Agenda

Wednesday 13 May 2020 at 10.15am

By Teams

AUDIT SCOTLAND

---

1. Welcome and apologies

2. Declarations of interests

Standing items

3. Chair's report - verbal update   For information

4. Accountable Officer's report - verbal update   For information

5. Accounts Commission Chair's report - verbal update   For information

6. Review of draft minutes - Board meeting 24 March 2020   For approval

7. Review of action tracker   For information

Business management

8. COVID-19 - verbal updates   For information
    - Business continuity
    - Audit priorities
    - Organisational priorities
    - Financial position and planning
    - Governance

9. Governance arrangements - review of Standing Orders   For approval

10. New audit appointments update   For approval

11. Information Security Management policy   For approval

12. Review of Ethical Standard Policy on application   For approval

---

Conclusion

13. Any other business

14. Review of meeting

15. Date of next meeting: 1 June 2020

Minutes

Wednesday 13 May 2020, 10.15am

Audit Scotland by Videoconference

AUDIT SCOTLAND

Present:

Alan Alexander (Chair)
Caroline Gardner
Graham Sharp
Heather Logan

Apologies:

None

In attendance:

Diane McGiffen, Chief Operating Officer
Stephen Boyle, AGS Designate
Martin Walker, Associate Director, Corporate Performance and Risk
Nicola Paton, Digital Project Manager, Digital Services
Stuart Dennis, Corporate Finance Manager
Simon Ebbett, Communications Manager
David Blattman, HR and OD Manager
Robert Leask, Project Manager, Audit Quality and Appointments
Fiona Kordiak, Director, Audit Services
Neil Cameron, Manager, Performance Audit and Best Value

1.   Welcome and apologies

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

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

2.   Declarations of interest

There were no declarations of interest.

3.   Chair's report – verbal update

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

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

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

The Board confirmed it was content with the proposals.

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

The Board welcomed the update.

4. Accountable Officer's report – verbal update

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

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

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

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

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

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

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

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

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

Following discussion, the Board welcomed the update.

5. Accounts Commission Chair's report – verbal update

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

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

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

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

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

The Board welcomed the update.

6. Review of minutes: Board meeting 24 March 2020

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

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

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

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

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

7. Review of action tracker

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

8. COVID-19 – verbal update

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

9. Governance arrangements - review of Standing Orders

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

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

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

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

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

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

10. New audit appointments update

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

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

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

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

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

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

Following discussion, the Board noted the report.

Robert Leask left the meeting.

11. Information Security Management policy

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

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

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

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

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

Nicola Paton left the meeting.

12. Review of Ethical Standard Policy on application

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

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

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

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

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

Following discussion, the Board approved the policy.

13. Any other business

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

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

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

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

14. Review of meeting

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

15. Date of next meeting: 1 June 2020

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

REF	FORUM	Agenda Item No	Item Title	Action Description	Meeting Date	Due Date	Responsible	Assigned to	Complete/Ongoing	Reported Yes/No	Progress Notes
ASB88	Board	9	Q3 Financial performance report	Stuart Dennis to liaise with Audit Quality and Appointments to provide a briefing on fee setting as part of the forthcoming procurement strategy. (May 2019)	18/03/2019	31/05/2019	Stuart Dennis	Stuart Dennis	Ongoing	No	This action falls within the procurement strategy for the new audit appointments exercise. Once strategy has been agreed by the project Steering Group, the fees and funding model will be updated. This is likely to be March 2020.
ASB99	Board	17	Proposed schedule of meeting dates 2020	A further discussion on public meetings of the Audit Committee to be scheduled.	18/09/2019	Oct-20	Martin Walker	Martin Walker	Ongoing	No	A further discussion will be scheduled post the appointment of a new Chair of the Audit Committee.
ASB101	Board	11	ONS reclassification of Audit Scotland	Diane McGiffen to draft a letter to ONS on behalf of the Chair of the Board.	29/01/2020	Feb-20	Diane McGiffen	Diane McGiffen	Complete	No	A draft response has been shared with the Chair for comment.
ASB103	Board	13	Transition planning for Auditor General and Board appointments	Diane McGiffen to bring an update to the Remuneration and Human Resources Committee.	29/01/2020	Mar-20	Diane McGiffen	Diane McGiffen	Complete	No	A draft report has been prepared for Remco for consideration at its meeting on 13 May 2020.
ASB105	Board	18	Stakeholder 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	Complete	No	This information will be shared by correspondence and forms part of the annual quality of public audit in Scotland report in June 2020.
ASB106	Board	3	Governance arrangements	The Standing Orders to be reviewed at each meeting.	24/03/2020	May-20	Martin Walker	Martin Walker	Ongoing	No	There is a report at item 9 of the agenda for the Board meeting on 13 May 2020.
ASB107	Board	7	Procurement strategy	The Board will consider proposed timescales for the audit appointments process at its next meeting.	24/03/2020	May-20	Alan Alexander	Alan Alexander	Complete	No	There is a report at item 11 of the agenda for the Board meeting on 13 May 2020.
ASB108	Board	11	Review of minutes: Board meeting 29 January 2020	A review of the Board's Standing Orders to be scheduled including the recording of discussion on items not taken in public.	24/03/2020	May-20	Martin Walker	Martin Walker	Complete	No	There is a report at item 9 of the agenda for the Board meeting on 13 May 2020.
ASB109	Board	12	2019/20 Q3 Performance report	Additional information on the composition of the cost per audit day in PABV to be circulated.	24/03/2020	May-20	Martin Walker	Martin Walker	Ongoing	No	Information to be shared by correspondence w/c 11/05/20.
ASB110	Board	13	2019/20 Q3 Strategic improvement programme update	Update report on disruption, business continuity and mitigation actions.	24/03/2020	May-20	Martin Walker	Martin Walker	Ongoing	No	Covid-19 update is on the agenda for today's meeting.

Purpose

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

Background

2. On 16 March 2020 Audit Scotland's Incident Management Team initiated the Business Continuity Plan in light of the Covid-19 situation. Colleagues were advised to work from home with immediate effect and the offices were closed. On 23 March 2020 the formal 'lockdown' measures introduced by the UK and Scottish Governments took effect.

3. The Board met the following day, this was the first meeting of the Board to take place via teleconference.

4. At that meeting the Board agreed to temporarily suspend some of the standing orders. These were in relation to; meeting in public, the requirement for papers to be issued to members five days before the meeting and the publication of papers on the website in advance of meetings.

5. The Board also agreed to keep the Standing Orders under review at each meeting and they are attached as Appendix 2 for ease of access.

Considerations

Public meetings

6. The Board is committed to openness and transparency and meeting in public forms part of delivering on this commitment. Public interest in attending Board meetings to date, however, has been limited.

7. Holding a virtual public meeting, which is accessible, while having appropriate digital security arrangements in place is challenging.

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

Publication of papers

9. The temporary variation of the requirement to issue meeting papers to Board members five working days before meetings can now be lifted. Papers have been issued in accordance with the standing orders and the additional flexibility this provision offered has not been required.

10. It is also recommended that the publication of Board papers on the website in advance of the meetings recommences. Subject to Board agreement, this would apply with effect from the June 2020 meeting.

11. There is a two-stage process to determine which papers are to be published. The Board agenda, agreed by the Chair, identifies which items might be considered in private along with an explanation of why this is the case. The Board then agrees which items are to be taken in private as a standing item at the start of the meeting. Items taken in private are in most cases draft documents, which are subsequently published.

12. Given the Board meeting on 24 March 2020 took place in extraordinary circumstances, it was not possible to follow the usual process. This included the circulation of some papers by correspondence. As a result, the papers for that meeting have not yet been published.

13. A proposal on the publication of papers for that meeting is attached as Appendix 1.

Recommendations

14. The Board is invited to:

- note that practical options for holding virtual public meetings are being explored and that the current arrangements continue in the meantime

- approve the reinstatement of the Standing Orders in relation to the publication of papers

- confirm the publication of papers from the meeting on 24 March 2020

- agree that the variations to the Standing Orders are kept under review and considered at each Board meeting until further notice.

Items for publication

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

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

C = Items considered by correspondence

Items not proposed for publication

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

Purpose

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

Background

2.   This policy is the principal policy for the Information Security Management System (ISMS) and highlights the commitments and responsibilities of Audit Scotland colleagues, contractors and consultants employed by Audit Scotland on how information security must be managed.

3.   The policy is the subject an effectiveness review as part of our annual policy review process. Policy updates have been made and were approved by the Knowledge, Information & Technology, Governance, Group (KITGG) on 16 April 2020 and Management Team on 28 April 2020.

4.   The policy has previously been approved by KITGG, Management Team and the Audit Scotland Board, reflecting leadership and commitment to the ISO 27001:2013 information security standard.

5.   Audit Scotland re-certification to the ISO 27001:2013 standard was achieved in August 2019 for a further 3-year period, subject to six monthly surveillance audits. The most recent of these as successfully completed in March 2020. The audit did not identify any Non-Conformances or Opportunities for Improvement.

6.   The review and approval process of the policy demonstrates our continued commitment and compliance with the requirements of the ISO standard.

Considerations

7.   The following changes have been applied to the policy and have been highlighted as tracked changes:

   •   minor wording changes / reordering of commitments

   •   additional information security breach commitment included, as per the ISMS Scope & Objectives document

   •   reference to achieving Cyber Essentials Plus certification removed, based on the Scottish Government presentation at the Public Sector Senior Leaders Cyber Forum (04/03/2020), which clarified that Cyber Essentials Plus was part of the Cyber Resilience Framework Initial baseline tier, which is superseded by the Advanced tier, of which ISO 27001:2013 forms part

   •   digital security update provided to both Management Team and the Audit Committee

   •   Corporate Governance Manager role description expanded to refer to records management, governance and compliance.

8.   In addition, some changes have been made to the diagram in Appendix 1. The diagram has been updated to include the Records Management Policy and refreshed to include a clear visual of what ISMS Corporate documentation sits below the ISMS Framework.

Recommendations

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

AUDIT SCOTLAND

Appendix - Information Security Management Policy

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

Introduction

1.   This policy sets out that Audit Scotland will:

   1.1. ensure the confidentiality, integrity, quality and availability of all the information it holds and processes

   1.2. ensure all the information it holds and processes will meet its contractual, legal and regulatory obligations.

2.   This policy is supported by policies, standards, procedures and guidance and these are shown in the diagram at Appendix 1.

Scope

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

Commitments

4.   Audit Scotland will:

   4.1. treat information security as business critical, whether that be for Audit Scotland information or client data managed by Audit Scotland

   4.2. produce, maintain and test business continuity plans to ensure the availability of its information and information systems

   4.3. ensure that its information is open and wherever possible not restricted by financial or legal agreements

   4.4. ensure legislative and regulatory requirements are met (including intellectual property rights)

   4.5. ensure compliance with all relevant data protection regulations and implement privacy by design in all information systems

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

Commented [DR2R1]: Agreed

4.6. identify and implement appropriate controls for information assets proportionate to levels of risk

4.7. communicate all appropriate information security policies to all employees, contractors, consultants, clients and other stakeholders

4.8. allocate individual accountability for compliance with all appropriate information security policies, standards, guidance and procedures

4.9. all information security breaches whether actual or suspected, be reported and investigated in line with approved policies.

4.10. continue to improve information security management

4.11. develop, implement and maintain an Information Security Management System (ISMS) in accordance with best practice contained within ISO/IEC 27001:2013 and ISO/IEC 27002:2013.

Responsibilities

5. Audit Scotland's Board through its Audit Committee has oversight of risks, including information risks.

6. Audit Scotland's Accountable Officer, with support from the Management Team, has overall responsibility for ensuring this policy is effectively implemented and delivered.

7. Audit Scotland's Senior Information Risk Officer (SIRO) is the Chief Operating Officer, who is responsible for the overall management of the organisation's information risks.

8. A monthly cyber security update is scheduled with the SIRO and a member of the Digital Services Management Team (DSMT) that ensures the latest updates are provided to Senior Management demonstrating leadership and commitment to ISO 27001:2013.

9. In addition to the SIRO monthly update, a 6-monthly update on Digital Security is provided to Management Team and then the Audit Committee.

10. Audit Scotland's Management Team will implement and manage appropriate controls to enable conformance to information security policies within their own areas of responsibility and will ensure individual accountability for control performance.

11. The Knowledge, Information and Technology Governance Group (KITGG) will support the Accountable Officer, Senior Information Risk Officer and Management Team by assessing and mitigating information security risks through standing agenda items Digital Security and Corporate Risk Register review, both providing assurance.

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

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

12. The KITGG will maintain this policy and associated information security policies ensuring they are communicated, reviewed and updated in response to changes in risks faced by Audit Scotland, legislation, and internal operational working practices.

13. The KITGG will ensure all information security policies and our performance in meeting their requirements is monitored and reviewed on an annual basis.

14. The DSMT will maintain information security standards, guidance and procedures ensuring they are communicated, reviewed and updated in response to changes in risks faced by Audit Scotland, legislation, and internal operational working practices.

15. The Corporate Governance Manager (CGM) is the designated Data Protection Officer for Audit Scotland, responsible for updating Audit Scotland's Data Protection Policy. In addition, the CGM is the organisation's Records Manager managing data subject access requests and providing governance and compliance advice to staff.

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

16. Information Asset Owners must understand what information is held by their business area, and approve the permissions required to access it.

17. All Managers will be responsible for implementing and communicating appropriate information security policies, guidance and procedures.

18. All employees, contractors and consultants employed by Audit Scotland are required to play an active role in the protection of Audit Scotland's assets and treat information security appropriately, in order that this purpose can be achieved.

Change Log

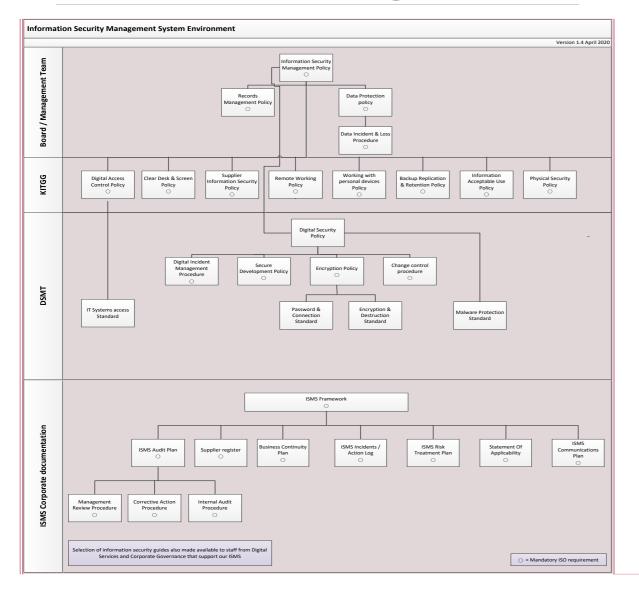| Version	Date	Author	Description
1.0	22/03/16	IT Manager	Information Security Management policy drafted for KITGG approval.
1.1	05/04/16	IT Manager	Some minor changes suggested by the KITGG and policy approved. For submission to the Audit Scotland Management Team for approval.
1.2	15/04/16	IT Manager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

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

Appendix 1 - Information Security Management System Environment

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

AUDIT SCOTLAND

Information Security Management System Environment

Version 1.4 April 2020

Board / Management Team

- Information Security Management Policy ○
  - Records Management Policy ○
  - Data Protection policy ○
    - Data Incident & Loss Procedure ○

KITGG

- Digital Access Control Policy ○
- Clear Desk & Screen Policy ○
- Supplier Information Security Policy ○
- Remote Working Policy ○
- Working with personal devices Policy ○
- Backup Replication & Retention Policy ○
- Information Acceptable Use Policy ○
- Physical Security Policy ○

DSMT

- Digital Security Policy ○
  - Digital Incident Management Procedure ○
  - Secure Development Policy ○
  - Encryption Policy ○
    - Password & Connection Standard
    - Encryption & Destruction Standard
  - Change control procedure ○
  - Malware Protection Standard
- IT Systems access Standard

ISMS Corporate documentation

- ISMS Framework ○
  - ISMS Audit Plan ○
    - Management Review Procedure ○
    - Corrective Action Procedure ○
    - Internal Audit Procedure ○
  - Supplier register ○
  - Business Continuity Plan ○
  - ISMS Incidents / Action Log ○
  - ISMS Risk Treatment Plan ○
  - Statement Of Applicability ○
  - ISMS Communications Plan ○

Selection of information security guides also made available to staff from Digital Services and Corporate Governance that support our ISMS

○ = Mandatory ISO requirement

Purpose

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

Background

2. The Ethical Standard is published by the Financial Reporting Council (FRC) and is consistent with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants.

3. The Ethical Standard Policy on Application takes the FRC's Ethical Standard requirements and identifies the relevant Audit Scotland policies and how those requirements are applied.

Update to Ethical Standard

4. The revisions to the Ethical Standard are intended to strengthen auditor independence and prevent conflicts of interest. The 'objective, reasonable and informed third party' test has been strengthened so that it should not be judged from the perspective of another practitioner.

5. The authority of the Ethics Partner function has been enhanced to ensure an organisation wide focus on ethical matters and the public interest.

6. The following prohibitions have been introduced:

   • loan staff assignments, i.e. secondments to an audited entity. An exception applies for staff of a UK national audit agency provided the role in either the national audit agency or the secondment has no management responsibilities and is for a period of no longer than three months (six months for trainees).
   • charging of fees on a contingent basis.
   • carrying out internal audit services and recruitment services for audited entities.

7. The list of non-audit services that auditors of Public Interest Entities (PIEs) are prohibited from undertaking has been replaced with a shortened list of permitted services.

Updates to Ethical Policy on Application

8. In most cases, the changes to the Ethical Standard have not required changes to our own policies. For example, our Ethics Partner role already complied with the enhanced requirements and we do not charge contingent fees. This report sets out the minor changes to the policy on application as a result of the changes to the revised Ethical Standard which include:

   • updating of paragraph references for the new Standard
   • amendment of paragraphs 30 to 33 to reflect changes concerning loan staff assignments (secondments). Our staff can only be seconded to an organisation within the remit of the Auditor General or Accounts Commission if the duration is less than three months (six months for trainees) and does not involve staff with management responsibilities in Audit Scotland or the role they are seconded to. The safeguard for staff seconded to PABV from other organisations has also been strengthened to restrict them from undertaking work focussed on their other employer.

9. The increased restrictions on secondments will limit the development opportunities available to our staff. We will seek to maximise development opportunities through secondments which are not prohibited by the Standard, such as to other audit agencies, firms or the third sector.

10. All other relevant policies were reviewed for compliance with the Standard and updated as required.

Recommendations

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

Ethical Standard Policy on Application

AUDIT SCOTLAND

Contents

Ethical Standard Policy on Application

Foreword

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

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

- independent appointment of auditors to ensure the auditor is free from any potential or perceived conflict of interest or other pressure that might compromise their judgement

- rotation of auditors every five to seven years to minimise any 'familiarity' threats to independence

- arrangements to control non-audit services through approval by Audit Quality and Appointments to minimise 'self-review' and other threats to independence

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

Fiona Kordiak
Director of Audit Services and Ethics Partner

Introduction

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

2. The principles of the Standard apply to all our work. Where sections of the standard need specific interpretation to our work (highlighted in blue boxes throughout this application guidance), this guide explains how they are applied and, where a policy is explicitly required, sets out that policy. However, you should be aware that this guide covers only those requirements where application guidance is necessary; it does not cover all the requirements of the Standard – the full standard is available on Sharepoint.

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

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

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

6. The Standard is in two parts:

- **Part A** - sets out the overarching principles of integrity, objectivity and independence, together with supporting ethical provisions. These establish a framework of ethical outcomes to be met.

- **Part B** - sets out specific requirements relevant to certain circumstances that may arise which are designed to assist in meeting the ethical outcomes. The following application guidance principally addresses some of the specific requirements.

Section 1 - General requirements and guidance

Introduction

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

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

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

Compliance

Paragraph 1.1

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

Paragraph 1.2

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

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

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

10. All Audit Scotland staff must:

- comply with the staff Code of conduct and any further guidance in this application guide

- notify any potential conflicts of interest to their business group's Compliance Partner (i.e. Director of Audit Services, Director of Performance Audit and Best Value, or Chief Operating Officer) when working on audits and

- make an annual declaration of compliance with the staff Code through the Fit and Proper self-assessment form.

Ethics Partner

> **Paragraph 1.12**
>
> The senior management of the firm shall designate a partner in the firm possessing the necessary seniority, relevant experience, authority and leadership levels (the 'Ethics Partner') as having responsibility for ensuring the firm's compliance with supporting ethical provision A1.1.

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

Threats to Integrity, Objectivity and Independence

> **Paragraph 1.28**
>
> When complying with supporting ethical provisions A2.1–A2.3, conditions and relationship that could give rise to threats to the integrity, objectivity or independence of the firm or covered persons are communicated to the appropriate person, having regard to the nature of the threats and to the part of the firm and the identity of any person involved.

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

> **Paragraph A2.1**
>
> The firm and each covered person, shall ensure (in the case of a covered person, insofar as they are able to do so) that the independence of the firm and each covered person is not compromised with respect to each entity relevant to the engagement. This includes ensuring that the firm and each covered person is not involved in management decision-taking.

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

> **Paragraph 1.33**
>
> The firm shall establish policies and procedures to require the engagement partner to identify and assess the significance of threats to the integrity and objectivity of the firm and covered persons on an individual and cumulative basis, including any threats that may compromise independence:
>
> (a) when considering whether to accept or retain an engagement;
> (b) when planning the engagement;
> (c) when forming an opinion and signing the report on the financial statements or other subject matter information;
> (d) when considering whether to accept or continue to provide nonaudit / additional services to an engagement by the firm; and
> (e) when potential threats are reported to them.

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

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

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

Identification and Assessment of Safeguards

> **Paragraph 1.43**
>
> The firm shall establish policies and procedures which set out the circumstances in which those additional requirements listed in paragraph 1.42 that apply to public interest entities or to listed entities or both are applied to other engagements

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

Overall Conclusion

> **Paragraph 1.50**
>
> At the end of the engagement process, when forming an opinion to be reported, or otherwise reporting on the work undertaken, but before issuing the report, the engagement partner shall reach an overall conclusion that any threats to integrity or objectivity including any that could impair independence on an individual and cumulative basis have been properly addressed in accordance with this Ethical Standard. If the engagement partner cannot make such a conclusion, they shall not report, and the firm shall resign or otherwise withdraw from the engagement unless not permitted to do so by law or regulation.

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

Communication with those Charged with Governance

Paragraph 1.54

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

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

Paragraph 1.58

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

(a) a written disclosure of relationships (including the provision of non-audit / additional services) that may bear on the integrity, objectivity or independence of the firm or covered persons. This shall have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties, and the threats to integrity or objectivity, including those that could compromise independence, that these create. It shall also detail any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable the integrity, objectivity and independence of the firm and each covered person to be assessed;

(b) details of non-audit / additional services provided and the fees charged in relation thereto;

(c) written confirmation that the firm and each covered person is independent;

(d) details of any inconsistencies between this Ethical Standard and the policy of the entity for the provision of non-audit / additional services by the firm and any breach or apparent breach of that policy;

(e) details of any breaches of the requirements in this Ethical Standard, and of any safeguards applied and actions taken by the firm to address any threats to independence; and

(f) an opportunity to discuss independence issues.

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

Section 2 – Financial, Business, Employment and Personal Relationships

Introduction

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

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

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

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

Financial Considerations

> **Paragraph 2.4**
>
> The firm, each of the firm's key audit partners and each of the firm's directly involved covered persons for any engagement, and any persons closely associated with the firm or any such partner or covered person, shall not:
>
> (a) hold any material financial interest (other than an indirect financial interest held through a diversified collective investment scheme) in, or engage in any transaction in, any financial instrument of any entity relevant to an engagement in the area of activity in which they (or in the case of a person closely associated, the area of activity in which the firm, key audit partner or covered person with whom they are closely associated) are involved relating to engagements; or
>
> (b) hold any financial interest, other than an indirect financial interest held through a diversified collective investment scheme, in:
>
>> (i) any entity relevant to an engagement for which they are a directly involved covered person; or
>>
>> (ii) an entity which is an affiliate of such an entity; or
>>
>> (iii) any other entity otherwise related to such an entity in circumstances where holding such a financial interest may cause, or may be generally perceived as causing, a conflict of interest; or, if a person holds such a financial interest, they shall be excluded from any role by virtue of which they would be a covered person for any such engagement.

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

Loans and Guarantees

> **Paragraph 2.23**
>
> Covered persons and persons closely associated with them shall not accept a loan from, or have their borrowings guaranteed by, the entity relevant to the engagement, or the affiliates of such an entity, unless:
>
> (a) the entity is a bank or similar deposit taking institution;
>
> (b) the loan or guarantee is made in the ordinary course of business on normal business terms; and
>
> (c) the loan or guarantee is not material to the entity
>
> Where a covered person or persons closely associated with them have accepted a loan from, or have their borrowings guaranteed by an entity relevant to an engagement, or the affiliates of such an entity, the covered person shall withdraw from the engagement where the loan falls into significant arrears.

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

Management Role with an Entity Relevant to an Engagement

Paragraph 2.35

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

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

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

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

Loan Staff Assignments

Paragraph 2.36

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

[26] Or no longer than six months for a staff member from a national audit agency employed on a training contract

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

- the secondment period is 3 months or less (or 6 months or less in the case of trainees)

- the member of staff being seconded has no management responsibilities in Audit Scotland and

- the role seconded to involves no management or line management responsibilities

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

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

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

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

Paragraph 2.39

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

(a) for all such engagements:

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

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

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

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

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

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

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

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

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

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

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

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

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

Paragraph 2.45

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

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

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

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

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

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

---

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

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

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

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

Family Members Employed by an Entity Relevant to an Engagement

Paragraph 2.51

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

(a) in the case of a person closely associated with them being employed by the entity in such a position, be excluded from any role in which they would be a covered person; or

(b) in the case of a close family member of a covered person or any close family member of any partner in the firm, report the matter to the engagement partner to take appropriate action. If it is a close family member of the engagement partner or if the engagement partner is in doubt as to the action to be taken, the engagement partner shall resolve the matter in consultation with the Ethics Partner/Function.

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

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

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

Governance Role with an Entity Relevant to an Engagement

Paragraph 2.53

The firm or a partner or member of staff of the firm shall not accept appointment or perform a role:
(a) as an officer or member of the board of directors of an entity relevant to an engagement of the firm;
(b) as a member of any subcommittee of that board; or
(c) in such a position in an entity which holds directly or indirectly more than 20% of the voting rights in the entity relevant to an engagement, or in an entity in which the entity relevant to such an engagement holds directly or indirectly more than 20% of the voting rights.

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

- Example 1 – an engagement lead on the audit of a council is offered the role of treasurer or chair to a Citizens' Advice Bureau which is 40% funded by that council and the funding is discretionary. This could create a perception of a conflict between the roles and must be avoided.

- Example 2 – membership of a school board – while the school will be funded by the council, it is required to provide education as a statutory service. The likely influence of a member of a school board on the level of funding is negligible and the potential for conflict of interest is minimal.

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

Employment with the Firm

> **Paragraph 2.57**
>
> Where a former director or a former employee of an entity relevant to an engagement, who was in a position to exert significant influence over the preparation of the financial statements or other subject matter information or subject matter of such an engagement, joins the firm, that individual shall be excluded from any role in which they would be a covered person relevant to that entity or its affiliates for a period of two years following the date of leaving the entity.

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

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

Family and Other Personal Relationships

Paragraph 2.62

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

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

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

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

Introduction

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

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

General Requirements

> **Paragraph 3.2**
>
> The firm shall establish policies and procedures to monitor the length of time and extent of involvement that partners and staff in senior positions, including those from other disciplines, serve as members of the engagement team(s) for recurring engagements for particular entities.

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

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

Key Audit Partners and Engagement Partners

Paragraph 3.11

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

(a) no one shall act as engagement partner for more than five years, this includes time spent participating in an engagement, where an audit engagement has moved between firms; and

(b) anyone who has acted as the engagement partner for a particular entity for a period of five years, shall not subsequently participate in the engagement until a further period of five years has elapsed; and

(c) on completing their rotation, the engagement partner, shall not continue to have significant or frequent interaction with senior management or with those charged with governance of the entity they have previously audited until the cooling off period has elapsed.

Paragraph 3.14

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

Paragraph 3.15

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

- substantial change has recently been made or will soon be made to the nature or structure of the entity's business; or

- there are unexpected changes in the senior management of the entity; or

- the firm, having taken all reasonable succession planning steps, has no other partners with the necessary knowledge and experience who are able to take over as engagement partner.

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

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

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

Paragraph 3.20

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

(a) no one shall act as the engagement quality control reviewer or a key partner involved in the engagement for a period longer than seven years;

(b) where an engagement quality control reviewer or a key partner involved in the engagement becomes the engagement partner, the combined period of service in these positions shall not exceed seven years; and

(c) anyone who has acted:

(i) as an engagement quality control reviewer for a particular entity for a period of seven years, whether continuously or in aggregate, shall not participate in the engagement until a further period of five years has elapsed;

(ii) as a key partner involved in the engagement for a particular entity for a period of seven years, whether continuously or in aggregate, shall not participate in the engagement until a further period of two years has elapsed;

(iii) in a combination of roles as:

• the engagement quality control reviewer,

• a key partner involved in the engagement, or

• the engagement partner for a particular entity for a period of seven years, whether continuously or in aggregate, shall not participate in the engagement until a further period of five years has elapsed.

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

58. Paragraph 3.20 applies to all bodies.

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

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

Other Partners and Staff Involved in the Engagement in Senior Positions

Paragraph 3.21

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

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

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

Introduction

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

Fees

> **Paragraph 4.1**
>
> The engagement partner shall be satisfied and able to demonstrate that the engagement has assigned to it sufficient partners and staff with appropriate time and skill to perform the engagement in accordance with all applicable Engagement and Ethical Standards, irrespective of the engagement fee to be charged.

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

> **Paragraph 4.5**
>
> Fees for the provision of engagements, non-audit and audit-related services to an entity relevant to an engagement, its UK parent undertaking and any worldwide controlled undertaking shall not be contingent fees.

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

Paragraph 4.24

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

Paragraph 4.27

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

Paragraph 4.51

Where it is expected that the total fees for services receivable from a non-listed entity, that is not a public interest entity, and its subsidiaries relevant to a recurring engagement will regularly exceed 10% of the annual fee income of the firm or the part of the firm by reference to which the engagement partner's profit share is calculated, but will not regularly exceed 15%, the engagement partner shall disclose that expectation to the Ethics Partner/Function and to those charged with governance of the entity and the firm shall arrange an external independent quality control review of the engagement to be undertaken, before the firm's report is finalised.

65. The fees receivable from the audit of the Scottish Government and EAFA are above 5% of the total annual audit fee. The Scottish Government group of audits is the only audit which normally has fees exceeding 10% of ASG's total fee income. However, each subsidiary is audited independently and the engagement lead for the consolidated account has no direct influence, in that role, over the audit judgements for the subsidiaries.

66. The threats to objectivity envisaged by the standard are fully mitigated because these audit appointments are made independently of the body by the Auditor General and consequently this requirement does not apply.

Remuneration and Evaluation Policies

Paragraph 4.36

The firm shall establish policies and procedures to ensure that each of the following is true in relation to each entity relevant to an engagement by the firm:

(a) a primary criterion for evaluating the performance or promotion of members of the engagement team is how they have contributed to the quality of engagements undertaken;

(b) the objectives of the members of the engagement team do not include selling non-audit / additional services to the entity;

(c) the criteria for evaluating the performance or promotion of members of the engagement team do not include success in selling non-audit / additional services to the entity; and

(d) no specific element of the remuneration of a member of the engagement team is based on their success in selling non-audit / additional services to the entity.

67. The selling of non-audit services is not a feature of either performance appraisal or staff remuneration.

Gifts and Hospitality

Paragraph 4.40

A firm, its partners and any covered person, and persons closely associated with them, shall not offer or accept pecuniary and nonpecuniary gifts or favours, including hospitality, from an entity relevant to the engagement, or any other entity related to that entity, unless an objective, reasonable and informed third party would consider the value thereof as trivial or inconsequential.

Paragraph 4.43

The firm shall establish policies on the nature and value of gifts, favours and hospitality that may be accepted from and offered to other entities, which are likely to subsequently become an entity relevant to an engagement and issue guidance to assist partners and staff to comply with such policies, including on events that would trigger the application of the policy.

68. Audit Scotland's gift and hospitality policy is consistent with the Ethical Standard requirements and is set out in the Code of Conduct. All staff must confirm compliance with this via the annual Fit and Proper self-assessment form.

Section 5 – Non-audit / Additional services provided to audited entities

Introduction

69. Section 5 of the Standard sets out the requirements for providing services to audited bodies in addition to the core audit work. Audit Scotland's focus is on financial audit and there is no incentive to conduct non-audit services. Any such work will be carried out only if requested and can be accepted only with approval from AQA.

70. Paragraphs 5.1 to 5.34 of section 5 set out the general approach to providing non-audit services to audited bodies, and additional services to bodies which they may not audit but for which they undertake other public interest assurance services. This approach is applicable irrespective of the nature of the non-audit/additional services in a given case.

71. Paragraphs 5.39 to 5.127 of section 5 illustrate the application of the general approach to a number of common non-audit/additional services.

72. The following guidance below each requirement from the standard explains how they are applied in Audit Scotland.

General Approach to Non-audit / Additional Services

> **Paragraph 5.10**
>
> The firm shall require others within the firm, when considering whether to provide a non-audit / additional service to an entity relevant to an engagement, or to any of its affiliates, to communicate details of the proposed non-audit / additional service to the engagement partner who considers the implications for the integrity, objectivity and independence of the firm and covered persons before provision of the non-audit / additional service is accepted.

73. Any non-audit services carried out by ASG must be arranged through the audit engagement lead. All proposed non-audit services must first be approved by Audit Scotland's Ethics Partner then by AQA. Requests should be made in writing to AQA and should be accompanied by express assurance from the auditor that the Engagement Partner has reviewed the proposed work and that they do not consider that it represents a conflict with the firm's role as external auditor, in particular a self-review threat.

74. AQA will make its decision on any request having regard to the APB Ethical Standard currently in force and may consult Audit Scotland's Ethics Partner. For example, in accordance with paragraph 5.44 of the Ethical Standard (), approval would not be given for external auditors to seek appointment as internal auditors.

75. While it is unlikely that work carried out at an audited body by PABV or work carried out by any other member of staff would constitute work which might threaten an auditor's independence or objectivity, all staff need to be aware of the possibility in relation to any improvement work or advice and must discuss any proposed work with the audit engagement lead.

76. Audit Scotland staff do not provide additional services to bodies that are not audited.

Evaluation of specific non-audit services and additional services

77. Paragraphs 5.43 to 5.127 give the following examples of non-audit services where extreme care is required: Internal audit services; Information technology services; Valuation services; Actuarial valuation services; Tax services; Litigation support services; Legal services; Recruitment and remuneration services; Corporate finance services; Transaction related services; Restructuring services; and Accounting Services. The requirements of paragraph 5.43 to 5.127 apply to all audits.

Audit related services

> **Paragraph 5.36**
>
> Audit related services are:
> - Reporting required by law or regulation to be provided by an auditor;
>
> - Reviews of interim financial information;
>
> - Reporting on regulatory returns;
>
> - Reporting to a regulator on client assets:
>
> - Reporting on government grants;
>
> - Reporting on internal financial controls when required by law or regulation;
>
> - Extended audit work that is authorised by those charged with governance performed on financial information and/or financial controls where this work is integrated with the audit work and is performed on the same principal terms and conditions.

78. Audit related services are those non-audit services that are largely carried out by the engagement team and where the work involved is closely related to the financial audit.

79. Each type of audit related services may be undertaken. The type of audit related service most likely to be undertaken is work on the certification of grant claims. Auditors must seek approval from the Ethics Partner then AQA as described in paragraph 73.

Appendix 1

Application of IESBA Ethics Code to UK Accountancy Bodies

80. The International Ethics Standards Board for Accountants (IESBA) develops ethical standards and guidance for use by professional accountants. The IESBA Code issued in July 2009 (updated in 2018) serves as the foundation for codes of ethics developed and enforced by members of the International Federation of Accountants (IFAC). No member body of IFAC or firm issuing reports in accordance with International Auditing and Assurance Standards is allowed to apply less stringent standards than those stated in the IESBA Code.

81. Each professional institute in the UK adopted the IESBA Code as the basis for their own ethics codes from 1 January 2011. Members are required to comply with their institute's code.

82. Information on each institute's ethics code is as follows

- CIPFA has a Standard of Professional Practice on Ethics (SOPP on Ethics).

- ICAS has a Code of Ethics.

- The ACCA Rulebook contains their Code of ethics and conduct at section 3

- ICAEW has a Code of Ethics.

Minutes

Audit Committee Meeting

Wednesday 13 November 2019, 10.00

Audit Scotland offices, Nelson Mandela Place, Glasgow

AUDIT SCOTLAND

Present:

H Logan (Chair)
A Alexander
G Sharp

In attendance:

C Robertson, BDO
J So, Alexander Sloan
C Gardner, Auditor General for Scotland and Accountable Officer
I Leitch, Chair of the Audit Scotland Board
D McGiffen, Chief Operating Officer
G Fitzpatrick, Corporate Governance Manager
M Walker, Associate Director, Corporate Performance and Risk
O Smith, Senior Manager, Audit Quality and Appointments
J Gilchrist, Manager, Audit Quality and Appointments
S Dennis, Corporate Finance Manager
P Weetman, Emeritus Professor of Accounting, University of Edinburgh

1. Private meeting

A private meeting was held with Audit Committee members and internal auditors (BDO) and external auditors (Alexander Sloan).

There were no issues or questions arising from the private meeting.

2. Welcome and apologies

The Chair opened the meeting, welcomed everyone and reported that there were no concerns arising from the private meeting.

The Chair welcomed Pauline Weetman as an observer to the meeting and explained her interest in the business of the Audit Committee in relation to her own role within the Accounts Commission.

Steven Cunningham had previously submitted his apologies. There were no other apologies.

3. Declarations of interest

There were no declarations of interest.

4. Minutes of meeting 4 September 2019

The Audit Committee members reviewed the minutes of the meeting of 4 September 2019, which had previously been circulated.

The Chair invited feedback on the minutes of the previous meeting.

Alan Alexander requested an update on the pension and lease issues. Stuart Dennis, Corporate Finance Manager, indicated that discussions were underway with the external

auditors Alexander Sloan and that a further update would be provided on this matter at the next meeting of the Board.

The Audit Committee members approved the minutes of the last meeting.

5. Review of actions tracker

The Audit Committee members reviewed the action tracker, which had previously been circulated.

On action 85AC, the Chair and members noted the circulation of the redesigned Self-Assessment questionnaire for the Audit Committee. Graeme Sharp indicated that he felt there was an opportunity to further streamline the questionnaire.

Alan Alexander advised that it would be helpful to set an end date for consultation. Gayle Fitzpatrick indicated that a communication advising of the process for revision and deadline would be issued to the Audit Committee within the week. The questionnaire will be issued for completion by committee members in April 2020.

The Audit Committee members noted the progress on the actions in the tracker.

Action 92AC: **G Fitzpatrick to issue deadline for finalising the 2020 Self-Assessment Questionnaire for Audit Committee by end of November 2019.**

6. Audit Committee terms of reference (TOR)

The Chair invited comments from members on the report, submitted by the Corporate Governance Manager, which had been previously circulated.

The Chair requested that tracking on page three be removed and invited comments from the members.

A discussion took place on the TOR in relation to the presence of observers at the Audit Committee. Martin Walker advised that the Standing Orders and Audit Committee's TOR did not preclude observers attending meetings. He also advised that the Standing Orders and the TOR could be reviewed and updated to provide more clarity in this area.

As there were no other comments on the TOR, the Chair advised that any variation on the wording with regard to observers in governance documents could be discussed at the Board meeting on 27 November 2019.

7. Internal audit report: Audit Quality Framework

Owen Smith, Senior Manager, Audit Quality and Appointments (AQA) and John Gilchrist, Manager, Audit Quality and Appointments (AQA), joined the meeting.

BDO submitted the internal audit report: Audit Quality Framework, a copy of which had been previously circulated.

Claire Robertson, BDO, indicated substantial assurance had been provided on both the design and operational effectiveness of the Audit Quality Framework (AQF). Claire advised that BDO had found no areas where meaningful improvements could be made, that she was comfortable in the assessment that had been made and there were no recommendations arising from the audit.

The Chair invited any questions or comments on the report. The members considered that the audit provided good assurance. Ian Leitch noted the positive nature of the report and praised the work of the AQA team in progressing the Audit Quality Framework.

The Audit Committee noted the internal audit report on the Audit Quality Framework.

8. Internal audit report: Progress report 2019/20

Claire Robertson, BDO, submitted the Internal audit report: Progress report 2019/20, a copy of which had been previously circulated.

Claire Robertson indicated that the internal audit plan was on track with three further audits (Recruitment and Selection, Learning and Development and Communications and Engagement) scheduled to be concluded during 2019/20.

The Chair invited questions and comments from members. Alan Alexander indicated the summary was welcome and that it would also be helpful to have the estimated audit completion date in future progress reports.

The Audit Committee noted the internal audit progress report to the period 2019/2020 to date.

Action 93AC: **Claire Robertson to include target audit completion dates in future progress reports. (4 March 2020)**

9. Internal audit recommendations progress report

Gayle Fitzpatrick, Corporate Governance Manager, introduced the Internal audit recommendations progress report, a copy of which had been previously circulated.

The Chair asked what constituted a 'skill' and whether it included training courses. Diane McGiffen advised that the skills database could cover formal qualifications, previous experience, skills, training and learning and development objectives. Diane also advised that discussion is taking place across business groups to ensure the data captured can helpfully inform resource planning.

Graeme Sharp queried whether skills covered in the database would be related to job functions or be more competency based. Diane McGiffen indicated that the database would aim to capture a balance in terms of formal qualifications and other relevant experience such as data analytics skills.

The Chair asked whether the statistics in the database will be used by the AQA team. Diane McGiffen indicated that this would be the case.

The Chair asked how the new Time Recording System (TRS) was being applied to MKI system users. Martin Walker advised that the new TRS was currently live for CentralTime TR users in Corporate Services and Performance Audit and Best Value and that a period of parallel running was under way. Martin also advised that the new TRS will be available for MKI users in the Audit Services Group in December 2019.

The Chair then asked whether there would be any risks to fees being lost because the TRS system was going live for MKI users without a period of parallel running. Martin Walker advised this is not a risk as the functionality of the new TRS was being tested by the parallel running in Corporate Services and Performance Audit and Best Value and that the system used to log time did not impact on the actual time logged.

In relation to the Cost of Audit point three, the Chair asked what was going to be delivered that was not currently available and whether the cost of the resources required to undertake the additional analysis could exceed the benefit of the analysis. Martin Walker advised that the comparative and time series analysis carried out by the Performance, Risk Management Group would complement the work done in business groups, that it would add value and that the additional resources required to carry out the analysis were not significant.

Ian Leitch asked whether issues with audit costs were used to alert the Audit Quality and Appointments (AQA) team as to any quality issues with an audit. John Gilchrist advised audit costs going over budget did not necessarily reflect an audit quality issue but might highlight where the quality of information submitted to the audit team required additional audit work to be carried out. Owen Smith referred to the flexible fee setting system which allows for additional fees to be levied where required and that additional fees beyond a set range require approval by AQA.

Diane McGiffen advised that cost monitoring was one part of the comprehensive audit quality framework and the importance of distinguishing between audit costs and audit fees.

The Audit Committee noted the progress on the implementation of audit recommendations.

10. Draft interim audit quality report

Owen Smith, Senior Manager, Audit Quality and Appointments, introduced the draft interim audit quality report, a copy of which had been previously circulated.

The Chair invited questions and comments.

Alan Alexander noted that paragraph five in the covering paper could be expanded to include more detail on the actual process underpinning the various reviews to provide additional assurance on the conclusions reached in the report.

Alan Alexander also asked about the reason for the drop in the audit outputs delivered to schedule and noted the difference between local government and NHS audits. John Gilchrist indicated that this was as a result of the quality of material submitted to the audit team for the Renfrewshire and Glasgow Clyde Valley IJB audits, and that the Renfrewshire Council audit opinion had been modified due the quality of accounting records.

Alan Alexander asked for further information in relation to the reporting on Best Value and value for money in the West Dunbartonshire Council and Midlothian IJB annual audit plans. John Gilchrist advised that guidance on the reporting is principles-based to allow innovation and some flexibility in how auditors report on best value. John Gilchrist also advised that an explanation of best value and value for money is included within the report.

Alan Alexander asked how the findings from the last report from the Financial Reporting Council would inform the planned audit tender process. John Gilchrist advised that all such reports help inform the process and advised that an assessment of audit quality was the main criteria to be used in the evaluation process.

Caroline Gardner provided further assurance that the weighting of costs and quality will be considered by the Steering Group and come back to Audit Committee before any tender and procurement process begins.

Alan Alexander asked about the requirement to include a section on adding value in the annual audit plans and the Chair noted that this issue had been raised previously in relation to one of the audit firms. John Gilchrist advised that this more likely reflected an element of modesty on the part of the audit team rather than an absence of value being added and advised that the issue had been discussed with the firm in question.

The Chair asked about the monitoring of actions taken by councils following the publication of Best Value Assurance Reports (BVARs). John Gilchrist advised this will be covered as part of the AQA review of annual audit reports. Owen Smith added that BVARs are also covered in the independent ICAS reviews which form part of the Audit Quality Framework.

The Chair noted that the wording of item 39 on the action tracker may need updated to reflect the earlier discussion.

The Audit Committee noted the assurance on audit quality.

Action 94AC: **Owen Smith and John Gilchrist to revise the draft interim quality report to reflect points raised by the Audit Committee. (November 2019)**

11. Audit quality framework review

Owen Smith, Senior Manager, Audit Quality and Appointments (AQA), introduced the Audit Quality Framework (AQF) review report, copies of which had been previously circulated.

The Chair invited questions and comments.

Alan Alexander advised that he had a number of areas he wanted to explore with regards to the stakeholder engagement report included at appendix B and sought further information on the independence of the report and on benchmarking. Owen Smith advised the survey was carried out by external consultants so that all respondents could offer clear feedback on the audit and the audit teams. Owen also advised that the comprehensive nature of the Code of Audit Practice in Scotland, and the different types of audit work carried out across the UK, meant that the opportunities for benchmarking results with other audit agencies were limited.

The Chair sought clarification on the survey sample and why audited bodies which had been surveyed by the Firms had been excluded. John Gilchrist advised that this was intended to avoid duplication and reduce the risk of 'consultation fatigue' in some audited bodies. The Chair noted this but was concerned that there would still be merit in all bodies being asked the same questions by an independent researcher.

Alan Alexander sought clarification on whether the 35% response rate was sufficient to draw robust conclusions. John Gilchrist advised that the external consultants provided assurance that the response rate was good for this type of survey. John also advised that planned refinements to the survey should help to increase the response rate in future surveys.

Alan Alexander suggested that the balance between qualitative and quantitative data be considered in future survey reports and AQA discuss this with the external consultants.

Alan Alexander asked how the survey report would be used. Owen Smith advised that the survey formed one part of the comprehensive quality framework and helps to inform the overall assessment of quality. John Gilchrist advised that the survey report also informs the regular conversations with the Firms and audit teams on quality.

Ian Leitch asked about the impact of changes to the members of audit teams. John Gilchrist advised that arrangements are in place to minimise the impact on the audited body and the audit team.

Discussion then turned to the proposed revisions to the KPIs. The Chair invited the external and internal auditors' views on the key performance indicators (KPIs). Both advised that the proposed KPIs were relevant and that the planned refinements made good sense.

Caroline Gardner advised that she is comfortable with the proposed changes to the AQF and of the continued interest of the other UK audit agencies in the framework. In response to a question by the Chair, Caroline Gardner advised that the KPIs in the AQF cover more areas than those used in the other audit agencies and that there may be opportunities to develop a core suite of indicators to support more benchmarking. Diane McGiffen advised that a Public Audit technical forum meeting was taking place in December 2019 and it is anticipated that further development work on KPIs and benchmarking would take place during 2020.

Ian Leitch took the opportunity to thank the AQA team for its good work.

Having considered the proposed changes to quality reporting and KPIs, the independent feedback reporting, the Audit Committee agreed to recommend approval of the AQF to the Board.

Owen Smith and John Gilchrist left the meeting.

12. Q2 Financial performance report

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

The Chair invited questions and comments.

Graeme Sharp sought additional information on the variances on fee income and Stuart Dennis advised these were principally areas where additional audit work had been required.

Alan Alexander noted the additional expenditure on agency staff and asked whether this highlighted any underlying resourcing issues. Diane McGiffen advised that the issue had been identified early, had been reported previously to the Audit Committee and the Board and reflected some of the resourcing pressures being experienced during 2019/20.

Diane McGiffen, then provided an update on a broad range of work under way on resourcing, including a review being led by Audit Directors. She advised that the review had identified that there was a number of contributing factors and, as a result, a broad range of actions being taken forward to address the pressures, including the timing of ICAS exams and the availability of professional trainees at key points in the audit cycle.

The Chair asked whether there was a risk to audit quality associated with the short-term use of agency staff. Diane McGiffen advised that all agency staff had to be appropriately qualified, a focussed induction process was in place, that a number of agency staff had prior experience of Audit Scotland and that robust arrangements were in place to ensure quality.

The Audit Committee noted the Q2 Financial report.

13. Review of standing orders 2019

Martin Walker, Associate Director, Corporate Performance and Risk, introduced the review of standing orders report, copies of which had been previously circulated.

The members were invited to consider the proposed amendments to the standing orders and subject to any further amendments, recommend them to the Board for approval at its meeting on 27 November 2019.

The Chair invited questions and comments. None were raised.

The members noted the report and approved presentation of the updated standing orders to Board on 27 November 2019.

14. Review of risk register

Marin Walker, Associate Director, Corporate Performance and Risk, introduced the review of risk register report, a copy of which had been previously circulated.

The Chair invited questions and comments.

Graeme Sharp asked whether any changes to the number of Section 102 reports, at a time where there have been increasing levels of Section 22 reports, would result in resourcing pressures and the ability to deliver on the audit programme. Diane McGiffen advised that any resources required to deliver statutory work would be prioritised as required and noted that the General Election publication moratorium would mean that a number of statutory reports would be laid in a short timeframe before the statutory deadline. Caroline Gardner noted that emerging audit issues are monitored closely, potential statutory reports are identified early in the process and resources can be prioritised accordingly.

The Chair asked if there were any single points of failure the organisation is aware of in respect of capacity. Diane McGiffen advised that when capacity pressures arise audit resources can be assigned from other parts of the organisation.

The Chair asked whether these controls were considered when assigning the risk assessment scores. Martin Walker confirmed that this was the case.

The Audit Committee noted the review of the risk register.

15. Risk interrogation: Value for money

Martin Walker, Associate Director, Corporate Performance and Risk introduced the Risk interrogation: Value of Money report, copies of which had been previously circulated.

The Chair indicated that the report was very comprehensive and invited questions and comments from the members.

Alan Alexander asked for an explanation on the footnote on page eight in reference to the difference between Audit Scotland and the National Audit Office. Caroline Gardner advised that the size of some major UK government departments, most notably the Department for Social Security and the Ministry of Defence impact on the calculation.

Alan Alexander sought clarification on the statistics relating to downloads. Martin Walker advised that this included people accessing the full range of audit outputs including reports, checklists and interactive data tools.

Graeme Sharp sought clarification on the comparability of costs and fees charged by the firms. Stuart Dennis explained how the figures are calculated and the treatment of pooled costs.

Diane McGiffen advised the data contained in the risk interrogation along with related analysis of audit costs would inform the audit procurement and tendering process.

The Chair highlighted the comprehensive nature of the risk interrogation.

The Audit Committee noted the Risk interrogation on value for money.

16. Risk interrogations schedule 2020

Martin Walker, Associate Director, Corporate Performance and Risk, introduced the Risk interrogations schedule 2020 report, copies of which had been previously circulated

The Audit Committee was invited to consider and agree the proposed interrogation schedule for 2020.

The Chair queried the timing of the first proposed risk interrogation on Audit Scotland's preparedness for changes to Board membership and the appointment of a new Auditor General for Scotland. Diane McGiffen agreed that early dialogue would be welcome on this matter and Martin Walker advised he will email all concerned and seek views in the next couple of weeks.

The members noted the report and approved the schedule in principle, subject to further discussion before March 2020.

Action 95AC: **Martin Walker to formally email Audit Committee to seek views on the risk interrogation schedule for 2020. (December 2019)**

17. Business continuity planning update 2019

Gayle Fitzpatrick, Corporate Governance Manager, introduced the Business continuity planning (BCP) update 2019 report, a copy of which had been previously circulated.

The Audit Committee was invited to note the detailed business continuity planning which has been taking place during 2019, and given the General Election and European Withdrawal negotiations are live matters consider the proposal that the review of the BCP be rescheduled to early 2020.

The members noted the report, and agreed that the formal review of the BCP be rescheduled to early 2020 and presented to the meeting of the committee on 4 March 2020.

18. Data incidents/loss report

Gayle Fitzpatrick, Corporate Governance Manager, introduced the Data incidents/loss report, a copy of which had been previously circulated.

Gayle Fitzpatrick advised that there had been no data incidents in quarter two.

The Chair asked whether the organisation undertook annual testing of staff on their understanding of the General Data Protection Regulations (GDPR). Gayle Fitzpatrick advised that there are number of arrangements in place to ensure staff are kept appraised of GDPR and our statutory obligations around this, including newsletters, videos, mandatory online training for new starts, the 'your business at risk' survey and regular updates to staff via Yammer, but that there was no annual testing in place.

The Chair requested that an offline discussion take place on this matter.

The Audit Committee noted data incidents/loss report.

Action 96AC: **The Chair will discuss annual testing of GDPR with the Chief Operating Officer prior to next Audit Committee meeting in March 2020. (February 2019)**

19. External auditor's independence, objectivity and value for money

Gayle Fitzpatrick, Corporate Governance Manager, introduced a report on External auditor's independence, objectivity and value for money, a copy of which had been previously circulated.

The Chair invited comments and questions. There were none. The Chair asked Jillian So, Alexander Sloan, whether she had any comments or issues regarding the statement and was told she had none.

The Audit Committee noted the report.

20. Any other business

There was no other business.

21. Review of meeting

The Chair invited those present to comment on the standard of the papers submitted to them and on the meeting itself.

The Audit Committee member expressed themselves satisfied with the papers, focus and pace of the meeting.

22. Date of next meeting: 4 March 2019

The next meeting will be held at 10.00am on 4 March 2019, Nelson Mandela Place, Glasgow.

Minutes

Audit Committee Meeting

Wednesday 4 March 2020, 10.00am

Audit Scotland offices, 102 West Port, Edinburgh

Present:

H Logan (Chair)
A Alexander

In attendance:

C Robertson, BDO
S Cunningham, Alexander Sloan
J So, Alexander Sloan
G Fitzpatrick, Corporate Governance Manager
S Dennis, Corporate Finance Manager
M Walker, Associate Director, Corporate Performance and Risk
D McGurk, Service Delivery Manager
C Gardner, Auditor General for Scotland and Accountable Officer
I Leitch, Chair of the Audit Scotland Board
D McGiffen, Chief Operating Officer
D Blattman, Human Resources and Organisational Development Manager
S Burgess, Assistant Human Resources Manager
T Bray, Senior Business Partner, Organisational Development
G Smail, Audit Director

Apologies:

G Sharp
S Ebbett, Communications Manager

1. Private meeting

A private meeting was held with Audit Committee members and internal auditors (BDO).

2. Welcome and apologies

The Chair opened the meeting, welcomed everyone and reported that there were no issues arising from the private meeting.

Graham Sharp, Chair of the Accounts Commission had previously submitted his apologies for the meeting and had met with the Chair to share his thoughts prior to the meeting. The meeting was quorate according to the Terms of Reference.

There were no other apologies.

3. Declarations of interest

There were no declarations of interest.

4. Minutes of meeting 13 November 2020

The Audit Committee members reviewed the minutes of the meeting of 13 November 2020, which had previously been circulated.

The Chair invited feedback on the minutes of the previous meeting.

There was a discussion about the Code of Audit Practice and whether this was on track. Alan Alexander advised that the new code was currently out for consultation and that the result would be brought to the Audit Committee meeting scheduled for 6 May.

The Audit Committee members approved the minutes of the meeting.

5. Review of actions tracker

The Audit Committee members reviewed the action tracker, which had previously been circulated.

The Chair queried the wording of the description of 96AC and asked that all items be included with the same wording as in the relevant minutes. In respect of the comments section for this item Diane McGiffen, Chief Operating Officer indicated this would be revised to reflect the original discussion and correspondence with the Chair.

The Chair enquired about the progress on the self-assessment questionnaire for Audit Committee members. Gayle Fitzpatrick, Corporate Governance Manager advised that the revised questionnaire would be circulated on 27 March 2020 as scheduled.

The Audit Committee members noted the progress on the actions in the tracker.

Action 97AC: **Wording of action 96AC to be revised in the action tracker by the next Audit Committee on 6 May 2020.**

6. Audit Committee terms of reference (TOR)

The Chair invited comments from members on the report, submitted by the Corporate Governance Manager, which had been previously circulated.

The Audit Committee reported they were content with the current version of the Terms of Reference.

7. Internal audit reports

David Blattman, Human Resources and Organisation (HR & OD) Development Manager, Susan Burgess, Assistant Human Resources Manager, Tracey Bray, Senior Business Partner (Organisational Development) and Gordon Smail, Audit Director joined the meeting.

Clare Robertson, BDO submitted the internal audit reports on Staff Recruitment and Selection, Learning and Development and Communication and Engagement, copies of which had been previously circulated.

Staff recruitment and Selection

Claire summarised the report advising that reasonable assurance was provided on design and operational effectiveness, and that she would be happy to take questions.

The Chair had previously circulated questions to David Blattman, HR & OD Manger, which David addressed at the meeting.

The Chair asked about the cost and rationale for advertising in various online forums and print media. David advised that an extensive range of advertising was undertaken to widen the coverage of potential candidates, including those potentially not actively looking for a new post.

Alan Alexander asked how Audit Scotland benchmarks the cost of recruitment. David advised that recruitment costs are benchmarked against the Chartered Institute for Professional Development (CIPD) data, while noting the data is not directly comparable due to differences in roles and structures.

Alan also asked whether the current approach to recruitment and selection was appointing the right people. David assured the Audit Committee that this was an area where the organisation was

successful and outlined the three and six months follow up meetings with new starts to seek their views. He also advised that low turnover rates indicate good levels of retention.

The Chair asked how variations in the processes around interview question forms and wash up sessions were determined and how procedures on this had been tightened following the audit. David advised that any variation in the processes is agreed in consultation between the business group, the HR & OD Manager and the Assistant HR Manager. The procedure now states that forms must be returned within 14 days of the wash-up meeting and, if they are not, this will be escalated by means of a senior member of the HR &OD staff speaking with Audit Directors or Management Team members, as appropriate.

The Chair asked about the number of staff trained in recruitment, the regularity of their use, and the frequency of refresher training. David advised that 71 colleagues have been trained and that recruitment within some business groups is routine meaning that many colleagues are regularly involved in recruitment. He also advised there is no evidence to highlight the need for more frequent refresher training.

The Chair asked about the intensity and efficiency of the induction process and the effectiveness of the absorption of the training. David advised that induction involves a broad range of activity including a suite of online modules covering data protection, workstation assessment, and diversity alongside on the job and professional training. He confirmed HR & OD have tightened up the monitoring of the completion and recording of induction training, including escalation where required.

The Chair asked what the HR & OD team wanted to get from the new Cascade HR system. David advised that the team were ambitious for their intended use of Cascade, including the automation of some tasks which are currently labour intensive. The HR & OD team are considering where additional modules of the system may be deployed.

Ian Leitch enquired whether the organisation used psychometric testing as part of the recruitment and selection process. David advised that generally this is not the case for junior positions, but it can be used for more senior positions and that a menu of assessment tools is available to inform the selection process.

The Audit Committee noted the internal audit report.

Learning and Development

Claire summarised the report indicating that reasonable assurance was provided on design and operational effectiveness and advised she would be happy to take questions.

The Chair asked whether Continuing professional development (CPD) was evidenced or noted. David advised CPD will be evidenced via the Cascade system.

The Chair asked Gordon Smail, Audit Director, how CPD issues arise in the discussions at the Audit Quality Committee. Gordon advised that there had been good discussions about the need to protect time for CPD, and that this formed part of the wider discussions about resourcing.

Alan asked whether the use of the term mandatory is used consistently and understood across the organisation. Gordon advised that there are different levels of mandatory training across teams based on the needs of particular audits.

The Chair asked how the organisation ensures and assesses absorption of technical training and the reason for not testing individuals. Gordon assured the Audit Committee that the organisation monitors this closely through the audit quality regime and reports to the Audit Quality Committee. He advised that there is a close correlation between the training that is offered, the needs of an audit and reflecting any areas of concern identified through hot and cold reviews. Gordon also advised that the intention is to get a better balance between hot and cold reviews, where hot reviews provide more real time feedback on the quality of the audit work and the effectiveness of the training.

The Chair asked whether Cascade was tested prior to its selection to ensure that it would improve the efficiency of the administrative processing around learning and development. David advised that the main focus of the system implementation to date had been on core HR functions and that the team

were considering how the learning management module might improve efficiency and the user experience.

The Chair asked whether testing on the completion of training would provide assurance on the effectiveness of the training. David advised that while some firms do include testing, the view in the HR&OD profession is that this only tests the acquisition of knowledge in the short term and cannot guarantee the application of that knowledge in a practical setting. He also advised that feedback is collected at the time of training being delivered and this is positive.

The Audit Committee noted the internal audit report.

David Blattman, Human Resources and Organisation (HR & OD) Development Manager, Susan Burgess, Assistant Human Resources Manager, Tracey Bray, Senior Business Partner (Organisational Development) and Gordon Smail, Audit Director, left the meeting.

Communication and Engagement Strategy

Claire Robertson summarised the report advising that substantial assurance had been provided on both design and operational effectiveness, that a number of areas of good practice had been identified.

Alan Alexander asked how BDO considered what an appropriate implementation period might be for recommendations. Claire advised that BDO consider each management response in relation to the exposure of risk rather than focus on the timescales and that it is for management, who have the fuller breadth and depth of information at their disposal, to determine an appropriate implementation period.

The Chair had previously submitted questions on the report to Simon Ebbett, Communications Manager prior to the Audit Committee meeting. Simon had provided a management response in relation to the recommendation for a workshop around scenarios to be held with audit staff advising that this would be covered through ongoing engagement in existing forums rather than a stand-alone event.

Heather advised that Graham Sharp had asked whether there was enough resilience within the team given the work pressures and whether there was duplication in reporting. Diane McGiffen assured the Audit Committee that while reports might cover some similar areas, they were tailored to the audience needs. Diane also advised that while the Communications Team used different working patterns it is at full establishment. The Audit Committee noted the internal audit report.

8. Internal audit progress report 2019/20

Claire Robertson, BDO, submitted the Internal audit progress report, copies of which had been previously circulated.

Claire advised that good progress had been made with the recommendations BDO had previously made and she was content with the additional information provided on those recommendations partially complete.

The Chair asked for an update on the Time Recording System (TRS). Martin Walker outlined the current position and indicated that the go live date for Audit Services Group (ASG) has been rescheduled from April 2020 to October 2020. Martin explained the rationale for the rescheduling was due to a number of factors, including some system performance issues arising from additional security measures on the underlying platform which was impacting on the user experience. He also advised that the October go live date was to coincide with the start of the next audit year and would avoid the introduction of a new system when the financial audit work was at its peak.

The Chair asked for reassurance that the TRS would be delivered to the new deadline. Caroline Gardner, Auditor General for Scotland and Accountable Officer advised that most projects were delivered to schedule and Diane McGiffen advised that all time is recorded at present albeit in two systems and that the delay did not have a significant impact.

Alan Alexander asked the whether there had been optimism bias within the project timescales. Martin advised that this was not the case and explained that a number of challenges had arisen over the

course of the project, including licensing costs and changes to the security requirements which had required the prioritisation of other digital projects over this one.

The Chair queried whether further security issues were anticipated between now and October that could impact on the project being delivered. Martin advised that the organisation is in a stronger position in terms of system capacity and performance to overcome any potential challenges. He also noted, that digital and cyber security is an ever changing and challenging area, and in this context, security would be prioritised over improvement projects where necessary.

The Audit Committee noted the internal audit progress report to the period 2019/20 to date.

9.   Internal audit recommendations progress report

Gayle Fitzpatrick, Corporate Governance Manager, introduced the Internal audit recommendations progress report, copies of which had been previously circulated.

The Chair asked Gayle if there was anything further to note given the discussion covered in Item 8 also reflected this report.

Gayle advised she had nothing further to add.

The Audit Committee noted the progress of the audit recommendations.

10.   Co-operation between internal and external auditors

Claire Robertson, BDO, submitted the Co-operation between internal and external auditors, copies of which had been previously circulated.

The Chair asked for more detail on joint working between BDO and Alexander Sloan in relation to the provision of joint technical updates for Audit Committees and induction and training for new Board and Committee members. Claire advised these matters had been discussed at the last two liaison meetings, including the potential for joint events between the internal and external auditors in respect of technical updates and processes. She advised a further update on progress will be provided at the next Audit Committee to be held on 6 May 2020.

The Audit Committee noted the Co-operation between internal and external auditors.

Action 98AC: Claire Robertson and Stephen Cunningham to provide an update on the support they will jointly provide to assist in the smooth transitions occurring in the Board and Audit Committee at the next Audit Committee on 6 May 2020.

11.   Internal audit plan 2020/21 progress update

Gayle Fitzpatrick, Corporate Governance Manager, introduced the Internal audit plan 2020/21 progress update report, copies of which had been previously circulated.

The Chair invited questions on the report, of which there were none.

The Audit Committee welcomed the report and noted that the Internal Audit Plan for 2020/21 will be presented at the next meeting on 6 May 2020.

12.   2019-20 Year-end statutory accounts timetable

Stuart Dennis, Corporate Finance Manager joined the meeting.

Stuart Dennis introduced the 2019-20 Year-end statutory accounts timetable, copies of which had been previously circulated.

The Chair invited questions on the report, of which there were none.

It was noted that the Audit Committee are content with the timetable.

The Audit Committee noted the report.

13. 2019/20 Accounting policies, key accounting estimates and judgements

Stuart Dennis, Corporate Finance manager, introduced the 2019/20 Accounting policies, key accounting estimates and judgements report, copies of which had been previously circulated.

The Chair thanked Stuart for the update and invited questions, of which there were none.

The Audit Committee noted the report.

14. External auditors plan 2019/20

Stephen Cunningham, Alexander Sloan introduced the External auditors plan 2019/20, copies of which had been previously circulated.

The Audit Committee noted the report.

15. Q3 Financial performance report

Stuart Dennis, Corporate Finance Manager, introduced the quarter three financial performance report, copies of which had been previously circulated.

The Chair invited questions and comments.

Discussion focused on the underspend at the end of quarter three and the forecast for the final quarter. Stuart highlighted that there were some risks including the provisions for pensions and holiday pay and the need for some contingency for unplanned expenditure.

Stuart provided assurance to the Audit Committee on the monitoring that takes place and provided examples of how this is done. Caroline Gardner highlighted that the budget is very tight this year and as Accountable Officer she must ensure the organisation breaks even and advised of her gratitude for the meticulous work that is going on to achieve this.

Diane McGiffen advised the Audit Committee that the organisation's income is based on work completed and so the risks around any impact arising from the Covid-19 virus were being monitored carefully.

The Audit Committee noted the Q3 Financial report.

16. Review of risk register

Martin Walker, Associate Director, Corporate Performance and Risk introduced the review of Risk register report, copies of which had been previously circulated.

Martin also tabled an addendum in relation to the potential impact of Covid-19 which highlighted the risks around the potential impact of the virus on Audit Scotland's capacity to deliver the audit and on the capacity of bodies to be audited. In addition, Audit Committee were invited to note the increased level of risk around the potential cost implications of the tender for the next round of audit appointments based on the new Code of Audit Practice.

The Chair invited questions and comments.

The Chair enquired whether the failure to deliver year end accounts should be included as part of the risk register. Martin advised that while the theoretical risk exists; this is very unlikely to materialise based on the controls in place and Audit Scotland's track record in this area.

The Audit Committee noted the review of the risk register.

17. Risk interrogation: Independence

Martin Walker, Associate Director, Corporate Performance and Risk introduced the Risk interrogation: Independence, copies of which had been previously circulated.

The Chair invited questions and comments.

Alan Alexander asked whether the Risk interrogation should be called, 'Independence of audit' for clarity and whether this, and other risk interrogations should be in the public domain. The Chair noted that Graham Sharp had made a similar observation, which she shared, that the term 'independence' was being more closely associated now with political leanings and that the term 'objective' might be more usefully deployed. Diane McGiffen advised that there is a publication framework in place and that the publication of internal reports could be discussed at a future meeting of the Board.

Ian Leitch noted that the report provided positive assurance.

The Chair asked about the implications specific to independence and the Audit Scotland model within the Bryden report. Martin advised that a report would be coming to the Audit Committee in May and Board in June.

The Audit Committee noted the report.

Action 99AC: **Board to consider the framework for information in the public domain at the next Board on 24 March 2020.**

18.   Digital security update

David McGurk, Digital Service Delivery Manager joined the meeting.

David McGurk introduced the Digital security update report, copies of which had been previously circulated.

The Chair invited questions and comments.

The Chair asked about the security issues around the Cascade HR system. David advised that the system was secure and that multi factor authentication was being progressed for additional flexibility while maintaining security.

Alan Alexander welcomed the accessibility of the report noting it was covering technical issues in a less technical way which was useful for the reader. He asked about the extent to which continuous action was required to maintain digital security. David agreed this was the case and advised that the digital environment and digital security threats are changing rapidly.

Caroline Gardner, Auditor General for Scotland and Accountable Officer noted that a Scottish college had recently been hacked and the impact this had caused. Caroline also noted the pressure of the increasing number and complexity of digital threats that exist and thanked the digital team for their vigilance and hard work.

The Audit Committee members noted the contents of the report.

David McGurk left the meeting.

19.   Data incidents/loss report

Gayle Fitzpatrick, Corporate Governance Manager, introduced the Data incidents/loss report, a copy of which had been previously circulated.

The Chair invited questions, of which there were none.

The Audit Committee noted data incidents/loss report.

20. Annual Assurance and statement of control process 2020

Gayle Fitzpatrick, Corporate Governance Manager, introduced the Annual Assurance and statement of control process 2020 report, a copy of which had been previously circulated.

The Chair invited questions.

The Chair asked if the process was on track and going to plan. Gayle advised that it was in progress with no issues so far.

The Audit Committee noted the Annual Assurance and statement of control process 2020.

21. Business continuity arrangements annual review 2020

Gayle Fitzpatrick, Corporate Governance Manager, introduced the Business continuity arrangements annual review 2020 report, a copy of which had been previously circulated.

Gayle highlighted the main changes in the business continuity arrangements, and noted the substantial contribution of Ian Metcalfe, Corporate Performance Officer.

The Chair invited questions. Discussion focused on the broader focus and improved format. Alan Alexander noted the arrangements were comprehensive and Covid-19 would likely test the arrangements.

The Audit Committee approved the arrangements and noted that it would be subject to minor amendments as necessary.

22. Any other business

There was no other business.

23. Review of meeting

The Chair invited those present to comment on the standard of the papers submitted to them and on the meeting itself.

The Audit Committee member expressed satisfaction with the papers and the focus and pace of the meeting.

24. Date of next meeting: 6 May 2020

The next meeting will be held at 10.00am on 6 May 2020, 102 West Port, Edinburgh.

AUDIT SCOTLAND

Professional Support: Performance summary for 2019/20
and plan for 2020/21
Audit Director, Audit Services Group and Performance Audit
and Best Value   13 May 2020

Introduction

1. This report updates the Audit Scotland Board on Professional Support, our performance in 2019/20 and our priorities for 2020/21.

2. We will adjust our plans for 2020/21 as the impact of Covid-19 on audit becomes clearer. At this stage:

    - Professional Support is involved in wide-ranging professional discussions on accounting and auditing related issues. We anticipate a significant increase in the volume and complexity of technical enquiries from auditors as the year progresses.

    - Professional Support is dealing with increased demand for technical training as Audit Scotland staff look to balance their time between audit work with other work-related activities. Preparation of high-quality training and effective delivery of training in the current context is challenging.

Background

3. Professional Support's overall aim is to support the delivery of high quality financial and performance audits by:

    - Providing support on Audit Scotland's financial audit and performance audit methodologies.

    - Producing technical and other guidance that supplements the Code of Audit Practice (the Code), to all audit providers including the appointed firms.

    - Supporting and contributing to professional leadership (Audit Scotland's wider activities in public audit and accounting).

    - Carrying-out internal audit quality reviews.

    - Providing technical training.

    - Coordinating audit-related counter-fraud activity.

4. Professional Support is not a business group in itself; it is a 'joint-venture' between Audit Services Group (ASG) and Performance Audit and Best Value (PABV). We work closely with Audit Quality and Appointments to produce Code-related guidance.

5. The Professional Support core team involves colleagues from across the organisation. Some are full-time specialists, while others combine the work with audit delivery. The core team consists of eleven staff, which in resource terms translates to 7.7 full-time equivalent staff.

6. The core team is supported by a 'wider network' of colleagues from ASG and PABV. They provide additional resource to our projects as and when their audit commitments allow. This is primarily to support the audit methodologies and to provide the resource we need to carry out internal quality reviews of financial audits (internal quality reviews of performance audits are carried out by the core team).

7. Professional Support's business planning and performance reporting is aligned to Audit Scotland's corporate priorities: Delivering World Class Audit and Being a World Class Organisation. This report summarises what we achieved in 2019/20 and our priorities for 2020/21 under the two corporate headings.

8. Appendix 1 summarises the 2020/21 planned projects, including how they support the delivery of high-quality audits in the individual audit delivery business groups. As indicated earlier, our work to support auditors deal with the audit challenges presented by Covid-19 will affect the priorities and planned timescales as listed.

9. Appendix 2 is our communications and engagement strategy, which is designed to support delivery of the priorities for 2020/21 set out in this plan.

Delivering World Class Audit

10. Professional Support's contribution to Delivering World Class Audit involves:

   - Technical and other guidance and advice, to all auditors delivering work under the Code.

   - Supporting Audit Scotland's audit methodologies.

   - Quality reviews and supporting internal reviews into complaints about audit quality.

   - Technical training.

11. In 2019/20 we:

   - Coordinated the production of, and published, guidance for all auditors on planning the 2019/20 audits. We also improved the underlying systems and processes for its production and the form and content of the guidance.

   - Produced thirteen technical guidance notes, including model independent audit reports for all sectors. These inform the judgement of all audit providers and promote consistency and reflected feedback from users on presentation and content.

   - Published quarterly technical bulletins, supplemented by 89 briefing notes, to keep auditors and audited bodies up to date with the latest technical developments relevant to the public sector.

   - Implemented new 'help-desk' arrangements for handling technical enquiries and dealt with around 800 requests for advice and other enquiries from auditors.

   - Developed new outputs, including improved distribution of answers to frequently asked questions to support auditors in 'real-time'.

   - Updated ASG's audit programmes and its Audit Guide. This included updates flowing from previous quality reviews.

   - Completed a root and branch review of the PABV Audit Management Framework (AMF), to embed INTOSAI standards (internationally recognised standards for performance audits) and respond to findings from previous quality review.

   - Contributed to eight 'cold' quality reviews. We also introduced a new programme of 'hot' reviews in PABV. These take place during the 'live' audits and help identify any key issues which need to be addressed before the audit is completed.

   - Developed peer review guidance on behalf of the UK and Irish audit agencies, providing a consistent framework for all audit agencies to review each other's performance audit reports.

   - In response to the quality review results, we developed supplementary guidance and delivered training to all ASG staff on risk assessment and on designing audit (assertion) tests.

   - Delivered technical training sessions, including training on professional scepticism, interview skills, financial awareness, and on the AMF for staff involved in performance audits.

   - Ran the annual staff quality survey to obtain data on the extent to which Audit Scotland staff feel supported in delivering high quality audits. The results are included in Audit Scotland's annual Transparency Report.

12. Our priorities for 2020/21 include:

- Technical and other guidance and advice, all auditors:

  - Coordination and production of guidance on planning 2020/21 audits, including further refinement of systems and content.

  - Technical guidance notes and technical bulletins to time and quality, reflecting the views of users and other stakeholders, and technical advice on issues arising.

- Supporting Audit Scotland's audit methodologies

  - ASG Audit Guide, with reference to audit quality monitoring results and developments in public audit more generally. Focus will be on areas where attention is required, including aspects of audit planning and risk assessment, the approaches to controls testing and audit sampling.

  - PABV's Audit Management Framework, tailoring approach to other outputs i.e. overview reporting, statutory reporting etc. Developing methodology guides for audit teams, refreshed guidance on auditing both outcomes and equalities, and updating a range of other outputs.

- Quality reviews

  - ASG – review arrangements, peer review arrangements, on us and by us, shifting the balance of quality review activity to include 'hot' reviews.

  - PABV – further embed the quality review programme covering 'cold'/'hot' and peer reviews.

- Technical training

  - Training and development (ASG): audit approach refresh, informed by the development work outlined above and the results of quality reviews. Also, routine audit updates aligned with the corporate shift towards 'mandated' training.

  - Training and development (PABV): training requirements from the AMF review and quality monitoring. Specific focus on documentation and records management etc. Also, routine Issues & Investigation methodology training, and interviewing skills, aligning with shift towards 'mandated' training.

Being a World Class Organisation

13. Professional Support's contribution to Being a World Class Organisation includes our input to the organisation and our external contributions to auditing and accounting more widely:

- Supporting professional leadership, including audit-related anti-fraud activity.

- Identifying and sharing good practice with the public sector in Scotland.

- Developing the core team and capacity for professional support.

14. In 2019/20 we:

- Supported Audit Scotland's Leadership Group in a wide-range of activities relating to public audit and accounting, including engagement with auditing and accounting standard-setters. We refer to this as 'professional leadership'.

- Responded to seven consultations on technical and professional matters.

- Organised and led 'roundtable' debates with auditors on the application of 'going concern' audit responsibilities in the public sector and judging materiality in respect of prescribed financial objectives.

- Engaged with other audit agencies as part of the Public Audit Forum (the UK public audit agencies).

- Issued good practice notes to promote good practice in key areas of financial and performance reporting, including the Management Commentary in local government annual reports.

- Developed core-team resourcing and project oversight arrangements.

- Developed the core team through regular team meetings and at our annual development day, which is supported by Audit Scotland's HR&OD team.

- Achieved further integration of Professional Support activities across the organisation.

15. Professional leadership represents a significant element of our work. This supports Audit Scotland's position and reputation across a wide-range of audit-related interests, stakeholders and influencers. It also involves professional and technical advice for the Auditor General and the Accounts Commission.

16. Our priorities for 2020/21 include:

- Supporting professional leadership

    - Wide-range of activities relating to public audit and accounting, including engagement with auditing and accounting standard-setters.

    - Update of Ethical Standard implications for the business.

- Identifying and sharing good practice

    - Further good practice notes.

    - Engaging with other audit agencies to share good practice and the potential for joint working in key areas of development and audit quality.

- Developing the core team and capacity for Professional Support activity

    - Team well-being, Best Companies and our response, to secure sustainable Professional Support service to Audit Scotland and auditors.

    - Resourcing, including longer-term resource planning and wider-network development.

    - Learning and development for the core team, to ensure we make time for our own technical training and personal development.

Recommendations

17. The Audit Scotland Board is invited to note this Professional Support update, our performance in 2019/20 and our plans for 2020/21.

Appendix 1

2020/21 priorities

Professional Support contributes to and supports cross-group, one-organisation working. Our 2020/21 priorities are listed here as a summary and as a reference point. Sponsors/leads: GS = Gordon Smail; POB = Paul O'Brien; EB = Elaine Barrowman, NC = Neil Cameron, SP = Sarah Pollock.

Support for public audit (for Audit Scotland and firms)	Sponsor/Lead	Timing
Guidance on planning 2020/21 audits	GS/POB	Jun – Oct 20
Sector specific technical guidance and enquiries from auditors	POB/NC	Jun 20 – Mar 21
Technical bulletins	POB/NC	2020/21
Grant claim and other returns guidance	POB/AC	2020/21
Good practice notes	POB/NC	Nov 20 – Feb 21
National Fraud Initiative support	POB/AC	Apr – June 20
ASG project-specific (for ASGMT)		
Audit programme updates	EB/KC	Apr – May 20
Audit output/report templates	EB/KC	2020/21
Financial audit approach refresh – planning, controls, sampling	EB/Others	2020/21
Audit Guide update/refresh	EB/Others	May – Sept 20
Quality reviews – internal hot and cold reviews, peer review	TBC	Sep 20 – Feb 21
Technical training	POB/NC	Oct 20 – Jan 21
PABV project-specific (for PABV LT)		
Audit Management Framework – overview and statutory reporting	EB/SP	2020/21
Audit Management Framework – further guidance for auditors	EB/SP	2020/21
Quality reviews – internal hot and cold reviews, peer review	EB/SP	2020/21
Technical training – AMF application	EB/SP	2020/21
Professional Support core team		
Resource planning	GS/POB/EB	2020/21
Core team development	GS/POB/EB	2020/21
Communications and engagement	GS/POB/EB	2020/21

Appendix 2

Communications and engagement plan

This appendix summarises activities and are in addition to our ongoing/routine communications and engagements in corporate groups (e.g. Audit Quality Committee, Personal Development and Growth Group, group staff meetings (PABV and ASG super-teams), training etc. GS = Gordon Smail; POB = Paul O'Brien; EB = Elaine Barrowman.

Objectives (per the second column in the table below):

1. To account for how we are applying our resource and what we are achieving.

2. To inform colleagues/stakeholders about our work.

3. To seek input from colleagues and stakeholders about PS, its work and our focus.

We will review and update at core team meetings over 2020/21.

Activity – communications	Objective	Lead	Timing
PS annual report to ASMT, ASGMT, PABVLT	1	GS/POB/EB	Apr 20
PS annual report to AS Board	1,2	GS/POB/EB	May 20
PS annual report to AGS & Commission (PA/FAA cttees)	2	GS/POB/EB	May 20
Transparency report – PS contribution to quality	2	GS	Jun 20
Yammer PS generally	2	GS	2020/21
Yammer ASG approach refresh	2,3	EB	2020/21
Yammer technical output	2,3	POB	2020/21
Knowledge cafes	2,3	POB/EB	Oct 20
Share-point site review and update	2	POB	Oct 20
Activity – engagement			
Meeting with AGS	3	GS/POB/EB	May 20
Meeting with ASGMT and PABV LT (Inc. Directors)	3	GS/POB/EB	Apr 20
ASG Super-teams	2,3	POB/EB	2020/21
PABV group meetings/clusters	2,3	POB/EB	2020/21
Staff focus groups – Senior Managers	2,3	GS/POB/EB	Nov 20
Staff focus groups – Senior Auditors	2,3	POB/EB	Dec 20
Staff focus groups – Trainees	2,3	POB/EB	Jan 21
Meetings with AQA	3	GS/POB/EB	Jul + Feb 20