenders or costs for contractors, suppliers or consultants you must not show that information to any unauthorised person or organisation.
- 42-13.** All private relationships with actual or potential contractors, suppliers or consultants must be declared, as set out in paragraph five below.

## **Independence, objectivity and conflicts of interest**

- 43-14.** It is important that you carry out your work with independence and objectivity, and that you do not allow any private interest to influence your decisions. You must not use your position to further your own interests or the interests of others who do not have a right to benefit from our work.
- 44-15.** You, or a member of your family or household, may have a private interest which relates to the work of Audit Scotland. It may be a financial one or one which a member of the public might reasonably think could influence your judgement. For example, you may be a member of a public body, an organisation or club and membership might lead to a conflict of interest with your work. This also applies to membership of organisations or clubs which are not open to the public e.g. Freemasonry.
- 45-16.** You must declare all such interests to your Compliance Partner / Compliance Manager. A Compliance Partner is appointed for each business group within Audit Scotland. The best way of making such a declaration is to use the Fit & Proper Self-Assessment Form. This information is then retained in a secure area of ishare for three years, after which it is destroyed. The Compliance Partner / Manager will contact you and discuss any issues arising from your disclosure, as appropriate.
- 46-17.** Fit & Proper Self-Assessment forms are completed by all new staff and other workers when starting their employment / assignment with Audit Scotland. Audit Scotland annually requests that the Form is refreshed. If, between the annual cycle, your circumstances change and you have information that should be reported to the Compliance Partner then it is your responsibility to do so immediately.

**17.18.** The Fit & Proper Self-Assessment form is available to download from the Staff Handbook within ishare. Your completed form should be emailed to your business groups Compliance Partner using the email address on the form. Business group Compliance Partners are:

| Business Group                 | Compliance Partner |
|--------------------------------|--------------------|
| Audit Services                 | Fiona Kordiak      |
| Corporate Services             | Diane McGiffen     |
| Performance Audit & Best Value | Fraser McKinlay    |

## Openness, disclosure and protection of information

**18.19.** Audit Scotland carries out its work in the public interest and is committed to the principle of openness. You should follow the Freedom of Information (Scotland) Act and our FOI policy.

**19.20.** There are occasions when information gathered during the course of your work must be kept confidential, both inside and outside the organisation and after leaving Audit Scotland. For example, when its disclosure would prejudice an investigation, breach confidentiality or contravene Data Protection legislation. This does not apply where there is a legal duty to provide information. You should follow our information management policy and procedures, including completing information management training if asked to do so.

**20.21.** We take information security very seriously. You must protect our information from inappropriate access, abuse, loss or damage. You must report any instance of this as quickly as possible and help fully in any investigation. Any breach of confidentiality or security may lead to an investigation under our discipline policy. Any wilful breach, such as unauthorised access or supply of information to others, could lead to the termination of your employment and to a criminal prosecution under Data Protection legislation. If you are in any doubt about a matter of confidentiality or security, please check with your manager.

**21.22.** If you are involved in an act that could cause Audit Scotland reputational risk or bring us into disrepute, e.g. you are arrested or charged for a criminal offence, you must tell Audit Scotland as soon as possible.

## Paid employment outside Audit Scotland

**22.23.** We will normally allow you to undertake paid employment outside Audit Scotland in your own time unless there is a conflict of interest, or it is likely to have an adverse effect on the work of Audit Scotland or on your own performance. A conflict of interest can arise where a member of staff seeks to do work for an audited body or to carry out work which relates to the work of Audit Scotland. Outside employment can adversely affect the work of Audit Scotland if

it damages the organisation's reputation. It can affect your own performance if it significantly reduces your ability to carry out your duties. If you do work outside Audit Scotland you must first get the approval of your director/ [audit/ associatessistant](#) director and then advise the Human Resources team. This procedure is in your interests and will protect you. It will also allow us to meet our legal obligations in relation to family friendly benefits and Working Time Regulations. You are not allowed to use the equipment and resources of Audit Scotland in any outside employment.

**23-24.** If you receive a fee for a publication, broadcast, speech or lecture where you have used official information or your own work experience you must remit that fee to Audit Scotland. This also applies to external work carried out in working hours which attracts a fee. You may keep tokens of appreciation such as book tokens or commemorative items. You should let the Chief Operating Officer know of any tokens received as it will be recorded in a register kept for that purpose.

## Hospitality

**24-25.** You should not accept or offer hospitality connected with your work unless you can justify it and be sure that it will not lead to criticism from colleagues or the public. In general, modest hospitality may be acceptable in some circumstances for example, a sandwich lunch.

**25-26.** Accepting, declining or giving of hospitality should be declared and recorded in the register kept for that purpose. When accepting or giving hospitality, you should get approval from your director/ [audit/ associatessistant](#) director and then let the Chief Operating Officer know. Hospitality given must be recorded in the register and the expenditure detailed in our financial accounting system. You must make sure that you charge the hospitality to the hospitality code 1255 and the appropriate cost centre for your business group. All reimbursement claims for hospitality given through expenses must follow the travel and expenses policy.

**26-27.** To help you decide what to declare, the following guidance may be useful:

### Reporting hospitality received

**27-28.** Items not requiring declaration and recording are:

- Working lunches at audited bodies, partner firms, working groups/committees, boards, professional institutes and other public bodies.
- Meals and accommodation related to attendance at conferences, seminars and workshops.

**28-29.** Items that would require disclosure include:

- Meals in external restaurants, whether working or not.
- Attendance at functions organised/hosted by professional bodies.
- Receptions held by public bodies, partner firms or other parties where there is a widespread range of attendees, e.g. gallery viewings.

- Functions where the focus of the event is an awards ceremony which involves a public-sector element.
- Meals paid for by visiting delegations from other audit offices and Parliaments/ Governments.

**29-30.** You should not accept offers to attend social or sporting events unless it would be of benefit to Audit Scotland or where Audit Scotland would expect to be represented.

**30-31.** In exceptional circumstances it may be appropriate to accept hospitality in order to avoid embarrassment or offence for example, hospitality offered from overseas hosts when we are carrying out international work.

**31-32.** You should not accept repeated hospitality from the same source.

### Reporting hospitality declined

**32-33.** Any offers of hospitality that you decline must be recorded.

### Reporting hospitality given

**33-34.** Items not requiring declaration and recording are:

- Working lunches when hosting meetings and conferences with audited bodies, partner firms, working groups/committees/boards, professional institutes and other public bodies. Lunches should be modest in scale and may typically consist of a buffet/sandwiches and tea and coffee throughout the day.
- Travel costs as part of recruitment.
- Consultant travel and accommodation costs where this is part of the consultant's fee.

**34-35.** Items that would require disclosure would therefore include:

- Meals provided in external restaurants whether working or not.
- Meals provided to international visitors/groups.
- Provision of overnight accommodation.
- Provision of travel, e.g. flights or train tickets.
- Hospitality at or the provision of theatre or sporting event tickets.

## Gifts

**35-36.** As a general rule, you must not accept personal gifts although you may keep isolated gifts of a trivial character such as a pen or diary, the token value of which must not exceed £50. Sometimes it may be appropriate to accept a gift of more than token value, for example where refusal would embarrass Audit Scotland or damage an important relationship. The acceptance of such a gift should be approved by your director/ [audit/ associate](#) director. Where an inappropriate gift is received and you are unable to return it or the donor refuses to accept its return, you should report the circumstances to your director/ [audit/ associate](#) director.

**36-37.** All gifts above token value will belong to Audit Scotland and are not a personal gift to you.

The Chief Operating Officer keeps a register to record gifts, whether they are accepted or declined and to show that acceptance was authorised. The International Liaison Manager keeps a subsection of the gifts register for work with other countries. Any gifts received while carrying out work for other countries should be recorded in the register.

**37-38.** The giving of gifts is generally limited to international visits, the rules for which are set out in the Policy on visits, and the provision and acceptance of gifts & hospitality in relation to work with other countries. Gifts to visiting delegations are given as mementoes of their visit to Audit Scotland. They should be of modest value (e.g., book, Quaich, paper weight) and should exclude alcohol. Gifts given to non-international visitors or organisations should be recorded in the hospitality and gifts register. Items that would not require disclosure are modestly priced books and pens; alcohol should not be given as a gift.

**38-39.** Gifts recorded in the register must have the expenditure detailed in our financial accounting system. You must make sure that you charge the gift to the hospitality code 1255 and the appropriate cost centre for your business group. All reimbursement claims for gifts given through expenses must follow the travel and expenses policy.

## Bribery and corruption

**39-40.** Bribery is the offering, giving, receiving, or soliciting of any item of value or advantage to influence the actions of an official or any other person in charge of a public or legal duty.

**40-41.** It is a serious criminal offence for you to:

- give, receive or solicit a bribe (i.e., to corruptly receive or give any gift, loans, fee, reward or advantage) in return for doing or not doing anything
- show favour or disfavour to any person in the course of your work.

**41-42.** An act of bribery by an individual may make Audit Scotland liable of committing an offence. We have a zero tolerance to bribery and corruption, and such an act can lead to dismissal and prosecution.

## Use of resources

**42-43.** You and your colleagues serve the public, and you must remember this principle when you use Audit Scotland's equipment, materials and resources to ensure value for money and economy, efficiency and effectiveness.

**43-44.** The equipment of Audit Scotland is available to you for use in your personal affairs, provided that:

- it is in your own time
- the cost of any consumables, e.g. paper, postage, telephone calls is met by you
- you are not receiving any fee or reward for the purpose

- you don't store your personal (non-work related) information on Audit Scotland equipment  
you follow our policy on the use of electronic media such as email and the Internet.

## Appointments

44-45. All appointments must be made on merit. If you are involved in the recruitment and selection process and have any kind of relationship which might affect your ability to be impartial, it must be declared to your director/ audit/ associatessistant director. Your director/ audit/ associatessistant director and the person chairing the selection process will decide whether you can take part in the process. The same procedure must be followed in other HR processes such as grievance, discipline or performance reviews.

45-46. You must not try to influence board members or a colleague either directly or indirectly to secure your own appointment or promotion, or the appointment or promotion of another person. You must report any instances of this occurring to your director/ audit/ associate ssistant director and the HR & OD Manager.

## Disclosure

46-47. We have access to a broad range of sensitive data and a number of the bodies we audit request staff to be security checked. The integrity and security of public information is core to the values of Audit Scotland and therefore all employees are subject to Disclosure checks.

48. Baseline Personnel Security Standard (BPSS) is the entry level check and forms part of a package or checks that represent good recruitment and employment practice. It provides an appropriate level of assurance as to the trustworthiness and integrity of prospective and existing workers. It involves verification of identity, nationality and immigration status together with employment history and criminal record declaration. The basic criminal record check (through Disclosure Scotland) will be carried out which will show any unspent convictions. Everyone working with Audit Scotland will be asked to consent to this baseline level of security clearance.

49. The next level is called Standard Disclosure and is required for all workers across Audit Services and Performance Audit & Best Value. Some workers in Corporate Finance, HR and Digital may be required to participate in checks to this level due to the nature of their work. Standard Disclosure enables Audit Scotland to check for certain spent convictions.

50. Enhanced Disclosure will only be needed when a worker, normally within Audit Services or Performance Audit & Best Value, is working with children or vulnerable people in the course of their work. If the worker is to be involved in such work on a long-term basis then Audit Scotland may decide to include security clearance in line with the Protection of Vulnerable Groups (PVG) to ensure continuous monitoring of the workers status. If necessary, all of the foregoing is also undertaken by our HR & OD team.

51. Security Clearance, Counter-terrorism checks and Developed Vetting will normally only be required when workers are involved in dealing with secret or sensitive data. Your manager will discuss this with you if it is required. This may be undertaken by the HR & OD team or by



[our client organisation \(i.e. Scottish Police Authority, Scottish Corporate Parliamentary Body etc.\).](#)

## Media

[47-52.](#) In your work with Audit Scotland, any contact with the media is likely to come from the Audit Scotland Communications team. If you are approached directly by the media, you should speak with the Communications Manager or one of the communications officers, unless circumstances make that impossible and it is better for you to respond to the media enquiry. In this case you must tell the Communications team afterwards. More detailed advice for Audit Services staff can be found in the Audit Manual. Media training is available for staff most likely to need it. Contact the Communications team or your line manager for more information.

## Social Media

[53.](#) [Audit Scotland has a Social Media Strategy which sets out guidance for staff on how to conduct themselves on social media platforms. Employees must conduct themselves according to high standards at all times and be conscious that they act in the best interests of Audit Scotland.](#)

[54.](#) [In particular, when posting on social media platforms staff must be vigilant about:](#)

- [posting political views, or comments that could compromise your duty to be politically neutral in public](#)
- [posting derogatory or inflammatory comments, or getting into heated exchanges with others](#)
- [understanding whether a post is public or private. It can be easy to think you are posting to a private group but in fact be posting for anybody to see."](#)

## Political neutrality

[48-55.](#) The public expects you to carry out your work in a politically neutral way. You must follow our policies, despite any personal views, and you must not do anything which might call into question the independence and political neutrality of Audit Scotland. You have the right to be a member of a political party, but it would be unsuitable to take part in high profile public party-political activity. If you are in any doubt, you should take advice from your director/[audit/](#)[associate ssistant](#) director.

## Health and safety at work

[49-56.](#) We have a duty to ensure that all reasonable steps are taken to provide staff with a safe and healthy working environment. We will comply with the Health and Safety at Work Act, any other associated legislation and statutory codes of practice.



~~50-57.~~ You have a duty under the Health and Safety at Work Act for the health, safety and welfare of yourself and others, including members of the general public who may be affected by what you do or fail to do at work. You must comply with our Health and Safety policy and cooperate with us in our compliance with health and safety legislation.

## **Fair and reasonable treatment at work**

~~54-58.~~ You should expect fair and reasonable treatment from your colleagues and managers. If you feel that you have been unfairly treated or have been discriminated against, there is a grievance procedure that you can use.

~~52-59.~~ We expect you to support and comply with our policies, practices and procedures, both in your dealings with colleagues and those outside the organisation. You should not do anything which might undermine or adversely affect any position or decision of Audit Scotland.

~~53-60.~~ We also have a whistleblowing policy. You should refer to this if you feel that you have been required to act in a way, or have become aware of practices in the organisation, which might be illegal, improper, unethical or in conflict with the principles of this Code.

# Members' Code of Conduct



Prepared for Audit Scotland

September 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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# Guidance on the Code of Conduct

## Introduction

1. The Scottish public has a high expectation of those who serve on the boards of public bodies and the way in which they should conduct themselves in undertaking their duties for the public body. You must meet those expectations by ensuring that your conduct is above reproach and by embracing our core values, which are:
  - Independence, integrity and objectivity.
  - Valuing people and ensuring equality and fairness.
  - Effective communication.
2. As a member of Audit Scotland, it is your responsibility to make sure that you are familiar with, and that your actions comply with, the provisions of this Code of Conduct.
3. You must observe the rules of conduct contained in this Code. It is your personal responsibility to comply with these and review regularly, and at least annually, your personal circumstances with this in mind, particularly when your circumstances change. You must not at any time advocate or encourage any action contrary to the Code of Conduct.
4. The Code has been developed in line with the key principles listed in paragraph 6 and provides additional information on how the principles should be interpreted and applied in practice. No Code can provide for all circumstances and if you are uncertain about how the rules apply, you should seek advice from the Chief Operating Officer. You may also choose to consult your own legal advisers and, on detailed financial and commercial matters, seek advice from other relevant professionals.
5. You should familiarise yourself with the Scottish Government publication “On Board – a guide for board members of public bodies in Scotland”. This publication will provide you with information to help you in your role as a member of a public body in Scotland and can be viewed on the Scottish Government website.

## Key principles of the Code of Conduct

6. The general principles upon which this Code of Conduct are based are:

### **Duty**

You have a duty to uphold the law and act in accordance with the law and the public trust placed in you. You have a duty to act in the interests of Audit Scotland of which you are a member and in accordance with its core functions and duties.

### **Selflessness**

You have a duty to take decisions solely in terms of public interest. You must not act in order to gain financial or other material benefit for yourself, family or friends.

### **Integrity**

You must not place yourself under any financial, or other, obligation to any individual or organisation that might reasonably be thought to influence you in the performance of your duties.

### **Objectivity**

You must make decisions solely on merit and in a way that is consistent with the functions of Audit Scotland when carrying out public business including making appointments, awarding contracts or recommending individuals for rewards and benefits.

### **Accountability and stewardship**

You are accountable for your decisions and actions to the public. You have a duty to consider issues on their merits, taking account of the views of others and must ensure that Audit Scotland uses its resources prudently and in accordance with the law.

### **Openness**

You have a duty to be as open as possible about your decisions and actions, giving reasons for your decisions and restricting information only when the wider public interest clearly demands.

### **Honesty**

You have a duty to act honestly. You must declare any private interests relating to your public duties and take steps to resolve any conflicts arising in a way that protects the public interest.

### **Leadership**

You have a duty to promote and support these principles by leadership and example, to maintain and strengthen the public's trust and confidence in the integrity of Audit Scotland and its members in conducting public business.

### **Respect**

You must respect fellow members of Audit Scotland and its employees and the role they play, treating them with courtesy at all times. Similarly, you must respect members of the public when performing duties as a member of Audit Scotland.

7. You should apply the principles of this Code to your dealings with fellow members of Audit Scotland, its employees and other stakeholders. Similarly, you should also observe the principles of this Code in dealings with the public when performing duties as a member of a public body.

# General conduct

8. The rules of good conduct in this section must be observed in all situations where you act as a member of Audit Scotland.

## Conduct at meetings

9. You must respect the chair, your colleagues and employees of Audit Scotland in meetings. You must comply with rulings from the chair in the conduct of the business of these meetings.

## Relationships with Board Members, employees of Audit Scotland and others

10. You will treat your fellow board members and any staff employed by Audit Scotland with courtesy and respect. It is expected that fellow board members and employees will show you the same consideration in return. It is good practice for employers to provide examples of what is unacceptable behaviour in their organisation. Public bodies should promote a safe, healthy and fair working environment for all. As a board member you should be familiar with the policies of Audit Scotland in relation to bullying and harassment in the workplace and also lead by exemplar behaviour.
11. Relationships may be developed with you by others to influence our work or to acquire confidential or sensitive information for personal gain. Those seeking to develop a relationship with you may also offer a financial or other benefit to supply them with information. These relationships are inappropriate and bring risks to your personal reputation and that of Audit Scotland (see Section on Bribery and Corruption). You must inform the Chair of the Board and Chief Operating Officer of any such approaches, relationships or offers of financial or other benefits, and you should discuss any concerns about any such issues as soon as possible so that Audit Scotland can support and advise you.

## Remuneration, allowances and expenses

12. You must comply with any rules of Audit Scotland regarding remuneration, allowances and expenses.

## Bribery and corruption

13. Bribery is the offering, giving, receiving, or soliciting of any item of value or advantage to influence the actions of an official or any other person in charge of a public or legal duty.
14. It is important that you are aware that it is a serious criminal offence for you to:
- give, receive or solicit a bribe (i.e. to corruptly receive or give any gift, loans, fee, reward or advantage) in return for doing or not doing anything
  - show favour or disfavour to any person in the course of your work with Audit Scotland.



15. It is also important to be aware that an act of bribery by an individual may render Audit Scotland liable of committing an offence.
16. Audit Scotland has a zero tolerance to bribery and corruption therefore corrupt actions, including bribery, can lead to dismissal and prosecution.

## Gifts and hospitality

17. You must never ask for gifts or hospitality.
18. You must not accept any offer by way of a gift or hospitality which could give rise to a real or substantive personal gain or reasonable suspicion of influence on your part to show favour, or disadvantage, to any individual or organisation. You should also consider whether there may be any reasonable perception that any gift received by your spouse or cohabitee or by any company in which you have a controlling interest, or by a partnership of which you are a partner, can or would influence your judgement. The term 'gift' includes benefits such as relief from indebtedness, loan concessions, or provision of services at a cost below that generally charged to members of the public.
19. You are personally responsible for all decisions connected with the offer or acceptance of gifts or hospitality offered to you and for avoiding the risk of damage to public confidence in Audit Scotland. As a general guide, it is usually appropriate to refuse offers except:
  - isolated gifts of a trivial character, the value of which must not exceed £50;
  - normal hospitality associated with your duties and which would reasonably be regarded as appropriate; or
  - gifts received on behalf of Audit Scotland.
20. You must not accept any offer of a gift or hospitality from any individual or organisation which stands to gain or benefit from a decision Audit Scotland may be involved in determining, or who is seeking to do business with us, and which a person might reasonably consider could have a bearing on your judgement. If you are making a visit in your capacity as a member of Audit Scotland then, as a general rule, you should ensure that Audit Scotland pays for the cost of the visit.
21. You must not accept repeated hospitality from the same source.
22. Members of Audit Scotland should familiarise themselves with the terms of the Bribery Act 2010 which provides for offences of bribing another person and offences relating to being bribed.
23. You **must declare the giving and acceptance of any gifts or hospitality received by you or gifts and hospitality declined in your capacity as a member of Audit Scotland** to the Chief Operating Officer who will record the declaration in a register kept for that purpose.

Audit Scotland only recognises and approves the giving of gifts or hospitality if recorded in the register and the expenditure is detailed in our financial accounting system. All reimbursement

claims for gifts or hospitality given through expenses must be in accordance with the remuneration, allowances and expenses policy.

To assist Members the following guidance indicates items that do not require recording or disclosure:

- Working lunches at audited bodies, partner firms, working groups/committees/boards, professional institutes and other public bodies.
- Meals and accommodation incidental to the attendance at conferences, seminars and workshops.
- Giving or receiving gifts of modest value such as a pen or book.

Items that do require disclosure would therefore include:

- Isolated gifts in excess of £50.
- Meals in external restaurants whether working or not.
- Attendance at functions organised/hosted by professional bodies [ege.g.](#) Institute Annual Dinners.
- Receptions held by public bodies, partner firms or other parties where there is a widespread range of attendees [ege.g.](#) gallery viewings.
- Functions where the focus of the event is an awards ceremony which involves a public sector element.
- Meals paid for by visiting delegations from other audit offices, organisations and Parliaments/Governments.
- Provision of accommodation, travel or corporate hospitality to others.

24. Details of any gift or hospitality will be made available for public inspection through publication of the register on Audit Scotland's website.

## Confidentiality requirements

25. Audit Scotland carries out its work in the public interest and is committed to the principle of openness. However, there may be times when you will be required to treat discussions, documents or other information relating to the work of Audit Scotland in a confidential manner. You will often receive information of a private nature which is not yet public, or which perhaps would not be intended to be public. There are provisions in other legislation, such as the Data Protection Act 2018 and the Freedom of Information (Scotland) Act 2002, on the categories of confidential and exempt information and you must always respect and comply with the requirement to keep such information private.
26. It is unacceptable to disclose any information to which you have privileged access, for example derived from a confidential document, either orally or in writing. In the case of other documents and information, you are requested to exercise your judgement as to what should or should not be made available to outside bodies or individuals. In any event, such

information should never be used for the purpose of personal or financial gain, or used in such [asa](#) way as to bring Audit Scotland into disrepute.

27. Breaches of confidentiality or information security will be treated with utmost seriousness and could prompt an investigation. Any wilful breach such as, unauthorised access or supply of information to others could lead to termination of your position with Audit Scotland and could lead to a criminal prosecution under Data Protection legislation. If you are in any doubt about a matter of confidentiality or information security, please check with the Chief Operating Officer.
28. If you are involved in an act that could cause Audit Scotland reputational risk or bring the organisation into disrepute e.g. you are arrested or charged for a criminal offence, you must inform Audit Scotland at the earliest available opportunity.

## Use of Audit Scotland's facilities

29. Members of Audit Scotland must not misuse facilities, equipment, stationery, telephony, computer, information technology equipment and services, or use them for party political or campaigning activities. Use of such equipment and services, etc must be in accordance with Audit Scotland's policy and rules on their usage. Care must also be exercised when using social media networks not to compromise your position as a member of Audit Scotland.

## Other Appointments

30. Non-Executive Members must seek the approval of the SCPA prior to accepting any additional office, employment or appointment or engaging in any other occupation.

## Conflicts of Interest

31. You may not hold any other office, employment or appointment or engage in any other occupation which would conflict with your responsibilities and duties as a member of Audit Scotland.

# Registration of Interests

## Introduction

32. The following paragraphs set out the kinds of interests, financial and otherwise which you have to register. These are called 'Registerable Interests'. You must at all times ensure that these interests are registered, when you are appointed and whenever your circumstances change in such a way as to require change or an addition to your entry in the Register. It is your duty to ensure any changes in circumstances are reported within one month of them changing. It is a breach of this Code not to comply with these requirements.
33. You should review regularly and at least once a year your personal circumstances. The interests which require to be registered are those set out in the following paragraphs and relate to you. It is not necessary to register the interests of your spouse or cohabitee.

## Remuneration

34. You have a registrable interest where you receive remuneration by virtue of being:
  - employed;
  - self-employed;
  - the holder of an office;
  - a director of an undertaking;
  - a partner in a firm; or
  - undertaking a trade, profession or vocation or any other work.
35. In relation to 34 above, the amount of remuneration does not require to be registered and remuneration received as a member does not have to be registered.
36. If a position is not remunerated it does not need to be registered under this category. However, you must note that unremunerated directorships may need to be registered under the category of 'Related undertakings'.
37. If you receive any allowances in relation to membership of any organisation, the fact that you receive such an allowance must be registered.
38. When registering employment, you must give the name of the employer, the nature of its business, and the nature of the post held in the organisation.
39. When registering self-employment, you must provide the name and give details of the nature of the business. When registering an interest in a partnership, you must give the name of the partnership and the nature of its business.
40. When registering a directorship, it is necessary to provide the registered name of the undertaking in which the directorship is held and give a broad indication of its business.

41. Where you undertake a trade, profession or vocation, or any other work, the detail to be given is the nature of the work and its regularity. For example, if you write for a newspaper, you must give the name of the publication and the frequency of articles for which you are paid.
42. Registration of a pension is not required as this falls outside the scope of the category.

### Related undertakings

43. You must register any directorships held which are themselves not remunerated but where the company (or other undertaking) in question is a subsidiary of, or a parent of, a company (or other undertaking) in which you hold a remunerated directorship.
44. You must register the name of the subsidiary or parent company or other undertaking and the nature of its business, and its relationship to the company or other undertaking in which you are a director and from which you receive remuneration.
45. The situations to which the above paragraphs apply are as follows:
  - You are a director of a board of an undertaking and receive remuneration declared under remuneration - and
  - You are a director of a parent or subsidiary undertaking but do not receive remuneration in that capacity.

### Contracts

46. You have a registrable interest where you (or a firm in which you are a partner, or an undertaking in which you are a director or in which you have shares of a value as described in 50 below) have made a contract with the public body of which you are a member:
  - under which goods or services are to be provided, or works are to be executed; and
  - which has not been fully discharged.
47. You must register a description of the contract, including its duration, but excluding the consideration.

### Houses, land and buildings

48. You have a registrable interest where you own or have any other right or interest in houses, land and buildings, which may be significant to, of relevance to, or bear upon, the work and operation of Audit Scotland to which you are appointed.
49. The test to be applied when considering appropriateness of registration is to ask whether a member of the public acting reasonably might consider any interests in houses, land and buildings could potentially affect your responsibilities to the organisation to which you are appointed and to the public, or could influence your actions, speeches or decision making.

## Interest in shares and securities

- 50.** You have a registerable interest where you have an interest in shares comprised in the share capital of a company or other body which may be significant to, of relevance to, or bear upon, the work and operation of (a) the body to which you are appointed and (b) the nominal value of the shares is:
- (i) greater than 1% of the issued share capital of the company or other body; or
  - (ii) greater than £25,000.
- 51.** Where you are required to register the interest, you should provide the registered name of the company in which you hold shares; the amount or value of the shares does not have to be registered.

## Non-financial interests

- 52.** You may also have a registerable interest if you have non-financial interests which may be significant to, of relevance to, or bear upon, the work and operation of Audit Scotland to which you are appointed. It is important that relevant interests such as membership or holding office in other public bodies, clubs, societies and organisations such as trades unions and voluntary organisations, are registered and described.
- 53.** In the context of non-financial interests, the test to be applied when considering appropriateness of registration is to ask whether a member of the public might reasonably think that any non-financial interest could potentially affect your responsibilities to the organisation to which you are appointed and to the public, or could influence your actions, speeches or decision-making.

## Related party disclosure

- 54.** Related Party Disclosures is a requirement of International Accounting Standard 24. It is a requirement of the Code of Conduct that Board Members and Directors sign an annual declaration at the financial year end stating that you were not aware of any related party transactions in the year.
- 55.** A related party is a person or entity that is related to the entity that is preparing its financial statements.
- (a) A person or a close member of that person's family is related to a reporting entity if that person:
    - (i) has control or joint control over the reporting entity;
    - (ii) has significant influence over the reporting entity; or
    - (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
  - (b) An entity is related to a reporting entity if any of the following conditions applies:

- (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment defined benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

# Declaration of interests

## Introduction

56. The key principles of the Code, especially those in relation to integrity, honesty and openness, are given further practical effect by the requirement for you to declare certain interests in proceedings of Audit Scotland. Together with the rules on registration of interests, this ensures transparency of your interests which might influence, or be thought to influence, your actions.
57. Public bodies inevitably have dealings with a wide variety of organisations and individuals and this Code indicates the circumstances in which a business or personal interest must be declared. Public confidence in Audit Scotland and its members depends on it being clearly understood that decisions are taken in the public interest and not for any other reason.
58. In considering whether to make a declaration in any proceedings, you must consider not only whether you will be influenced but whether anybody else would think that you might be influenced by the interest. You must, however, always comply with the objective test ('the objective test') which is whether a member of the public, with knowledge of the relevant facts, would reasonably regard the interest as so significant that it is likely to prejudice your discussion or decision making in your role as a member of Audit Scotland.
59. If you feel that, in the context of the matter being considered, your involvement is neither capable of being viewed as more significant than that of an ordinary member of the public, nor likely to be perceived by the public as wrong, you may continue to attend the meeting and participate in both discussion and voting. The relevant interest must however be declared. It is your responsibility to judge whether an interest is sufficiently relevant to particular proceedings to require a declaration and you are advised to err on the side of caution. If a board member is unsure as to whether a conflict of interest exists, they should seek advice from the board chair.
60. As a member of Audit Scotland you might serve on other bodies. In relation to service on the boards and management committees of limited liability companies, public bodies, societies and other organisations, you must decide, in the particular circumstances surrounding any matter, whether to declare an interest. Only if you believe that, in the particular circumstances, the nature of the interest is so remote or without significance, should it not be declared. You must always remember the public interest points towards transparency and, in particular, a possible divergence of interest between Audit Scotland and another body. Keep particularly in mind the advice in paragraph 31 of this Code about your legal responsibilities to any limited company of which you are a director.

## Interests which require declaration

61. Interests which require to be declared, if known to you may be financial or non-financial. They may or may not cover interests which are registerable under the terms of this Code. Most of the interests to be declared will be your personal interests but, on occasion, you will have to consider whether the interests of other persons require you to make a declaration. The



paragraphs which follow deal with (a) your financial interests (b) your nonfinancial interests and (c) the interests, financial and non-financial, of other persons.

62. You will also have other private and personal interests and may serve, or be associated with, bodies, societies and organisations as a result of your private and personal interests and not because of your role as a member of Audit Scotland. In the context of any particular matter you will need to decide whether to declare an interest. You should declare an interest unless you believe that, in the particular circumstances, the interest is too remote or without significance. In reaching a view on whether the objective test applies to the interest, you should consider whether your interest (whether taking the form of association or the holding of office) would be seen by a member of the public acting reasonably in a different light because it is the interest of a person who is a member of Audit Scotland as opposed to the interest of an ordinary member of the public.

### Your financial interests

63. You must declare, if it is known to you, any financial interest (including any financial interest which is registerable under any of the categories prescribed in the remuneration section of this Code).
64. There is no need to declare an interest which is so remote or insignificant that it could not reasonably be taken to fall within the objective test.
65. You must withdraw from the meeting room until discussion of the relevant item where you have a declarable interest is concluded. There is no need to withdraw in the case of an interest which is so remote or insignificant that it could not reasonably be taken to fall within the objective test.

### Your non-financial interests

66. You must declare, if it is known to you, any non-financial interest if:
- (i) that interest has been registered under Non Financial Interests (paragraphs 52 and 53) of the Code; or
  - (ii) that interest would fall within the terms of the objective test.
67. There is no need to declare an interest which is so remote or insignificant that it could not reasonably be taken to fall within the objective test.
68. You must withdraw from the meeting room until discussion of the relevant item where you have a declarable interest is concluded. There is no need to withdraw in the case of an interest which is so remote or insignificant that it could not reasonably be taken to fall within the objective test.

## The financial interests of other persons

69. The Code requires only your financial interests to be registered. You also, however, have to consider whether you should declare any financial interest of certain other persons.
70. You must declare if it is known to you any financial interest ~~of~~of: -
- (i) a spouse, a civil partner or a co-habitee;
  - (ii) a close relative, close friend or close associate;
  - (iii) an employer or a partner in a firm;
  - (iv) a body (or subsidiary or parent of a body) of which you are a remunerated member or director;
  - (v) a person from whom you have received a registerable gift or registerable hospitality;
  - (vi) a person from whom you have received registerable expenses.
71. There is no need to declare an interest if it is so remote or insignificant that it could not reasonably be taken to fall within the objective test.
72. You must withdraw from the meeting room until discussion of and voting on the relevant item where you have a declarable interest is concluded. There is no need to withdraw in the case of an interest which is so remote or insignificant that it could not reasonably be taken to fall within the objective test.
73. This Code does not attempt the task of defining “relative” or “friend” or “associate”. Not only is such a task fraught with difficulty but is also unlikely that such definitions would reflect the intention of this part of the Code. The key principle is the need for transparency in regard to any interest which might (regardless of the precise description of relationship) be objectively regarded by a member of the public, acting reasonably, as potentially affecting your responsibilities as a member of Audit Scotland and, as such, would be covered by the objective test.

## The non-financial interests of other persons

74. You must declare if it is known to you any non-financial interest ~~of~~of: -
- (i) a spouse, a civil partner or a co-habitee;
  - (ii) a close relative, close friend or close associate;
  - (iii) an employer or a partner in a firm;
  - (iv) a body (or subsidiary or parent of a body) of which you are a remunerated member or director;
  - (v) a person from whom you have received a registerable gift or registerable hospitality;
  - (vi) a person from whom you have received registerable expenses.

- 75. There is no need to declare an interest if it is so remote or insignificant that it could not reasonably be taken to fall within the objective test.
- 76. There is only a need to withdraw from the meeting if the interest is clear and substantial.

### Making a declaration

- 77. You must consider at the earliest stage possible whether you have an interest to declare in relation to any matter which is to be considered. You should consider whether agendas for meetings raise any issue of declaration of interest. Your declaration of interest must be made as soon as practicable at a meeting where that interest arises. If you do identify the need for a declaration of interest only when a particular matter is being discussed you must declare the interest as soon as you realise it is necessary.
- 78. The oral statement of declaration of interest should identify the item or items of business to which it relates. The statement should begin with the words “I declare an interest”. The statement must be sufficiently informative to enable those at the meeting to understand the nature of your interest but need not give a detailed description of the interest.

### Frequent declarations of interest

- 79. Public confidence in Audit Scotland is damaged by perception that decisions taken by us are substantially influenced by factors other than the public interest. If you would have to declare interests frequently at meetings in respect of your role as a board member you should not accept a role or appointment with that attendant consequence. If members are frequently declaring interests at meetings then they should consider whether they can carry out their role effectively and discuss with their chair. Similarly, if any appointment or nomination to another body would give rise to objective concern because of your existing personal involvement or affiliations, you should not accept the appointment or nomination.

# Lobbying and access to members of public bodies

## Introduction

81. In order for Audit Scotland to fulfil its commitment to being open and accessible, it needs to encourage participation by organisations and individuals in the decision-making process. Clearly however, the desire to involve the public and other interest groups in the decision-making process must take account of the need to ensure transparency and probity in the way in which Audit Scotland conducts its business.
82. You will need to be able to consider evidence and arguments advanced by a wide range of organisations and individuals in order to perform your duties effectively. Some of these organisations and individuals will make their views known directly to individual members. The rules in this Code set out how you should conduct yourself in your contacts with those who would seek to influence you. They are designed to encourage proper interaction between members of public bodies, those they represent and interest groups.
83. The Lobbying (Scotland) Act 2016 (the Act) makes provisions about lobbying a member of the Scottish Parliament, a member of the Scottish Government, a junior Scottish Minister, a special adviser or the permanent secretary. Communications with the Scottish Government and Parliament by Audit Scotland are not classed as regulated lobbying by the provisions in section 22 (d) of the Schedule to the Act. This exemption only applies to engagement by members on Audit Scotland business and members should be mindful of the legislation if engaging with any of the above in any other capacity.

## Rules and guidance

84. You must not, in relation to contact with any person or organisation who lobbies, do anything which contravenes this Code of Conduct or any other relevant rule of Audit Scotland or any statutory provision.
85. You must not, in relation to contact with any person or organisation who lobbies, act in any way which could bring discredit upon Audit Scotland.
86. The public must be assured that no person or organisation will gain better access to, or treatment by, you as a result of employing a company or individual to lobby on a fee basis on their behalf. You must not, therefore, offer or accord any preferential access or treatment to those lobbying on a fee basis on behalf of clients compared with that which you accord any other person or organisation who lobbies or approaches you. Nor should those lobbying on a fee basis on behalf of clients be given to understand that preferential access or treatment, compared to that accorded to any other person or organisation, might be forthcoming from another member of Audit Scotland.

87. Before taking any action as a result of being lobbied, you should seek to satisfy yourself about the identity of the person or organisation who is lobbying and the motive for lobbying. You may choose to act in response to a person or organisation lobbying on a fee basis on behalf of clients but it is important that you know the basis on which you are being lobbied in order to ensure that any action taken in connection with the lobbyist complies with the standards set out in this Code.
88. You should not accept any paid work:
- which would involve you lobbying on behalf of any person or organisation or any clients of a person or organisation
  - to provide services as a strategist, adviser or consultant, for example, advising on how to influence Audit Scotland and its members. This does not prohibit you from being remunerated for activity which may arise because of, or relate to, membership of Audit Scotland, such as journalism or broadcasting, or involvement in representative or presentational work, such as participation in delegations, conferences or other events.
89. If you have concerns about the approach or methods used by any person or organisation in their contacts with you, you must seek the guidance of Audit Scotland.

# Appendix 1: Definitions

1. “Remuneration” includes any salary, wage, share of profits, fee, expenses, other monetary benefit or benefit in kind. This would include, for example, the provision of a company car or travelling expenses by an employer.
2. “Undertaking” means:
  - (a) a body corporate or partnership; or
  - (b) an unincorporated association carrying on a trade or business, with or without a view to profit.
3. “Related undertaking” is a parent or subsidiary company of a principal undertaking of which you are also a director. You will receive remuneration for the principal undertaking though you will not receive remuneration as director of the related undertaking.
4. “Parent undertaking” is an undertaking in relation to another undertaking, a subsidiary undertaking, if a) it holds a majority of voting rights in the undertaking; or b) it is a member of the undertaking and has the right to appoint or remove a majority of its board of directors; or c) it has the right to exercise a dominant influence over the undertaking (i) by virtue of provisions contained in the undertaking’s memorandum or articles or (ii) by virtue of a control contract; or d) it is a councillor of the undertaking and controls alone, pursuant to an agreement with other shareholders or councillors, a majority of voting rights in the undertaking.
5. “Group of companies” has the same meaning as “group” in section 474(1) of the Companies Act 2006. A “group”, within s 474(1) of the Companies Act 2006, means a parent undertaking and its subsidiary undertakings.
6. “A person” means a single individual or legal person and includes a group of companies.
7. “Any person” includes individuals, incorporated and unincorporated bodies, trade unions, charities and voluntary organisations.
8. “Spouse” does not include a former spouse or a spouse who is living separately and apart from you.
9. “Cohabitee” includes a person, whether of the opposite sex or not, who is living with you in a relationship similar to that of husband and wife.
10. “Code” code of conduct for members of public bodies.

**Purpose**

1. This report invites the Board to approve Audit Scotland's Freedom of Information and Environmental Information Policy for a further year.

**Background**

2. Audit Scotland has in place a policy and procedures to ensure compliance with the Freedom of Information (Scotland) Act 2002 (FOISA) and the Environmental Information (Scotland) Regulations 2004.
3. The policy is reviewed each year to ensure it is up to date and submitted to the KITGG, Management Team and Board for approval and forms part of the annual assurance process leading to the Accountable Officers Governance Statement.

**Annual review of FOI and EIR policy**

4. The Corporate Governance Manager and Knowledge Information Technology Governance Group (KITGG) carried out a review of the Freedom of Information (FOI) and Environmental Information Regulations (EIR) in August 2019. The review found the policy was up to date.
5. The Public Audit and Post-Legislative Scrutiny Committee held a consultation on FOISA legislation during Spring/Summer 2019. As yet, there has been no amendment to the legislation following the conclusion of the consultation. Any changes arising from the consultation will be reflected in the next annual review of the policy in August 2020.
6. A review of our FOI panel arrangements which form part of the KITGG terms of reference at annex 2, was also reviewed and it remains up to date with no changes required this year.
7. The Freedom of Information (Scotland) Act 2002 (the FOI Act) requires Scottish public authorities to produce and maintain a publication scheme. Authorities are under a legal obligation to:
  - publish the classes of information that they make routinely available
  - tell the public how to access the information and what it might cost.
8. The publication scheme for Audit Scotland is published on our website, and is currently under review by the Knowledge, Information and Technology Governance Group (KITGG).
9. We continue to monitor the implications of EU withdrawal, and to date there are no known implications for FOISA and EIR which require action at this stage. This will be monitored and remain under review.

**Recommendations**

10. The Board is invited to approve Audit Scotland's Freedom of information and Environmental Information Policy for a further year.

## Freedom of Information and Environmental Information Policy

|                                 |                              |                     |             |                 |    |
|---------------------------------|------------------------------|---------------------|-------------|-----------------|----|
| <b>Owned and maintained by:</b> | Corporate Governance Manager |                     |             |                 |    |
| <b>Approved from:</b>           | August 2019                  | <b>Next review:</b> | August 2020 | <b>Version:</b> | 10 |

## Introduction

1. The Freedom of Information (Scotland) Act 2002 (FOISA) and the Environmental Information (Scotland) Regulations 2004 (EIRs) places a duty on us to prepare and implement systems and processes to comply with the legislation. Under these Acts a person who requests information from a Scottish public authority which holds it is entitled to be given it by the authority.

## Our approach

2. Reporting in public is a principle of the public audit model. It contributes to openness and transparency in the conduct of public bodies in Scotland. Our audit work is carried out in the public interest and we believe that it is enhanced by the principles of the Freedom of Information and Environmental Information legislation. We embrace the legislation and are committed to its continued successful implementation.
3. There are some special considerations which relate to the audit process and these are recognised in the legislation. We will make use of relevant exemptions and exceptions only where we consider that this is necessary in the public interest.
4. We have one Publication Scheme covering the Auditor General, the Accounts Commission and Audit Scotland and we will follow a consistent approach to information handling and requests.
5. A professional relationship with the bodies we audit and other stakeholders is very important. If a request is made to us for disclosure of information obtained from a public body as part of our audit work we will, where reasonably practical, consult the body before complying with the request. We will also continue to liaise with other audit and scrutiny bodies in developing best practice in this area.

## Scope

6. This policy applies to the Auditor General, the Accounts Commission and Audit Scotland.

## Roles and responsibilities

7. Audit Scotland provides support to the Auditor General and the Accounts Commission and therefore we have established clear information management roles and responsibilities. The



Auditor General is Audit Scotland's Accountable Officer and to support her duties under this legislation we have established the Knowledge, Information & Technology Governance Group (KITGG).

8. It is the KITGG's remit to ensure that information risks are assessed and mitigated to an acceptable level by having in place robust policies, procedures and processes.
9. The KITGG have established an Information Requests Panel to meet and decide on using exemptions in complex FOI requests and exceptions in EIR requests.

## Information we hold

10. We are committed to openness and transparency in our work. We are committed to supplying information to a request unless there is a valid reason for withholding it under the legislation.
11. When a request is received for information you must not alter, deface, block, erase, destroy or conceal applicable information with intent to prevent disclosure. To do so is an offence under the Act and will result in action under Audit Scotland's disciplinary policy and could incur a risk of personal prosecution.

## Training and awareness

12. We are committed to full staff awareness and training in Freedom of Information, Environmental Information and Data Protection legislation and its implications for our work. We are committed to maintaining effective systems for information requests to meet our obligations under this legislation.
13. Guidance on the application of FOISA and the EIRs are available on [ishare](#).

## Charges

14. Audit Scotland may invoke a charge for providing information, which is not contained in our publication scheme, in accordance with the costing threshold within FOISA and the EIRs.
15. When a request is estimated to exceed £600 to fulfil, we will, whenever possible, attempt to narrow its scope and provide what we can within the threshold rather than refusing it outright.

## Supplementary documentation

16. The following documents should be used to support and supplement this policy:
  - Freedom of Information (Scotland) Act 2002
  - Freedom of Information (Scotland) Act 2002 section 60 and 61 codes of practice
  - Environmental Information (Scotland) Regulations 2004

## Purpose

1. This report invites the Board to approve Audit Scotland's Records Management Policy for a further year.

## Background

2. Audit Scotland has in place a policy, records management plan and procedures to ensure compliance with the Public Records (Scotland) Act 2011 (PRSA).
3. The policy is reviewed on an annual basis to ensure it is up to date and submitted to the Knowledge Information and Technology Governance Group (KITGG), Management Team and Board for approval. This also forms part of the annual assurance process leading to the Accountable Officers Governance Statement.

## Annual review of Record Management Policy

4. The Corporate Governance Manager and Knowledge Information Technology Governance Group (KITGG) carried out a review of the Records Management Policy in August 2019. The review found the policy was up to date and required minor adjustment to reflect the importance of records with regard to audit quality arrangements and professional standards.
5. The National Records of Scotland (NRS) refreshed the model Records Management Plan in Spring 2019. An additional element was added to clarify the position on Public records created by third parties. This element does not add to existing requirements, it merely emphasises the importance of this responsibility. Given there is no additional requirements arising from the new Model Records Plan, the policy is unchanged.
6. Audit Scotland's Records Management Plan was approved by the Keeper of Records in 2013. It was due for resubmission in 2019, however, with the introduction of the new model Records Management Plan, the NRS have advised that they will not be looking for Audit Scotland to resubmit until June 2020.
7. We continue to monitor the implications of EU withdrawal, and to date there are no known implications for records management which require action at this stage. This will be monitored and remain under review.

## Recommendations

8. The Board is invited to approve Audit Scotland's Record Management Policy for a further year.

## Records Management Policy

|                                 |                              |                     |             |                 |    |
|---------------------------------|------------------------------|---------------------|-------------|-----------------|----|
| <b>Owned and maintained by:</b> | Corporate Governance Manager |                     |             |                 |    |
| <b>Approved from:</b>           | August 2019                  | <b>Next review:</b> | August 2020 | <b>Version:</b> | 07 |

## Introduction

1. The Public Records (Scotland) Act 2011 (the Act) places a duty on us to prepare and implement a records management plan which sets out proper arrangements for the management of our public records.
2. We recognise that the efficient management of our knowledge, information and records is essential to support our work, to facilitate our governance and management, to manage risk and to comply with our legal obligations under the Act and other legislation as enacted from time to time.
3. Records, like any other company asset, are vital to our past, present and future work. They show decisions made and the steps taken towards those decisions. Records and the information they contain form part of our corporate memory and therefore must be managed systematically from creation to disposal.
4. Records are fundamental to our Audit Quality arrangements and professional standards and running Audit Scotland efficiently and effectively.

## Scope

5. This records management policy applies to Audit Scotland, the Accounts Commission and the Auditor General.

## Definition

6. A record is information in any medium, created, received and maintained as evidence and information by an organisation or person, in pursuance of legal obligations or in the transaction of business.

## Roles and responsibilities

7. The Chief Operating Officer is responsible for ensuring there are appropriate arrangements for managing information and records.
8. In support of the Chief Operating Officer the Corporate Governance Manager is responsible for the day-to-day records management arrangements for Audit Scotland, the Accounts Commission and the Auditor General. The security of our electronic information systems is the responsibility of Audit Scotland's Digital Services Manager.

9. It is the Knowledge, Information & Technology Governance Group's (KITGG) role to ensure this policy remains relevant, represents good practice and is implemented effectively.
10. However, records management is the responsibility of everyone and this principle is embedded in our Code of Conduct. We are all expected to ensure the effective management of our records and the information we collect, create, store, share and dispose of, and to undergo training as required.

## The principles of good records management

11. It is our policy to fully comply with the Public Records (Scotland) Act 2011 and to apply the guiding principles of records management to ensure that information is available when and where it is needed, in an organised and efficient manner, and in a well maintained environment.

12. We must therefore ensure that our records are:

1. Authentic

It must be possible to prove that records are what they purport to be and who created them is known, by keeping a record of their management through time. Where information is later added to an existing document within a record, the added information must be signed and dated. With electronic records, changes and additions must be identifiable through audit trails.

2. Accurate

Records must accurately reflect the transactions and other business activities that they describe.

3. Accessible

Records must be readily available when needed.

4. Complete

Records must be sufficient in content, context and structure to reconstruct the relevant activities and transactions that they describe.

5. Comprehensive

Records must document the complete range of an organisation's business.

6. Compliant

Records must comply with any record keeping requirements resulting from legislation, audit rules, professional standards and other relevant regulations.

7. Effective

Records must be maintained for specific purposes and the information contained in them must

meet those purposes. Records will be identified and linked to the business process to which they are related.

#### 8. Secure

Records must be securely maintained to prevent unauthorised access, alteration, damage or removal. They must be stored in a secure environment, the degree of security reflecting the sensitivity and importance of the contents. Where records are migrated across changes in technology, the evidence preserved must remain authentic and accurate.

13. Guidance in support of this policy has been prepared and is available to all staff in ishare.

## Training and awareness

14. It is vital that everyone understands their information and record management responsibilities as set out in this policy. Therefore, directors and managers will ensure that staff are appropriately trained/briefed on how to manage records in accordance with this policy and our records management guidance.
15. In addition, training has been established to ensure that all staff are aware of their information obligations regarding Data Protection, Data Security and Freedom of Information.

## Supplementary documentation

16. The following Acts, policies, standards, procedures and guides should be used to support and supplement this policy:
- Public Records (Scotland) Act 2011
  - Model Records Management Plan (revised 2019)
  - Data Protection Act 2018 & General Data Protection Regulation (GDPR)
  - Freedom of Information (Scotland) Act 2002 (FOISA)
  - Audit Scotland's Data Protection Policy
  - Audit Scotland's Freedom of Information Policy
  - Audit Scotland's Clear Desk and Screen Policy
  - Audit Scotland's Information Security Management Policy
  - FOSIA section 61 Code of Practice on records management
  - Managing records - a staff guide
  - Procedure for transferring information to the National Archive of Scotland
  - Audit Scotland's records retention schedule
  - Audit requirements:
    - Audit standards e.g. ISA's
    - Audit Services audit and MKI guidance
    - Audit Management Frameworks.

## Proposed schedule of meeting dates 2020

Chief Operating Officer

Item 17

18 September 2019

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### Purpose

1. This report invites the Board to approve the proposed meeting schedule for the Board and its committees during 2020.

### 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 has met on eight occasions each year. In 2018, the Board agreed to move to six meetings in 2019.
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. A proposed schedule of meeting dates is attached as appendix 1 and a schedule of indicative board items is attached as 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 2020.

## Proposed meeting schedule 2020

| <b>Audit Committee</b>             | <b>Human Resources and Remuneration Committee</b> | <b>Board</b>                       |
|------------------------------------|---|------------------------------------|
|                                    |   | 29 January 2020 <sup>+</sup>       |
| 4 March 2020 <sup>*</sup>          | 4 March 2020 <sup>*</sup>                         |                                    |
|                                    |   | 25 March 2020 <sup>+</sup>         |
| 6 May 2020 <sup>*</sup>            | 6 May 2020 <sup>*</sup>                           | 13 May 2020 <sup>+</sup>           |
| 3 June 2020 (AR&Accs) <sup>+</sup> |   | 3 June 2020 (AR&Accs) <sup>+</sup> |
| 2 September 2020 <sup>*</sup>      |   | 30 September 2020 <sup>+</sup>     |
| 4 November 2020 <sup>*</sup>       | 4 November 2020 <sup>*</sup>                      | 25 November 2020 <sup>+</sup>      |

\* Committee meetings will be held in the Glasgow office.

<sup>+</sup> Board meetings will be held in EH1 and EH2, West Port and will be open to the public.

## Appendix 2

### Indicative Work Programme 2019 – Audit Scotland Board

| 29 January 2020  | 25 March 2020   | 13 May 2020   | 3 June 2020  | 30 September 2020  | 25 November 2020   |
|--|---|---|--|--|--|
| <p>Agenda items include:</p> <ul style="list-style-type: none"> <li>• Standing items</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>• Environmental scan</li> <li>• Best companies results</li> <li>• 2020 Audit Scotland conference</li> </ul> | <p>Agenda items include:</p> <ul style="list-style-type: none"> <li>• Standing items</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>• 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>• 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>• 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>• 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> |



Wednesday 27 November 2019 at 10.15am

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

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

## Standing items

4. Chair's report – verbal update For information
  5. Accountable Officer's report – verbal update For information
  6. Accounts Commission Chair's report – verbal update For information
  7. Review of minutes: Board meeting 18 September 2019 For approval
  8. Review of minutes: Audit Committee – 4 September 2019 For information
  9. Review of action tracker For information
- 

## Business management

10. 2019/20 Q2 Financial performance report For information
  11. 2019/20 Q2 Corporate performance report For information
  12. 2019/20 Q2 Strategic improvement programme update For information
- 

## Strategy and planning

13. EU withdrawal – verbal update For information
- 

## Governance

14. Review of standing orders 2019 For information
- 

## Conclusion

15. Any other business
  16. Review of meeting
  17. Date of next meeting: 29 January 2020
-

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## Items to be taken in private

**18.** 2020/21 SCPA Budget proposal

For approval

[Item to be taken in private to support the effective conduct of business, intended for future publication]

**19.** Audit quality framework review

For approval

[Item to be taken in private to support effective conduct of business, intended for publication]

**20.** New audit appointments update

For discussion

[Item to be taken in private to support effective conduct of business]

**21.** Board development update

For discussion

[Item to be taken in private to support effective conduct of business]

Wednesday 18 September 2019, 10.15am

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

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## **Present:**

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

## **Apologies:**

None

## **In attendance:**

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

### **1. Welcome and apologies**

The Chair welcomed members and attendees to the meeting in public of the Audit Scotland Board, the agenda and papers for which had been published on Audit Scotland's website on Monday 16 September 2019.

### **2. Declarations of interest**

There were no declarations of interest.

### **3. Decision on items to be taken in private**

The Board agreed the items to be taken in private.

### **4. Chair's report – verbal update**

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

The Board welcomed the update.

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

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

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

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

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

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

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

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

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

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

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

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

Following discussion, the Board welcomed the update.

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

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

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

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

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

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

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

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

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

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

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

The Board noted the report.

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

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

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

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

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

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

Following discussion, the Board welcomed the report.

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

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

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

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

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

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

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

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

Following discussion, the Board noted the performance reported.

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

## **12. Financial devolution and constitutional change update**

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

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

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

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

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

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

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

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

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

## **13. Business continuity planning – EU withdrawal**

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

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

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

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

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

Following discussion, the Board welcomed the report.

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

*Rebecca Seidel and Mark Roberts left the meeting.*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## 17. Proposed schedule of meeting dates 2020

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

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

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

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

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

## 18. Any other business

There was no further business.

## 19. Review of meeting

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

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

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

## Items taken in private – Private minute

### 21. 2019/20 Spring budget revision

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

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

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

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

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

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

### 22. 2020/21 Draft Budget proposal

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



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

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

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

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

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

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

*Stuart Dennis left the meeting.*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Chair welcomed the support from members.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

*Simon Ebbett left the meeting.*

## Audit Committee Meeting

Wednesday 4 September 2019, 10.00

Audit Scotland offices, Nelson Mandela Place, Glasgow

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### **Present:**

H Logan (Chair)  
A Alexander  
G Sharp

### **In attendance:**

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

### **1. Private meeting**

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

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

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

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

There were no apologies.

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

There were no declarations of interest.

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

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

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

## 5. Review of actions tracker

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

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

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

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

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

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

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

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

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

## 6. Audit Committee terms of reference

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

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

## 7. Internal audit report: Corporate Governance

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

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

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

The members noted the internal audit report.

## 8. Internal audit report: IT Assurance

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

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

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

The members noted the internal audit report.

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

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

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

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

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

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

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

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

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

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

The members noted the report.

## 11. Q1 Financial performance report

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

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

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

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

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

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

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

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

The members noted the Q1 Financial performance report.

Stuart Dennis left the meeting.

## 12. Review of risk register

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

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

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



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

The members noted the report.

### 13. Risk interrogation: Reputation

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

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

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

The Chair invited comments and questions from members.

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

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

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

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

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

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

The members noted the report.

*Simon Ebbett left the meeting.*

### 14. Digital security update

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

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

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

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

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

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

The members noted the contents of the report.

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

*David McGurk left the meeting.*

## **15. Data incidents/loss report**

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

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

The members noted the data incidents/loss report.

## **16. Annual review of corporate governance policies**

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

The Chair invited any questions or comments on the report.

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

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

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

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

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

**18. Any other business**

There was no other business.

**19. Review of meeting**

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

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

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

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

| REF    | FORUM | Agenda Item No | Item Title  | Action Description   | Meeting Date | Due Date   | Responsible       | Assigned to       | Complete/Ongoing | Reported Yes/No | Progress Notes   |
|--------|-------|----------------|---|--|--------------|------------|-------------------|-------------------|------------------|-----------------|--|
| ASB88  | Board | 9              | Q3 Financial performance report   | Stuart Dennis to liaise with Audit Quality and Appointments to provide a briefing on fee setting as part of the forthcoming procurement strategy. (May 2019) | 18/03/2019   | 31/05/2019 | Stuart Dennis     | Stuart Dennis     | Ongoing          |                 | This action falls within the procurement strategy for the new audit appointments exercise. Once strategy has been agreed by the project Steering Group, the fees and funding model will be updated. This is likely to be March 2020. |
| ASB90  | Board | 15             | Strategic Improvement programme   | Martin Walker to circulate additional information on the projects.   | 01/05/2019   | 05/06/2019 | Martin Walker     | Martin Walker     | Complete         | Yes             | The additional information was emailed to members on 11 July 2019.   |
| ASB91  | Board | 16             | Review of audit market update   | Fiona Kordiak to circulate a copy of the proposed response to the Brydon Review  | 01/05/2019   | 05/06/2019 | Fiona Kordiak     | Fiona Kordiak     | Complete         | Yes             | A copy of Audit Scotland's response to the Brydon Review was circulated to members on 5 June 2019 prior to submission on 7 June 2019.  |
| ASB92  | Board | 7              | Review of minutes: Board meeting 22 May 2019                                  | Joy Webber to revise the minute.   | 05/06/2019   | Jun-19     | Joy Webber        | Joy Webber        | Complete         | Yes             | The minute of the meeting was revised and published on Audit Scotland's website.   |
| ASB93  | Board | 9              | Q4 Financial performance report   | Stuart Dennis to provide additional fee breakdown to Graham Sharp.   | 05/06/2019   | Jun-19     | Stuart Dennis     | Stuart Dennis     | Complete         | Yes             | The additional information was emailed to Graham Sharp on 6 June 2019.   |
| ASB94  | Board | 10             | Q4 Corporate performance report   | Martin Walker to bring a further report on proposals on the format of future corporate performance reporting.  | 05/06/2019   | Sep-19     | Martin Walker     | Martin Walker     | Complete         | Yes             | The Q1 performance report in revised format will be considered at today's meeting at agenda item 10.   |
| ASB95  | Board | 12             | 2018/19 Annual report on International work                                   | Anthony Clark to make minor revisions to the annual report on international work prior to publication.   | 05/06/2019   | Jun-19     | Antony Clark      | Antony Clark      | Complete         | Yes             | The annual report on international work was updated and published on 14 June 2019.   |
| ASB96  | Board | 11             | 2019/20 Q1 Strategic improvement programme update report                      | Gayle Fitzpatrick to update the reference to the Principles of community empowerment as a Strategic Scrutiny Group report                                    | 18/09/2019   | Sep-19     | Gayle Fitzpatrick | Gayle Fitzpatrick | Complete         | No              | The reference has been amended in the report.  |
| ASB97  | Board | 11             | 2019/20 Q1 Strategic improvement programme update report                      | Diane McGiffen to schedule a presentation by Management Team on efficiencies which are managed through audit.  | 18/09/2019   | Jan-20     | Diane McGiffen    | Diane McGiffen    | Ongoing          |                 | A presentation by Management Team will be scheduled on 29/01/2020.   |
| ASB98  | Board | 13             | Business continuity planning – EU withdrawal                                  | A further report to be scheduled on preparedness for EU withdrawal as required.  | 18/09/2019   | Nov-19     | Diane McGiffen    | Mark Roberts      | Ongoing          |                 | A verbal update on developments will be provided at the meeting on 27/11/2019 with a report scheduled to come to the Board on 29/01/2020.  |
| ASB99  | Board | 17             | Proposed schedule of meeting dates 2020                                       | A further discussion on public meetings of the Audit Committee to be scheduled.  | 18/09/2019   | May-20     | Martin Walker     | Martin Walker     | Ongoing          |                 | A further discussion will be scheduled for the meeting of the Board on 13/05/2020.   |
| ASB100 | Board | 23             | Scottish Commission for Public Audit: Review of Audit Scotland Board and SCPA | A report will be scheduled to the Audit Committee to approve the proposed changes to Audit Scotland's Standing Orders.                                       | 18/09/2019   | Nov-19     | Gayle Fitzpatrick | Gayle Fitzpatrick | Complete         | No              | The Audit Committee considered the amended Standing Orders at its meeting on 13/11/2019 and these will be considered at item 14 of today's agenda.   |

## Purpose

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

## Background

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

## Discussion

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

## Virement

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

## Recommendation

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

## Headline Results

## Appendix 1

The summary financial position to 30 September 2019:

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

## Income and Expenditure Summary

### 1. Fee Income – In House

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

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

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

#### Local Government

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

#### Health

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

#### Further Education (FE)

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

#### Central Government

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

#### Non-statutory

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

## 2. Fee income and expenditure – Audit Firms

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

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

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

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

### Local Government

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

### Health

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

### Water

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

### Further Education (FE)

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

### Central Government

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

## 3. Other Income

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



#### 4. Staff & Agency Costs

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

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

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

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

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

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

#### 5. Printing and Office costs

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

#### 6. Information Technology

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

## **7. Other costs**

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

### **Management Contingency**

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

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

### **Capital Expenditure and Funding**

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

The breakdown of expenditure year to date is detailed below:

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

**Stuart Dennis**

Corporate Finance Manager

13 November 2019

## Purpose

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

## Background

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

## Key performance messages

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

## Development of the performance management framework

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








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

## **Recommendations**

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

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

**2019/20: Q2 performance summary**

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

**Key performance messages**

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

**Key actions**

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














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

**Key:**

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

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

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

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

#### Key performance messages:

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

#### Key actions

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

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

## 2019/20: Quarter 2



We conduct relevant and timely audits and report in public.

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

### Key messages

We have delivered:

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

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

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

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

### Actions

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

### Issues/ risks

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

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



## Audit/report schedule 2019/20.

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

## Appendix 2 – Performance detail

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

### On time

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

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

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

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

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

## Appendix 2 – Performance detail

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

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

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

### Forward look:

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



**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  |    |    |
| Are we improving the quality of our work?     | G       | G  | G  | G  | G       | G  |    |    |

#### Key messages

- The Internal Audit report on the audit quality framework, gave substantial assurance on both design and operational effectiveness and made no recommendations for improvement.
- We have developed an improvement plan informed by internal and external quality reviews. This was presented to Audit Scotland's quality committee in June and October 2019 and includes plans to revise our approach to audit sampling. We are also updating the Audit guide to include early adoption of ISA540.
- During Q2 work on quality concentrated on developing the Audit Management Framework, supporting ongoing audits, drafting the revised Audit Guide and responding to previous internal and external quality reviews.
- The National Audit Office is proposing using Audit dimensions which are similar to those in use by Audit Scotland as part of its new code of audit practice.

#### Actions

- Implementation of the quality review actions, the revised AMF and development of the new Code of Audit Practice.

#### Quality assurance and improvement during Q2 included:

- The project to review and refresh the Audit Management Framework (AMF) for performance audits and overview reports is progressing well. This is to ensure the audit work complies with the International Organisation of Supreme Audit Institutions (INTOSAI) standards for performance auditing. The planning and evidence stages of the AMF have been revised and approved. In Q2 the Project Board approved the revised Reporting Stage of the AMF. Guidance for auditors has been produced covering the revised stages.
- We have introduced a new process for approving 'other products/outputs' to ensure quality and consistency.

#### Technical guidance/ notes published in Q2 included:

- audit of 2018/19 annual accounts (colleges)
- independent auditor's reports (colleges)
- whole of government accounts returns
- the process for seeking approval for briefing papers to ensure consistency and improve quality
- a bulletin on technical developments and emerging risks in the quarter and support for auditors in respect of statutory objections to the accounts
- 6 Frequently Asked Questions outputs, 16 briefing notes to provide auditors with a synopsis of new technical documents and replies to 306 technical enquiries all of which were within target response times.

#### Forward look:

- 2019/20 Interim Audit Quality report - October 2019.
- Percentage of fit and proper forms completed will be published annually in Q4 report.
- Percentage of staff subject to Disclosure Scotland will be published annually in Q4 report.



## We get our messages out effectively

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

### Key messages

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

### Engagement

In Q2 we attended:

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

We responded to six consultations:

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

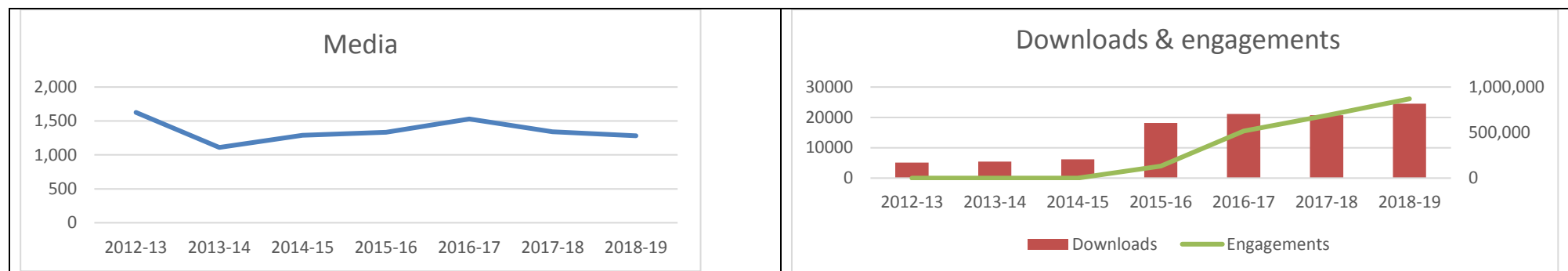
We also responded to three technical consultations (2020/21 local authority accounting code, revisions to auditing standards and the CIPFA/LASAAC stakeholder survey on financial reporting).

### Communications

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

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

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



### Media

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

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

### Downloads

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

**Social media activity**

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

**Correspondence**

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

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

Figures above are for new and reopened cases.

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

**FOI/EIR/Complaints**

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

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

|  |   |
|--|---|
|  Delivering world-class audit | 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  |    |    |
| Are our recommendations leading to improvements?   | G       | G  | G  | G  | G       | G  |    |    |
| Are we offering insight and foresight and making information and intelligence available to others? | Y       | G  | G  | G  | G       | G  |    |    |

**Key messages / Things to note:**

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

**Actions:**

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

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

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

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

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

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

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



### Insight and foresight

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

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

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

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

### Feedback received:

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

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



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

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

### Key messages:

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

### Actions:

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

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

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

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

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

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



## We manage our resources effectively and maximise efficiency

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

### Key messages

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

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

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

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

### Action

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

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

### Resource management

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

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

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

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

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

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

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

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

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

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

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

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

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

#### IT network up time

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

Two significant outages during the quarter affected IT network uptime:

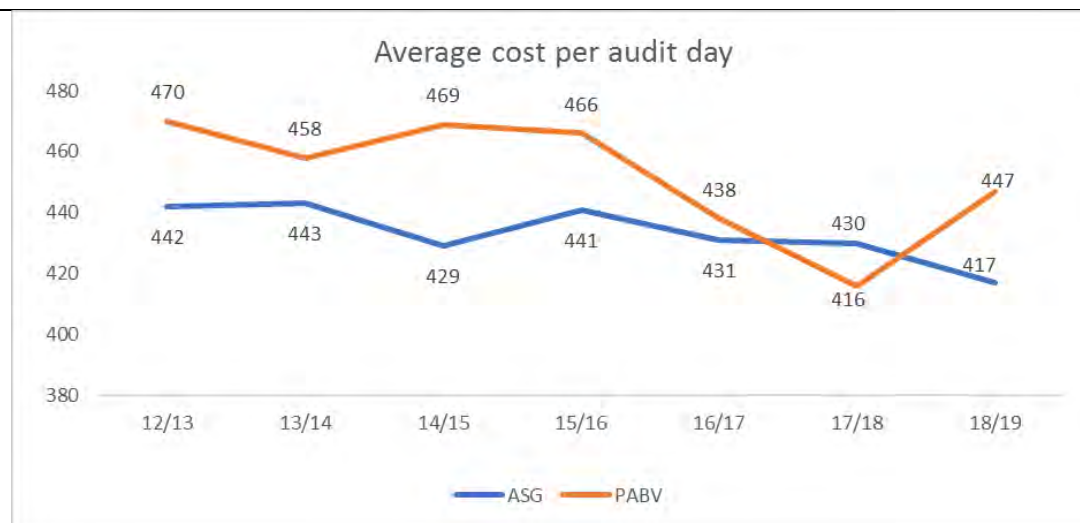
- network misconfiguration affected staff connecting remotely from other offices and a firewall configuration had to be restored. A change control process has been strengthened to mitigate the risk of this happening again.
- we saw an increased number of drops in remote connections first thing in the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

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

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

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

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



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

#### Forward look

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

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



## We manage information and intelligence effectively (internal)

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

### Key messages:

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

### Key projects update:

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

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

### Issues/ risks/ actions:

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

### Forward look:

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



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

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

### Key messages

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

Absence and turnover rates remain low.

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

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

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

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

Exam performance to date is lower than last year.

### Action

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

### Empowered and engaged –

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



Delegation coaching clinics took place in August and September

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

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

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

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

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

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

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

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

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

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

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

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

### Forward look:

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

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

## Purpose



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

## Background

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

## Strategic improvement programme – Q2 headlines

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

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

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

## Recommendations

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



## Delivering world-class audit



Audit quality



Code of audit practice



Digital audit



Communications and engagement



Diversity &amp; equality



Audit appointments

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

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

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



**Being a world-class organisation**



Wellbeing



Resourcing



Learning and development



Harnessing digital technology



Leadership and managerial development



Sustainability

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

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

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



## Review of standing orders 2019

Associate Director, Corporate Performance and Risk and  
Corporate Governance Manager

Item 14  
13 November 2019

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### **Purpose**

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

### **Background**

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

### **Recommendations**

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

# Standing Orders

DRAFT

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

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# Standing orders

## Introduction

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

## Constitution

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

## Chair

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

## Meetings

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

## Agenda and Papers

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

## Conduct of Business

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

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

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

## Minutes

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

## Directions

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

'Directions may be given to Audit Scotland—

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

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

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

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

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



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

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

## Vacancy

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

## Code of Conduct

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

## Committees

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

## Deeds and Documents

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

## Advisers and Committee Co-optees

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

## Openness and Transparency

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

## Board Effectiveness

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

## Application of Standing Orders

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

## Alteration

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

# Appendix 1: Audit Committee remit

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

## Internal Control and Corporate Governance

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

## Internal Audit

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

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

## External Audit

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

## Annual Accounts

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

## Standing Orders, Financial Regulations and Scheme of Delegation

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

## Other duties

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

# Appendix 2: Remuneration & Human Resources Committee remit

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

## Remuneration & Human Resources Committee responsibilities

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

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

## Other duties

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

# Appendix 3: Appeals Committee remit

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

# Appendix 4: Co-option procedure

## Introduction

60. Audit Scotland's standing orders state that:

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

## Reasons for co-option

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

## Nominations process

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

## Application process

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

## Term of Office

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



## Remuneration

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

## Conduct of co-opted members

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

## Engagement with Scottish Commission for Public Audit

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