

Tuesday 24 March 2020 at 10.15am

By teleconference

1. Welcome and apologies
 2. Declarations of interests
-

Decision items

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

Standing items – for information

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

Business management – for information

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

Conclusion

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

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

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

Governance arrangements

Associate Director, Corporate Performance and Risk

Item 3
24 March 2020

Purpose

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

Background

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

Proposed alterations

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

Recommendations

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

Purpose

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

Background

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

Budgetary Assumptions

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

Additional Income

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

Approved Auditors

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

Training and Recruitment

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

Information Technology

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

Management Contingency

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

Accommodation and Other

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

Recommendation

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

Appendix 1

Item 5
24 March 2020

AUDIT SCOTLAND BUDGET: 2020/21

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

Purpose

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

Background

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

Policy changes

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

Recommendations

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

Data Protection Policy

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

Introduction

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

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

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

Definition

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

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

Data protection principles

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

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

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

Disclosure of personal information

- 15. We will only disclose personal information to:

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

Rights of the individual

- 16. The GDPR provides the following rights for individuals which we as an organisation must be cognisant of:

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

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

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

Data protection officer

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

Personal responsibility

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

Training and awareness

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

Misuse of personal information

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

Change log

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

Wednesday 29 January 2020, 10.15am

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

Present:

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

Apologies:

None

In attendance:

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

1. Welcome and apologies

The Chair welcomed members to the public meeting of the Audit Scotland Board, the agenda and papers for which had been published on Audit Scotland's website on Monday 27 January 2020.

The Chair welcomed Accounts Commission members Pauline Weetman and Geraldine Woolley as observers to the meeting as part of the Board's commitment to strengthening engagement with Accounts Commission members.

2. Declarations of interest

There were no declarations of interest.

3. Decision on items to be taken in private

The Board agreed the items 17, 18 and 19 to be taken in private, as set out on the agenda.

4. Chair's report – verbal update

The Chair provided a verbal update of meetings with Diane McGiffen, Chief Operating Officer, advised of engagement with Parliamentary officials on the recruitment campaign for two non-executive members of the Audit Scotland Board and informed members that the Spring Budget Revision and 2020/21 Budget Submission had been considered at the session with the Scottish Commission for Public Audit on Wednesday 15 January 2020.

The Board welcomed the update.

5. Accountable Officer's report – verbal update

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

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

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

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

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

6. Accounts Commission Chair's report – verbal update

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

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

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

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

7. Review of minutes: Board meeting 27 November 2019

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

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

8. Review of action tracker

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

9. EU Withdrawal update

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

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

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

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

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

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

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

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

Following discussion, the Board welcomed the report.

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

10. Best Companies survey results 2019

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

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

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

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

The Chair welcomed the excellent results.

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

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

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

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

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

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

The Board welcomed the report.

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

11. ONS reclassification of Audit Scotland

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

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

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

The Board noted the ONS classification stemmed from Eurostat.

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

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

Following discussion, the Board welcomed the report.

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

12. Audit Committee Terms of Reference

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

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

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

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

13. Transition planning for Auditor General and Board appointments

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

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

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

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

The Board welcomed the report and the planning underway.

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

14. Any other business

There was no further business.

15. Review of meeting

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

16. Date of next meeting: 25 March 2020

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

Items taken in private

17. Communications and engagement strategy 2020-23

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

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

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

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

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

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

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

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

18. Stakeholder engagement and feedback

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

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

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

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

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

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

Following discussion, the Board welcomed the report.

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

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

19. New audit appointments update

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Purpose

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

Background

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








Key performance messages

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

Recommendations

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

2019/20: Q3 performance summary

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

Key performance messages

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

Key actions

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


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

Key:

Red = Not progressing/significant additional management action required.

Amber = Progressing and management action planned.

Green = On target/no need for additional management action

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

Key performance messages:

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


Key actions

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

Appendix 2 - Performance detail

24 March 2020

2019/20: Quarter 3

 Delivering world-class audit	We conduct relevant and timely audits and report in public.
----------------------------------------------------------------------------------------------------------------	-------------------------------------------------------------

Key Performance Questions	2018-19				2019- 20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Are relevant audits being delivered?	G	G	G	G	G	G	G	
Are audits delivered on time?	G	G	G	G	G	G	G	
Are audits delivered on budget?	G	G	G	G	G	G	G	

Key messages

We have delivered:

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

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

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

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

Actions

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

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

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

Issues/ risks

•

Audit/report schedule 2019/20.

	Q1	Q2	Q3	Q4
Annual Audit Plans Audit Scotland (123)	FE 2 ✓			LG 66, NHS 10, CG 45
Annual Audit Plans Firms (99)	FE 18 ✓	FE 1 ✓		LG 39, NHS 13, CG 28
Accounts certified Audit Scotland (123)	NHS 10 ✓ CG 6 ✓	CG 35 ✓ LG 62 ✓	FE2 ✓ (Q4) CG 4 ✓ LG 4 ✓	
Accounts certified Firms (99)	NHS 13 ✓ CG 3 ✓ LG 1 ✓	CG 13 ✓ LG 38 ✓	FE 17 ✓ CG 12 ✓	
Annual Audit Reports Audit Scotland (123)	NHS 10 ✓ CG 6 ✓	CG 30 ✓ LG 58 ✓	FE2 ✓ (Q4) CG 6 ✓ LG 13 ✓	
Annual Audit Reports Firms (99)	NHS 13 ✓ CG 1 ✓ LG1 ✓	CG 14 ✓ LG 37 ✓	FE 12 ✓ CG 13 ✓ LG 9 ✓	
Performance Audit (7)	•Social security ✓ •Enabling digital government ✓	•Revenue financing of assets: The Non-profit distributing (NPD) and Hub models X (Q3) •NHS workforce planning 2: primary care clinical workforce ✓ •Finances of Scottish universities ✓	•Scotland's City Region and Growth Deals X (Q4)	•Early learning and childcare: follow up
Best Value Assurance Report (7)	•Stirling Council ✓ •North Lanarkshire ✓ •Clackmannanshire Council: follow-up ✓	•Midlothian Council ✓ •Perth and Kinross Council ✓	•Scottish Borders Council ✓ •Highland Council X (Q4)	
Overview Report (3)	•Scotland's colleges 2019 ✓		•NHS in Scotland 2019 ✓ •Local government in Scotland: Financial overview ✓	

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

On time

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

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

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

On Budget

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

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

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

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

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

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

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

Key messages

- Positive assurances on audit quality in the interim quality report

Quality assurance and improvement during Q3 included:

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

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

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

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

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

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

Technical guidance/ notes published in Q3 included:

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

Technical guidance events in Q3 included:

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

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

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

Forward look:

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

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

Key messages

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

Engagement

In Q3 we:

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

In Q3 we hosted:

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

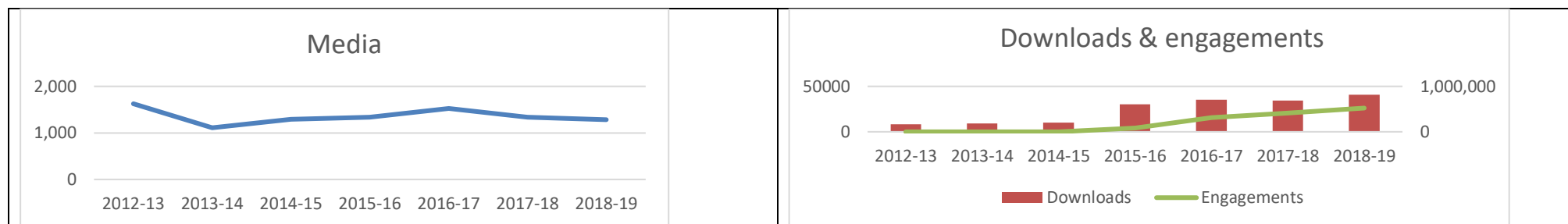
In Q3 we responded to four consultations:

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

Communications

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

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



Media

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

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

Downloads

The most popular downloads in Q3 were:

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

Social media activity

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

Parliamentary engagement

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

Correspondence

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

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

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

Trend data: [link](#)

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

Key messages / Things to note:

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

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

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

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

Examples of where work has made a positive impact include:

Central Government:

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

Local Government:

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

Insight and foresight

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

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

Key messages:

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

Actions:

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

Examples of new improved processes, products and services include

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

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

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

Forward look:

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

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

Key messages

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

Resource management

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

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

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

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

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

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

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

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

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

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

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

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

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

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

IT network up time

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

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

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

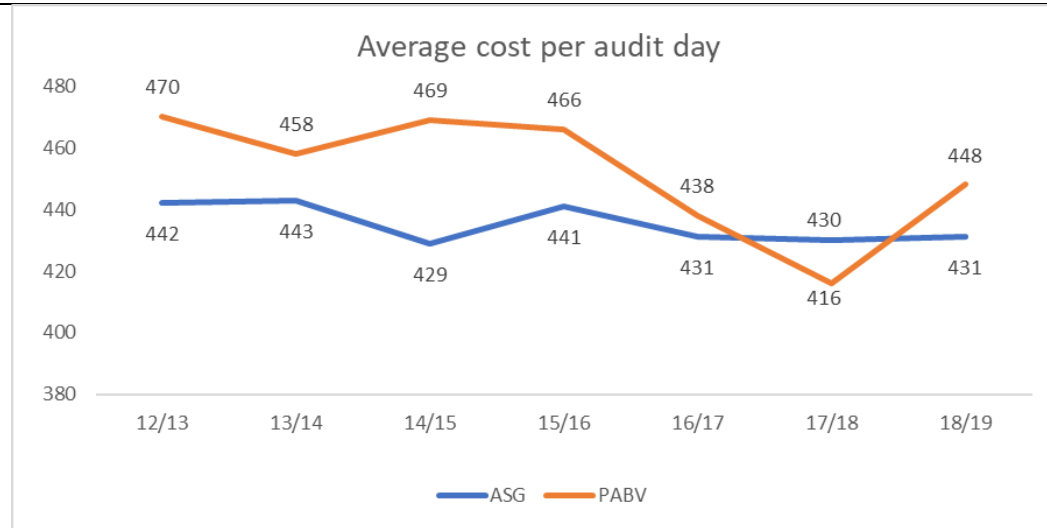
- 98.55% (689/679) of incidents were accepted within the response time SLA.
- 95.21% (689 /656) of requests were closed within the fix time SLA.
- An average of 2.3 incidents were logged per user.

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

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

ASG AVg cost per audit Day Q3: £431

PABV AVg cost per audit Day Q3: £448



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

Forward look

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

Trend data: [link](#)

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

Key messages:

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

Key projects update:

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

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

Issues/ risks/ actions:

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

Forward look:

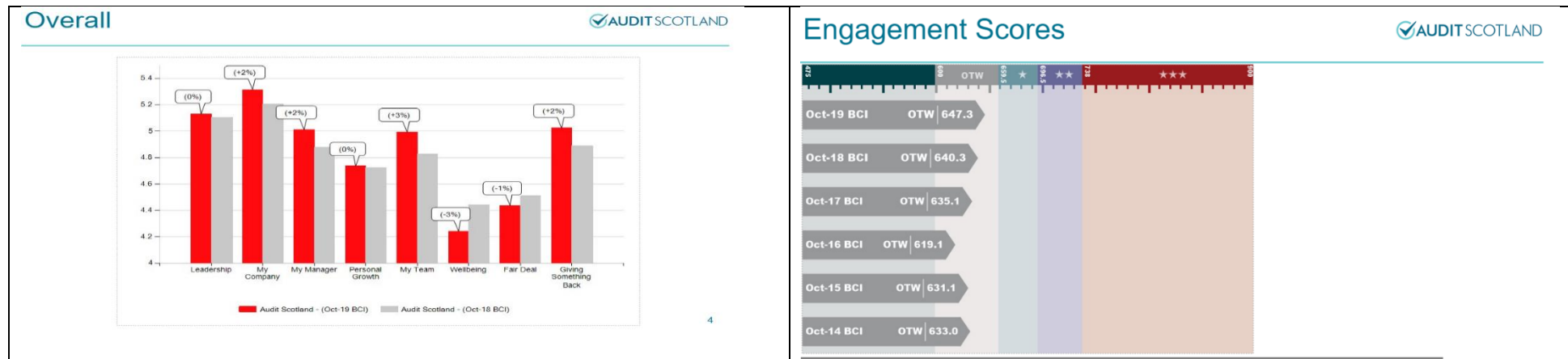
- PMF implementation with effect from April 2020

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

Key messages

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

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



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

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

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

Empowered and engaged:

Highly Skilled

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

Wellbeing

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

Career Paths

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

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

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

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

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

Career paths

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

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

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

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

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

Forward look:

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

Trend data: [link](#)

Purpose



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

Background

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

Strategic improvement programme – Q3 headlines

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

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

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

Recommendations

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



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

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

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

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

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

REF	FORUM	Agenda Item No	Item Title	Action Description	Meeting Date	Due Date	Responsible	Assigned to	Complete/Ongoing	Reported Yes/No	Progress Notes
ASB88	Board	9	Q3 Financial performance report	Stuart Dennis to liaise with Audit Quality and Appointments to provide a briefing on fee setting as part of the forthcoming procurement strategy. (May 2019)	18/03/2019	31/05/2019	Stuart Dennis	Stuart Dennis	Ongoing	No	This action falls within the procurement strategy for the new audit appointments exercise. Once strategy has been agreed by the project Steering Group, the fees and funding model will be updated. This is likely to be March 2020.
ASB97	Board	11	2019/20 Q1 Strategic improvement programme update report	Diane McGiffen to schedule a presentation by Management Team on efficiencies which are managed through audit.	18/09/2019	Jan-20	Diane McGiffen	Diane McGiffen	Complete	No	A report will be considered at item 8 of today's agenda.
ASB98	Board	13	Business continuity planning – EU withdrawal	A further report to be scheduled on preparedness for EU withdrawal as required.	18/09/2019	Nov-19	Diane McGiffen	Mark Roberts	Complete	No	A report will be considered at item 9 of today's agenda.
ASB99	Board	17	Proposed schedule of meeting dates 2020	A further discussion on public meetings of the Audit Committee to be scheduled.	18/09/2019	Oct-20	Martin Walker	Martin Walker	Ongoing	No	A further discussion will be scheduled post the appointment of a new Chair of the Audit Committee.
ASB100	Board	18	2020/21 SCPA budget proposal	Diane McGiffen to liaise with the SCPA on the timing of Audit Scotland's budget submission	27/11/2019	Dec-19	Diane McGiffen	Diane McGiffen	Complete	No	The meeting with the SCPA took place on 18 Decmeber 2019.
ASB101	Board	11	ONS reclassification of Audit Scotland	Diane McGiffen to draft a letter to ONS on behalf of the Chair of the Board.	29/01/2020	Feb-20	Diane McGiffen	Diane McGiffen	Ongoing	No	A draft response will be shared with the Chair for comment.
ASB102	Board	12	Audit Committee Terms of Reference	Gayle Fitzpatrick to publish the approved Terms of Reference for the Audit Committee.	29/01/2020	Feb-20	Gayle Fitzpatrick	Gayle Fitzpatrick	Closed	No	The updated Terms of Reference for the Audit Committee have been published.
ASB103	Board	13	Transition planning for Auditor General and Board appointments	Diane McGiffen to bring an update to the Remuneration and Human Resources Committee.	29/01/2020	Mar-20	Diane McGiffen	Diane McGiffen	Ongoing	No	A draft report has been prepared for Remco.
ASB104	Board	17	Communications and engagement strategy 2020-23	Simon Ebbett to publish the approved Communications and Engagement Strategy 2020-23.	29/01/2020	Feb-20	Simon Ebbett	Simon Ebbett	Closed	No	The Communications and Engagement strategy has been published on Audit Scotland's website.
ASB105	Board	18	Stakeholder engement and feedback	Antony Clark and Simon Ebbett to share the feedback from Local Government and Communities Committee, if any, respondents with the Chair of the Accounts Commission. (February 2020)	29/01/2020	Feb-20	Antony Clark/Simon Ebbett	Antony Clark/Simon Ebbett	Ongoing	No	This is in progress and an update will be provided in April 2020.

Purpose

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

Background

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

Managing the public finances

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

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

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

Social security powers

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

EU withdrawal

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

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

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

Audit arrangements

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

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

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

Audit reporting

22. We published the first annual audit report for Social Security Scotland on 26 September 2019, alongside a section 22 report on the 2018/19 audit.² The audit considered the agency's first annual report and accounts, including the two benefit payments that were devolved in 2018/19 (Carers Allowance Supplement and Best Start Grant: pregnancy and baby). The key messages from the section 22 report were as follows:
- The independent auditor qualified his regularity opinion on the accounts of Social Security Scotland with respect to expenditure on Carer's Allowance. The available estimates of error and fraud levels did not provide enough evidence to determine whether this spending was in line with the relevant legislation. This was a result of the Scottish Government's arrangements for delivering Carer's Allowance, which place reliance on the DWP.
 - The agency's approach and processes for managing error and fraud were at an early stage of development. It had established core processes and policies but there was much more to be done. Having clear and effective arrangements will become increasingly important as the scale and complexity of benefits the agency is responsible for grows.
23. The section 22 report was considered by PAPLSC on 10 October 2019. The Committee wrote to Social Security Scotland, seeking its response to issues raised in the report.³ The next annual audit of Social Security Scotland will cover further devolved benefits and will be completed by the end of September 2020. We will also report on how the Scottish Government is continuing to manage the implementation of the devolved social security powers in May 2020, through our performance audit programme.
24. The AGS published a section 22 report on the 2018/19 audit of the Scottish Government consolidated accounts on 26 September 2020.⁴ The report noted that "The Scottish Government needs to improve the quality of financial reporting to better support Parliament. In May 2019, the Scottish Government published its second medium-term financial strategy, but it does not reflect all the basic components of a medium-term financial plan. It does not include indicative spending plans or priorities, or links to outcomes. There is no detail on how the Scottish Government would address a possible £1 billion shortfall due to forecast errors. In addition, the government has still not fulfilled its commitment to publish a consolidated account covering the whole devolved public sector in Scotland. This would fill an important gap and improve strategic public financial management, support Parliamentary scrutiny and enable better decision-making."
25. The report was considered by PAPLSC on 10 October 2019 and the Committee wrote to the Permanent Secretary asking her to respond to each of the recommendations and provide an update on progress in developing consolidated accounts for the devolved public sector.⁵
26. We published a briefing paper on the operation of the fiscal framework in October 2019.⁶ This reflects on how the budget operated during 2018/19, describes the range of risks that are now affecting the Scottish budget and outlines how the Scottish Government is managing these.
27. We published a key issues paper on 16 December 2019, which highlighted the impact that preparing for withdrawal from the EU has had on public bodies and included questions for public bodies to ask

² https://www.audit-scotland.gov.uk/uploads/docs/report/2019/s22_190926_social_security.pdf

³

https://www.parliament.scot/S5_Public_Audit/General%20Documents/Social_Security_Scotland_to_Convener_14_Nov_2019.pdf

⁴ https://www.audit-scotland.gov.uk/uploads/docs/report/2019/s22_190926_scottish_gov.pdf

⁵ https://www.parliament.scot/S5_Public_Audit/General%20Documents/Permanent_Secretary_13_November_2019.pdf

⁶ https://www.audit-scotland.gov.uk/uploads/docs/report/2019/briefing_191017_financial_powers.pdf

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

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

Organisational arrangements

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

Conclusion

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

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

Purpose

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

Background

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

Considerations

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

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

Initial roundtable discussion

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

Presentation by Sir Donald Brydon

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

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

Realisation of the proposals

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

Conclusion

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

Recommendations

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

Appendix 1

Item 11
24 March 2020

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

Examples of recommendations we already do include:

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

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

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



OFFICIAL REPORT
AITHISG OIFIGEIL

Scottish Commission for Public Audit

Wednesday 15 January 2020

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Wednesday 15 January 2020

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SCOTTISH COMMISSION FOR PUBLIC AUDIT

1st Meeting 2020, Session 5

COMMISSION MEMBERS

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

*attended

THE FOLLOWING ALSO PARTICIPATED:

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

LOCATION

The Adam Smith Room (CR5)

Scottish Commission for Public Audit

Meeting of the Commission

Wednesday 15 January 2020

[The Chair opened the meeting at 11:45]

Decision on Taking Business in Private

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

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

Members indicated agreement.

Spring Budget Revision 2019-20

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

to the Scottish Government for recycling in the usual way.

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

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

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

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

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

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

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

adjustments that are related to the relevant account standard.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

12:00

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

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

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

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

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

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

Bill Bowman: Is that it?

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

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

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

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

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

Budget Proposal 2020-21

12:03

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Do you want to add to that, Stuart?

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

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

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

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

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

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

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

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

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

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

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

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

12:15

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

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

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

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

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

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

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

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

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

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

main requirements are around IT resourcing and other equipment.

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

Diane McGiffen: Yes.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Diane McGiffen might want to add to that.

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

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

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

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

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

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

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

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

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

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

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

12:30

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

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

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

"the most we have ever produced in a single year".

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

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

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

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

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

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

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

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

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

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

Caroline Gardner: That is right.

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

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

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

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

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

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

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

"in line with audit requirements".

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

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

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

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

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

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

The Chair: That would be useful.

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

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

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

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

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

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

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

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

subsidy must be avoided. There are clear demarcation lines.

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

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

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

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

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

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

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

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

Stuart Dennis: No.

12:45

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

The Chair: How do you measure savings?

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

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

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

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

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

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

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

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

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

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

The Chair: Do members have any other questions?

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

The budget proposal includes provision

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

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

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

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

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

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

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

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

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

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

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

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

The Chair: Thank you, Ian.

12:51

Meeting continued in private until 12:56.

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The Scottish Parliament
Pàrlamaid na h-Alba

Purpose

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

Background

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

Next steps

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

Recommendation

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

Purpose

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

Background

2. Audit Scotland's Financial Regulations state that:

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

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

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

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

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

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

The 2019/20 update

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

Audit priorities



Organisational priorities



Updating the plan

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

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

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

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

Key areas to update

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

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

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

Next steps

12. The key milestones are:

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

Recommendations

13. The Board is invited to:

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