

# Agenda

Wednesday 25 November 2020 at 10.00am

By Teams

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1. Private meeting of Board members
  2. Welcome and apologies
  3. Declarations of interests
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## Standing items

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|--|---------------------------------|
| 4. Chair's report – verbal update  | For information                 |
| 5. Accountable Officer's report – verbal update  | For information                 |
| 6. Accounts Commission Chair's report – verbal update  | For information                 |
| 7. Review of minutes: <ul style="list-style-type: none"><li>- <a href="#">Board meeting 30 September 2020</a></li><li>- <a href="#">Audit Committee meeting 2 September 2020</a></li></ul> | For approval<br>For information |
| 8. <a href="#">Governance arrangements: Review of Standing Orders report</a>   | For information                 |
| 9. <a href="#">Review of action tracker</a>  | For information                 |
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## Strategic priorities

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|---|-----------------|
| 10. <a href="#">2020/21 Spring budget revisions</a><br><a href="#">Appendix A 2020/21 Spring budget revisions</a><br><a href="#">Appendix B 2020/21 Spring budget revisions</a> | For approval    |
| 11. <a href="#">2021/22 SCPA budget proposal</a><br><a href="#">Appendix 2021/22 SCPA budget proposal</a>   | For approval    |
| 12. <a href="#">Strategic improvement programme</a>   | For information |
| 13. European Union withdrawal – verbal update   | For information |
| 14. <a href="#">New audit appointments update</a><br><a href="#">Appendix New audit appointments update</a>   | For information |
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## Business planning and performance

- |   |                 |
|---|-----------------|
| 15. <a href="#">Covid-19 update</a>   | For information |
| 16. <a href="#">2020/21 Q2 Financial performance update</a><br><a href="#">Appendix 2020/21 Q2 Financial performance update</a> | For information |
| 17. <a href="#">2020/21 Q2 Corporate performance update</a><br><a href="#">Appendix 2020/21 Q2 Corporate performance update</a> | For information |
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|--|-----------------|
| <b>18.</b> <a href="#">Environment, Sustainability and Biodiversity annual report 2019/20</a><br><a href="#">Appendix Environment, Sustainability and Biodiversity annual report 2019/20</a> | For information |
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## Governance

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| <b>19.</b> <a href="#">Corporate Governance review of Board arrangements report</a> | For discussion |
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## Conclusion

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|--|--------------|
| <b>20.</b> Any other business                    |              |
| <b>21.</b> Publication of papers                 | For approval |
| <b>22.</b> Review of meeting                     |              |
| <b>23.</b> Date of next meeting: 27 January 2021 |              |

# Minutes

Wednesday 30 September 2020, 10.00am

Audit Scotland by Video conference

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## Present:

Alan Alexander (Chair)  
Stephen Boyle  
Heather Logan  
Elma Murray  
Jackie Mann

## Apologies:

There were no apologies.

## In attendance:

Diane McGiffen, Chief Operating Officer  
Martin Walker, Associate Director, Corporate Performance and Risk  
Stuart Dennis, Corporate Finance Manager  
Gemma Diamond, Audit Director, Performance Audit and Best Value  
Mark Taylor, Audit Director, Audit Services and Performance Audit and Best Value  
Fiona Diggie, Audit Manager, Performance Audit and Best Value  
Robert Leask, Project Manager, Audit Quality and Appointments  
Gayle Fitzpatrick, Corporate Governance Manager  
Ian Metcalfe, Corporate Governance Officer  
Colin Crosby, Non-executive board member designate (Observing)

### 1. Private meeting of Board members

The Board met privately and there were no matters arising.

### 2. Welcome and apologies

The Chair welcomed members and attendees to the meeting. The Chair also welcomed Colin Crosby, new member of the Board from 1 October 2020, who had been invited to observe the meeting as part of his induction.

### 3. Declarations of interest

There were no declarations of interest.

### 4. Chair's report – verbal update

The Chair informed the Board of regular scheduled meetings with Diane McGiffen, Chief Operating Officer and Stephen Boyle Accountable Officer and Auditor General for Scotland and of discussions with Stephen Boyle and Martin Walker on Audit Scotland's Office of National Statistics classification and confirmed that no further action was required on that matter. In addition, the Chair advised he had met with Stephen Boyle, Elma Murray, Interim Chair, Accounts Commission and Tim McKay, Deputy Chair, Accounts Commission and Diane McGiffen following the last Board meeting to discuss resources and budget (action tracker item ASB122).

The Board welcomed the update.

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

Stephen Boyle advised of regular scheduled meetings with Alan Alexander, Chair and Elma Murray and advised he had attended the New Audit Appointments Steering Group meeting on 23 September 2020.

Stephen advised of progress on the revised forward work programme ahead of consultation with the Public Audit and Post Legislative Scrutiny Committee at the end of October 2020. He invited members to note that he had signed off the independent auditor's report for the Scottish Parliamentary Corporate Body on 28 September 2020 and that the audit report on the Scottish Government accounts was scheduled for completion by December 2020.

Stephen advised members that he had published a blog on the impact Covid-19 on the NHS in advance of the NHS overview report that will be published in January 2021. He also advised of introductory meetings with senior officers at Healthcare Improvement Scotland and Education Scotland and of forthcoming meetings with senior officers from the Scottish Funding Council and the Institute of Chartered Accountants in Scotland.

Turning to internal engagement, Stephen advised of meetings with team members, superteams and business units across Audit Scotland and the communications to colleagues on continuing to work from home for the remainder of 2020.

Stephen also provided an update on recent Parliamentary engagements, including attending Parliamentary Committee meetings virtually and in person, on the impact of Covid-19 on public finances (27 August 2020), the National Fraud Initiative (3 September 2020) and at two private sessions on 10 and 17 September on the Scottish Government's progress of Early Learning and Childcare and Bòrd na Gàidhlig. Stephen advised that the Public Audit and Post Legislative Scrutiny Committee would be considering the Section 22 report on the Highlands and Islands Enterprise: Management of Cairngorm Mountain and Funicular Railway at its meeting on 1 October 2020.

Stephen invited the Board to note the forthcoming informal business planning session with the Scottish Commission for Public Audit on 26 October 2020 and advised that he was looking forward to welcoming new graduates to the organisation at the end of October 2020.

Following discussion, the Board welcomed the update.

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

Elma Murray advised that the Accounts Commission had considered Best Value reports on Moray Council and on Dundee City Council.

Members noted that the Accounts Commission continued to meet twice a month at present. Elma advised of a helpful session on Thursday 24 September 2020 with Diane McGiffen and Stuart Dennis where the Commission discussed the impact of Covid-19 on Audit Scotland's budget and that the Commission had expressed strong agreement on the need for appropriate levels of funding to support the quality of audit.

Elma advised that she and Fraser McKinlay, Controller of Audit, had attended a meeting with the Local Government and Communities Committee on 28 August 2020 to give evidence on the Local Government Overview report, and that there may be further opportunities to join the Committee more informally later in the year.

Elma advised that she and Fraser McKinlay would be meeting with Council Chief Executives on 1 October 2020 to gain insight on the management of public services during the pandemic. She also invited members to note that the Accounts Commission's Insight programme would include engagement with Chief Executives.

Elma advised she had chaired a meeting of the Strategic Scrutiny Group on 25 August 2020 where it was agreed the group would produce a briefing for publication at the start of November 2020.

Elma advised that the Best Value working group had met on 2 September 2020 had agreed new terms of reference and that its next meeting would take place on Friday 2 October.

Elma noted that the final report on Accounts Commission Support Review had been circulated to Commission members following the meeting of the Remuneration and Human Resources Committee on 2 September 2020 and had a further discussion about progressing some of the recommendations from the report.

The Board welcomed the update.

## **7. Review of minutes: Board meeting 19 August 2020**

The Board considered the minutes of the meeting of 19 August 2020, which had been previously circulated.

The Chair invited any comments and, there being none, the Board approved the minutes as an accurate record of the meeting.

The Chair also advised that the current style of Board minutes would form part of the governance review early next year and members agreed to consider adapting the form of minutes in advance of the review.

## **8. Governance arrangements: Review of Standing Orders**

Martin Walker introduced the Governance arrangements: Review of Standing Orders report, copies of which were previously circulated.

Martin invited members to note there were no proposed changes to the current meeting arrangements and advised of the options being explored to accommodate public meetings of the Board.

The Chair welcomed the options to support openness and transparency of future meetings and invited members to contact Martin Walker with their comments on the options set out to inform an update at the next meeting on 25 November 2020.

Following discussion, the Board agreed that the governance arrangements for virtual Board meetings remain in place.

## **9. Review of action tracker**

The Board noted the updates provided on the action tracker.

The Chair invited members to note updates on the three open actions:

- Action ASB118 (on public meetings) had been discussed under the previous item.
- ASB120 (on Covid secure workplaces) was incorporated in the update report at item 10 and members agreed this action be closed.
- ASB122 (discussions on resources) where progress had been discussed at item 6 and members agreed this action be closed.

## **10. Covid-19 update**

Martin Walker introduced the Covid-19 update report, copies of which had been previously circulated.

The Board welcomed the structure of the report, recognising the situation remains dynamic and Covid-19's impact on colleagues and the audit work and the possibility and impact of further 'circuit breaker' suppression measures in October 2020.

The Board noted that Covid-19 was a standing item for each meeting of Management Team, that the Incident Management Team continues to meet weekly and updates colleagues after each meeting. The Board recognised the important role of public audit in challenging times and agreed further discussions would take place on longer term business and continuity planning in the context of the ongoing pandemic and pending EU departure. The members agreed with the Chair's proposal for a workshop in the first quarter of 2021 to discuss these areas to inform best practice, quality and the role of Public Audit in Scotland.

Following discussion, the Board welcomed the report.

**Action ASB123:**                    **A Board workshop to be scheduled in the first quarter of 2021. (March 2021)**

## **11. 2020/21 Q1 Corporate performance update**

*Gayle Fitzpatrick, Corporate Governance Manager and Ian Metcalfe, Corporate Governance Officer, joined the meeting.*

Gayle Fitzpatrick introduced the 2020/21 Q1 Corporate performance update report, copies of which had been previously circulated.

Gayle invited the Board to review the performance reported for quarter one and to consider whether any additional management action is required.

The Board noted the report, acknowledging that the period under review was at the height of the pandemic and performance was impacted by the move to remote working, with many colleagues balancing work, caring and home-schooling demands during the national lockdown. The Board recognised that further updates on the impact of productivity will follow as part of Q2 performance reporting and Diane McGiffen provided a summary of the responses taken by the other audit agencies in the UK and Ireland.

Following discussion, the Board welcomed the report.

## **12. 2020/21 Q1 Strategic improvement programme update**

Martin Walker introduced the 2020/21 Q1 Strategic improvement programme update report, copies of which had been previously circulated.

Martin invited the Board to note the progress made on the strategic work programme to date and advised of the current review of the improvement programme to support new ways of working in the short, medium and longer term.

The Chair noted the refocus of the overall agenda for the strategic improvement programme and the Board noted the need to be able to provide some flexibility in delivering the new longer-term work programme by March 2021.

Following discussion, the Board welcomed the report.

## **13. Remuneration and Human Resources Committee performance and future priorities**

Jackie Mann introduced the Remuneration and Human Resources Committee (Remco) performance and future priorities report, copies of which had been previously circulated.

The Chair invited members to note Remco's consideration of the report at its meeting on 2 September 2020, the performance reported and invited comments on the proposed priorities for Remco in 2020/21.

The Board welcomed the report and acknowledged the work of Audit Scotland to support

diversity, equality and inclusion, which would be discussed at the next Remco meeting on 2 November 2020, when there would be a further discussion on priorities. The Board welcomed the report.

**Action ASB124:** A further discussion at the next meeting of the Remuneration and Human Resources Committee on priorities and approach to diversity and inclusiveness. (November 2020)

#### **14. Scottish Commission for Public Audit: Official report of meeting on 22 June 2020**

The Chair invited members to note the Official report of the meeting on 22 June 2020 of Audit Scotland's Annual report and accounts, copies of which had been previously circulated.

The Board noted the report.

#### **15. 2021/22 Draft budget submission**

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

Stuart Dennis introduced the 2021/22 Draft budget submission report, copies of which had been previously circulated.

Stuart invited the Board to discuss the outline proposal for a budget submission for 2021/22, advising this had been prepared prior to the announcement on the delay of the budget by the UK Government, noting that this would impact on the Audit Scotland's budget process.

The Chair invited any comments or questions on the report.

The Board discussed the key budget assumptions including the options for a significant increased Management Contingency budget to provide greater flexibility, the impact of the devolution of financial powers to Scotland, the pay award proposal, the triannual employer pension contributions, expected fee income and the potential long term impact on productivity.

The Board also discussed scenarios which might flow from the new audit appointments project and the underlying audit market conditions, future investment needs and the property strategy to support a blended approach in the immediate term.

Following discussion, the Board welcomed early consideration of the outline budget assumptions, recognising the current financial rules were never intended to provide for the current levels of uncertainty and noted that a further iteration of the budget proposal is scheduled to come to the next meeting of the Board on 25 November 2020.

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

#### **16. European Union withdrawal update**

*Gemma Diamond, Audit Director, Performance Audit and Best Value, joined the meeting.*

Gemma Diamond introduced the European Union withdrawal update report, copies of which had been previously circulated.

The Board noted the risks around borders, supply chains and the storage of data. The Board also recognised the potential capacity challenges for public bodies and welcomed the engagement with Audit Scotland colleagues who are EU nationals, recognising the unsettling situation for them.

Following discussion, the Board welcomed the update.

*Gemma Diamond, Audit Director, Performance Audit and Best Value, left the meeting.*

## **17. Financial devolution and constitutional change update**

*Mark Taylor, Audit Director, Audit Services and Performance Audit and Best Value, and Fiona Diggle, Audit Manager, Performance Audit and Best Value, joined the meeting.*

Mark Taylor introduced the Financial devolution and constitutional change update report, copies of which had been previously circulated.

The Board noted that the report provided an update on the development of this work, and that Audit Scotland was in the third year of reporting as financial powers continue to devolve and that the Scottish Government had published a consultation on a draft investment plan and capital spending framework.

Following discussion, the Board welcomed the report.

*Mark Taylor, Audit Director, Audit Services and Performance Audit and Best Value, and Fiona Diggle, Audit Manager, Performance Audit and Best Value, left the meeting.*

## **18. New audit appointments update**

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

The Chair introduced the New audit appointments update report, copies of which had been previously circulated.

The Board welcomed the progress reported, discussed the increased risk profile of the project and the mitigating activities underway. The Board noted the project timeline and agreed the need to ensure continued progress. The Board noted that the process of formally extending the current audit appointments was underway with approval being sought from the Auditor General for Scotland and the Accounts Commission.

Following discussion, the Board welcomed the update.

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

## **19. Annual review of Corporate governance policies**

Gayle Fitzpatrick and Ian Metcalfe introduced the Annual review of Corporate governance policies report, copies of which had been previously circulated.

Gayle and Ian invited the Board to approve the current Standing Orders, Financial Regulations and Scheme of Delegation and to approve the revised Codes of Conduct which had been recommended to the Board by the Audit Committee.

The Chair invited comments or questions from members, and there being none the Board approved the Standing Orders, Financial Regulations Scheme of Delegation and the revised Codes of Conduct.

## **20. Annual policy review of records management policies**

Gayle Fitzpatrick and Ian Metcalfe introduced the annual policy review of records management policies report, copies of which had been previously circulated.

Gayle and Ian invited the Board to approve Audit Scotland's Records Management Policy for a further year.

The Chair invited comments or questions from members, and there being none the Board approved Audit Scotland's Records Management Policy.



## **21. Annual policy review of freedom of information and environmental**

### **Information requests**

Gayle Fitzpatrick introduced the Annual policy review of freedom of information and environmental information requests report, copies of which had been previously circulated.

Gayle invited the Board to approve Audit Scotland's Freedom of Information and Environmental Information Policy for a further year.

The Chair invited comments or questions from members, and there being none the Board approved Audit Scotland's Freedom of Information and Environmental Information Policy for a further year.

## **22. Complaints handling procedure**

Gayle Fitzpatrick and Ian Metcalfe introduced the Complaints handling procedure report, copies of which had been previously circulated.

Gayle invited the Board to consider and approve the revised complaints handling guide, flow chart, customer leaflet and employee guide.

The Chair invited any comments or questions on the proposed changes and there being none, the Board approved the revised Complaints handling procedure.

*Gayle Fitzpatrick, Corporate Governance Manager, and Ian Metcalfe, Corporate Performance Officer, left the meeting.*

## **23. Proposed meeting dates for 2021**

Diane McGiffen introduced the Proposed meeting dates for 2021 report, copies of which had been previously circulated.

Diane invited the Board to consider and approve the proposed meeting dates for 2021.

The Board approved the meeting dates for 2021.

## **24. Any other business**

The Chair expressed the Board's best wishes to Heather Logan as her term of appointment ends. The members acknowledged her contribution and the scrutiny, challenge and support she had brought to Audit Scotland over the past six years. The Chair expressed the hope that when restrictions allowed, there might be the opportunity to celebrate Heather's contribution in person.

There was no other business.

## **25. Publication of papers**

The Board considered and agreed the publication of the reports with the exception of; item 15: Draft Budget report (intended for future publication), item 18, New audit appointments (commercial sensitivity) and items 19 -22 the annual review of policies (intended for future publication).

## **26. Review of meeting**

The members welcomed the quality, content and comprehensive nature of the reports in supporting helpful and detailed discussion. The Chair thanked everyone for their contributions.

## **27. Date of next meeting: 25 November 2020**

The members noted the next meeting of the Audit Scotland Board is scheduled for 25 November 2020.

# Minutes

## Audit Committee



Wednesday 2 September 2020  
By Microsoft Teams

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### Present:

H Logan (Chair)  
Elma Murray, Interim Chair of the Accounts Commission  
Jackie Mann

### Apologies:

None

### In attendance:

A Alexander, Chair, Audit Scotland Board  
S Boyle, Accountable Officer and Auditor General for Scotland  
D McGiffen, Chief Operating Officer  
C Robertson, BDO  
T Barrie, BDO  
J So, Alexander Sloan  
S Cunningham, Alexander Sloan  
M Walker, Associate Director, Corporate Performance and Risk  
G Fitzpatrick, Corporate Governance Manager  
S Dennis, Corporate Finance Manager  
A Clark, Audit Director, Performance Audit & Best Value  
D Robertson, Digital Services Manager  
C Crosby, Designate Audit Committee Chair

### 1. Private meeting with BDO and Alexander Sloan

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

### 2. Welcome and apologies

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

The Chair welcomed Jackie Mann to the Audit Committee and noted that this would be Stephen Boyle's first Audit Committee meeting as the new Auditor General for Scotland (AGS) and Accountable Officer.

The Chair highlighted that this would be her last meeting as Chair of the Audit Committee and welcomed Colin Crosby as an observer who would take on the role of Chair on 1 October. In addition, the Chair welcomed full participation in the discussions from all those attending, including those attending as observers.

### 3. Declarations of interests

There were no declarations of interest.

### 4. Minutes of the last meeting: 1 June 2020

The Audit Committee members reviewed the minutes of the meeting of 1 June 2020, which had previously been circulated.

The Chair asked members for questions or comments, of which there were none.

The Chair noted that the risk register referenced in paragraph 7 relates to Audit Scotland and not the Accounts Commission. Elma confirmed this was the case.

The Chair asked whether all information had been received for item 12, the 2019/20 Draft audit management letter. This was confirmed to be the case. The Chair requested that this action now formally be noted and closed off.

***The Audit Committee approved the minutes of the previous meeting.***

## **5. Review of action tracker**

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

The Chair asked whether there were any questions or comments, of which there were none.

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

## **6. Audit Committee terms of reference**

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

The Chair asked whether there were any questions or comments, of which there were none.

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

## **7. Organisational response to the Covid-19 pandemic**

Diane McGiffen, Chief Operating Officer, provided a verbal update on the organisational response to the Covid-19 pandemic.

Diane noted that the Board had considered a detailed update report at its meeting on 19 August 2020 and that Covid-19 related issues would be explored further as part of the discussion on other reports on today's agenda.

Diane noted that schools had re-opened and while some colleagues were reporting a positive impact on their home/work responsibilities, some had children who had been sent home for Covid-19 testing, resulting in a return to self-isolation. Diane explained that when self-isolating, home schooling and care responsibilities presented and additional pressures on colleagues for juggling work and home commitments.

She also noted that there has been an increase in the R rate and increased restrictions in some areas and that the organisation is keeping colleagues from these areas updated.

***The Audit Committee members noted the organisational response to the Covid-19 pandemic.***

## **8. Internal Audit report: Business Continuity Planning**

Claire Robertson, BDO, and Gayle Fitzpatrick, Corporate Governance Manager, introduced the Internal Audit report, Business Continuity Planning, copies of which had been previously circulated.

Claire Robertson, BDO noted that the review provided substantial assurance on both the design and operational effectiveness of Audit Scotland's Business Continuity Planning arrangements, and that there were no recommendations or action required.

Alan Alexander asked whether the report should be updated to reflect the fact that the Incident Management Team (IMT) now meets once a week. Claire advised that twice weekly meetings were taking place at the time of the audit work. Diane McGiffen, Chief Operating Officer confirmed that Covid-19 is a standing item on the agenda when the IMT and Management Team meet weekly. It was agreed that the internal audit report would not require to be updated and the matter clarified through the minute of this meeting.

***The Audit Committee noted the internal audit report.***

## **9. Internal Audit report: PABV Adoption of INTOSAI Standards**

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

Claire Robertson, BDO, introduced the Internal Audit report, PABV Adoption of INTOSAI Standards, copies of which had been previously circulated.

Claire advised that the review had provided substantial assurance on both the design and operational effectiveness of the PABV adoption of INTOSAI standards, and that there were no recommendations on actions required.

Alan Alexander asked for an update on the Audit Management Framework training completion rate. Antony Clark, Audit Director, PABV advised that the 20% figure in the report reflected the position at the time of the audit and that was just five days into the training being made available at that point. Antony advised that the completion rate is now 95% and that outstanding cases are being followed up as appropriate.

The Chair noted the report which highlighted the strength and quality of the work undertaken and offered her congratulations to the team.

***The Audit Committee noted the internal audit report.***

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

## **10. Internal Audit progress report: August 2020**

Claire Robertson, BDO, and Gayle Fitzpatrick, Corporate Governance Manager, introduced the Internal Audit progress report, August 2020, copies of which had been previously circulated.

Claire highlighted the upcoming audits and invited questions.

The Chair asked whether it was still the right time to proceed with the internal audit review on the Procurement of Audit Firms.

Gayle Fitzpatrick, Corporate Governance Manager advised that the Terms of Reference for this review had been revised to reflect the focus being on the Procurement Strategy and that the review is to focus on how Audit Scotland is approaching an important procurement process.

Diane McGiffen, Chief Operating Officer advised that the Terms of Reference have been discussed with the Steering Group and the Audit Quality and Appointments (AQA) team who are content that the amended Terms of Reference will provide additional value and assurance at this stage in the process.

Diane McGiffen, Alan Alexander and Elma Murray agreed to consider the timing of this audit as part of a meeting already arranged for Monday 7 September and it was agreed that the updated Terms of Reference would be recirculated to members of the Audit Committee.

Colin Crosby, Designate Audit Committee Chair asked for reassurance on the aspirational nature of Audit Scotland's IT Strategy. Diane advised that significant work is underway on

the Digital Strategy and that discussions were ongoing with the Auditor General for Scotland and the Accounts Commission. In addition, BDO will look at best practice of others in relation to what we do in the process of their IT reviews and this will assist Audit Scotland's planning and programming of digital work.

The Chair asked whether there were any other questions on proposed internal audit work programme for rest of year, and there were none.

***The Audit Committee noted the internal audit progress report.***

**Action AC109: Recirculate the revised Terms of Reference for the audit on the Procurement of audit firms.**

## **11. Internal Audit recommendations progress report**

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

The Chair asked whether there were any questions or comments.

Elma Murray, Chair of the Accounts Commission noted the helpful format of the report.

The Chair queried whether the experiences of PABV and CSG in using the Time Recording System (TRS) would require any changes to the system in advance of its adoption by the Audit Services Group (ASG). Martin Walker, Associate Director, Corporate Performance and Risk advised that no system changes were required and that its rescheduled implementation in ASG system was still on schedule to minimise any potential disruption at a busy time in the audit cycle.

The Chair also enquired about the action in relation to cost analysis. Martin advised that audit costs were being analysed from a number of different perspectives and discussions were under way to ensure there was no unnecessary duplication, that the date of completion will remain under review, and that any updates will be communicated to Audit Committee.

The Chair asked about the level of progress with the mapping and analysis of staff knowledge. Martin advised that the mapping action is complete, that work was under way to assess the best system solution, but that this had been delayed due to other priorities.

***The Audit Committee noted the internal audit recommendations progress report.***

## **12. Q1 Financial performance report**

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

Stuart Dennis, Corporate Finance Manager, introduced the Q1 Financial Performance report, copies of which had been previously circulated, and had also been discussed at the Board meeting on 19 August.

The Chair invited questions and comments.

Elma Murray, Chair of the Accounts Commission, advised that it was helpful to know that the organisation would be approaching the SCPA to discuss the short-term financial implications of Covid-19 and the sustainability of the current fees and funding model in the longer term. Elma also requested an offline discussion with the Finance Manager to get a better understanding of the agency staffing costs.

The Chair thanked colleagues for the responses to the queries that had been sent to the team in advance of the meeting. She advised that her observation was that the responses, as written, had raised even more questions rather than given comfort, but that it was primarily a matter of presentation. She stressed that clarification of variances should be

succinct and to the point, ensuring that the explanation was relevant and not diluted by peripheral issues. As an example, the Chair advised that the over run in agency costs could be more clearly explained by noting that this related to five people employed at a pro-rata cost of £60k per annum on the EAFA audit work at the point when the Scottish Government issued guidelines not to dispense with temporary workers and that Audit Scotland had complied with that guidance. The Chair also advised that the risk and implications of Audit Scotland's accounts being qualified as a result of any funding shortfall could have been presented more clearly.

Stephen Boyle, Accountable Officer noted that Audit Scotland's funding arrangements were not designed to accommodate the scale of disruption being experienced as a result of Covid-19. He advised that risk in audited bodies had increased substantially and that many audits were taking longer than normal to complete as result of disruption to audited bodies and Audit Scotland. It was also noted that Audit Scotland is not permitted to hold reserves and that this limits flexibility in delivering a balanced budget in the current circumstances.

The Committee noted the challenging financial situation across both the public and private sectors and that this was an important factor in any discussions about fees and funding.

It was noted that the meeting on Monday 7 September involving Stephen Boyle, Auditor General for Scotland, Elma Murray, Chair of the Accounts Commission, Alan Alexander, Chair of the Audit Scotland Board and Diane McGiffen, Chief Operating Officer would be focussing on the current financial position, the scope of the audit work and the longer term funding model for public Audit in Scotland.

It was also noted that this discussion would inform the planned engagement with the Scottish Commission for Public Audit (SCPA).

***The Audit Committee noted the Q1 Financial report.***

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

**Action AC110: Finance Manager to meet with Chair of the Accounts Commission Chair to discuss agency staff budget and expenditure (September 2020).**

**Action AC111: Auditor General for Scotland, Chair of the Accounts Commission, Chair of the Audit Scotland Board and Chief Operating Officer to meet 7 September on the financial position and the longer-term funding model for public audit in Scotland (September 2020).**

### **13. Review of the risk register**

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

Martin noted the increasing level of risk evident within the risk register and advised that this reflected the dynamic and fluid working environment caused by Covid-19.

The Chair invited questions and comments.

Elma Murray, Chair of the Accounts Commission thanked Martin for the report and asked for clarification on the term 'bad actors' in relation to the risk on digital security. Martin advised that this is a term used in the digital security community to describe organised groups looking to exploit system vulnerabilities.

Elma noted the importance of strong partnership arrangements between the Auditor General for Scotland, the Accounts Commission and Audit Scotland and asked whether this should be incorporated in the risk register. Martin advised that this would be considered when preparing the next update of the register.

Colin Crosby asked for clarification on how Audit Scotland assesses the effect of risks and disruption in audited bodies on our own risk profile. Martin advised that the Risk Management Framework draws from the well-established public sector risk framework as well as Audit Scotland's financial and performance data. He advised that this is considered by the Performance and Risk Management Group (PRMG) and the Management Team on quarterly basis in advance of the risk register being presented to the Audit Committee.

Martin also advised that the Covid-19 risks to Audit Scotland and audited bodies are considered at each meeting of the Incident Management Team (IMT) and regularly by Management Team.

***The Audit Committee noted the Review of the Risk Register.***

**Action AC112: Martin Walker to provide detail on the Risk Management Framework as part of the induction sessions with the new Chair of the Audit Committee. (September 2020)**

## **14. Risk Interrogation: Digital Security**

*David Robertson, Digital Services Manager, joined the meeting.*

David Robertson, Digital Services Manager, introduced the Risk Interrogation, Digital Security paper, copies of which had been previously circulated.

Martin Walker, Associate Director, Corporate Performance and Risk advised new members that the risk interrogations form part of the risk management framework and provide the opportunity for a detailed analysis of individual or linked risks from the risk register to be considered each quarter.

David Robertson, Digital Services Manager highlighted that this item and the six-monthly digital security update report at item 15 were companion reports. Before inviting questions and comments, David highlighted that the risk score is currently 20 out of a possible 25, and this was due to a significant increase in digital/cyber-attacks in recent months.

The Chair invited questions and observations on the report.

Elma Murray, Chair of the Accounts Commission thanked David for the reports, and for the discussion earlier in the week relating to digital support of the Accounts Commission. Elma asked if the two digital reports tabled could be shared with Accounts Commission members and David confirmed that this could be done.

The Chair asked David what else could be done to improve cyber resilience if resources were not an issue. David advised that additional team members would provide additional resilience and flexibility, noting that would always be an issue in a small team.

Alan Alexander welcomed the clear and comprehensive nature of both reports and asked about the digital security in relation to core Audit Scotland systems being accessed from personal devices. David summarised the security arrangements around accessing secure networks.

The Chair thanked David for the report and noted that it was much more understandable to a non-IT professional than previous reports.

***The Audit Committee noted the Risk Interrogation: Digital Security report.***

## **15. Digital Security update**

David Robertson, Digital Services Manager, introduced the Digital Security update paper, copies of which had been previously circulated.



There were no further questions on this update given the discussion at item 14.

***The Audit Committee noted the Digital Security update report.***

*David Robertson, Digital Services Manager, left the meeting.*

## **16. Data incidents/loss report**

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

The Chair asked how the data incident reported to the ICO had occurred. Gayle advised that the issue was technical in origin and would be better explained by Digital Services, who had now left the meeting.

It was agreed that supplementary information would be shared with members via correspondence after the meeting.

***The Audit Committee noted the data incidents/loss report.***

**Action AC113: Digital Services to provide additional information on the origin of data incident by correspondence. (September 2020)**

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

Gayle Fitzpatrick, Corporate Governance Manager, introduced the Annual review of corporate governance policies report, copies of which had been previously circulated.

The Chair invited questions and comments.

Elma Murray, Chair of the Accounts Commission, asked whether there would be a requirement to complete two separate registers of interests given her position on the Audit Scotland Board and in her role as Interim Chair of the Accounts Commission. Martin Walker, Associate Director, Corporate Performance and Risk advised that only one was required and this was published as appropriate on the website.

***The Audit Committee noted and approved the Annual review of corporate governance policies report for submission to the Audit Scotland Board on 30 September 2020.***

## **18. Proposed Board and Audit Committee meeting schedule 2021**

Diane McGiffen, Chief Operating Officer, introduced the proposed Board and Audit Committee meeting schedule for 2021, copies of which had previously been circulated.

Diane McGiffen, Chief Operating Officer advised that the meeting schedule was currently being agreed via correspondence. In addition, Diane highlighted the Scottish Parliamentary elections in May 2021 as a consideration for the scheduling of the June meeting date as the SCPA also consider the annual report and accounts in June.

Jackie Mann advised that pending the outcome of finalisation of the schedule that she would be content to dial in from her holiday to accommodate a meeting as required.

***The Audit Committee noted the proposed dates for the Board and Audit Committee meeting schedule in 2021.***

## **19. Any other business**

There was no other business.

## 20. Review of meeting

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

The Chair formally asked the Auditor General for Scotland and the Chair of the Accounts Commission in their capacity of recipients of Audit Scotland services whether there were any issues that should be brought to the attention of the Audit Committee for action. Both advised there were no issues to report.

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

The Chair advised that there was a further item to be taken in private and therefore asked that both the Internal Auditors and External Auditors withdraw from the meeting. She thanked them all for their support and participation in the committees which she had chaired and offered Colin Crosby and the members of the Audit Committee going forward her very best wishes.

Alan Alexander, Chair of Audit Scotland noted that this would be the last meeting of the Audit Committee chaired by Heather Logan before she demits office in September 2020. Alan paid tribute to Heather's long service, first as a co-optee to the Audit Committee and then as a full Board member and Chair of the Audit Committee. Alan also praised Heather's clarity, forensic scrutiny and approach to support and challenge which had been so valuable over the years.

Diane McGiffen, Chief Operating Officer also paid tribute and offered thanks on behalf of colleagues Audit Scotland.

## 21. Date of next meeting

The next meeting of the Audit Committee was scheduled on 4 November 2020, via video conference, to be chaired by Colin Crosby.

*Claire Robertson and Tony Barrie, BDO left the meeting.*

## 22. Internal Audit contract (Item taken in private)

Gayle Fitzpatrick, Corporate Governance Manager, introduced the Internal Audit contract report, copies of which had been previously circulated.

The Chair invited questions and comments. The proposal to extend the current internal audit appointment by one year, as permitted under the existing contract, was approved.

***The Audit Committee approved a one-year extension to the current internal audit appointment with BDO.***

## Purpose

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

## Background

2. On 16 March 2020 Audit Scotland's Incident Management Team initiated the Business Continuity Plan in light of the Covid-19 situation. Colleagues were advised to work from home with immediate effect and the offices were closed. On 23 March 2020 the formal 'lockdown' measures introduced by the UK and Scottish Governments took effect.
3. At its meeting on 17 March the Board agreed to temporarily suspend some of the standing orders. These were in relation to; meeting in public, the requirement for papers to be issued to members five days before the meeting and the publication of papers on the website in advance of meetings. The Board also agreed to keep the Standing Orders under review at each meeting.
4. At its meeting on 13 May 2020 the Board agreed that the temporary suspension of the standing orders in relation to the issue and publication of board papers were no longer required.
5. The Board carried out the normal annual review of the Standing Orders at its meeting on 30 September 2020 alongside the annual review of the Scheme of Delegation, the Financial Regulations and the codes of conduct for board members and colleagues.

## Considerations

### Public meetings

6. The Board remains committed to openness and transparency and meeting in public forms part of delivering on this commitment. Holding virtual public meetings, which are accessible, while having appropriate digital security arrangements in place remains challenging.
7. While practical options are being explored (see below) it is recommended that meetings continue to take place via videoconference and that attendance is limited to Board members and those presenting papers.
8. We are exploring a number of options; these options are also being by the Accounts Commission in respect of its meetings.
  - live virtual meetings of the Audit Scotland Board using Microsoft Teams - which members of the public or colleagues can request to observe
  - live streaming of virtual meetings – using proprietary platforms/ service providers – which members of the public could observe via a weblink
  - live streaming of 'in person' meetings - using proprietary platforms/ service providers (when such meetings recommence in the future)
  - recordings of meetings being made available on request
  - recordings of meetings being made available via the Audit Scotland after each meeting, and promoted via social media

- the use of short videos/ podcasts by the Chair or a board member following each meeting which can be made available on Audit Scotland's website and can also be promoted through social media channels, for example Facebook, Twitter and YouTube.

**9.** There are a range of factors we will need to consider in assessing the options, these include:

- Ease of access for those wishing to view the meetings.
- Compliance with the relevant data protection and accessibility regulations on video content (including automatic subtitling/ captioning/ transcripts etc)
- The cost and resource implications for each option– including in house resources and/ or outsourcing.

### Future review of governance arrangements

**10.** The Board has agreed to carry out a focussed review of some aspects of its governance arrangements. The proposed scope of the review is on the agenda for today's meeting at item 19.

**11.** The review is provisionally scheduled to take place between January and February 2021 and the report will be considered by the Board at its March 2021 meeting.

### Recommendations

**12.** The Board is invited to:

- agree that its meetings continue to take place via videoconference and that attendance is limited to members and those presenting reports
- note ongoing work to assess options for members of the public to view Board proceedings
- agree that the variations to the Standing Orders are kept under review and considered at each Board meeting until further notice.

REF	FORUM	Agenda Item No	Item Title	Action Description	Meeting Date	Due Date	Responsible	Assigned to	Complete/Ongoing	Reported Yes/No	Progress Notes
ASB99	Board	17	Proposed schedule of meeting dates 2020	A further discussion on public meetings of the Audit Committee to be scheduled.	18/09/2019	Oct-20	Martin Walker	Martin Walker	Ongoing	No	Outline scope discussed with Chair 26/05/20. Review to be scheduled following the appointment of new Board members (inc Chairs of committees)
ASB106	Board	3	Governance arrangements	The Standing Orders to be reviewed at each meeting.	24/03/2020	May-20	Martin Walker	Martin Walker	Complete	Yes	Two of the three varied orders reinstated on 13/05/20. Public meetings remains under review and is a standing item for each Board meeting.
ASB114	Board	8	Review of action tracker	A report on the scope of the governance review will be considered at the Board meeting on 30 September 2020.	01/06/2020	30-Sep-20	Diane McGiffen	Diane McGiffen	Complete	No	The Board will consider a report at item 19 of today's meeting.
ASB115	Board	10	2019/20 Annual report on freedom of information and environmental information	The Corporate Governance Manager to agree revised wording with the Chair prior to publication.	01/06/2020	Jun-20	Gayle Fitzpatrick	Gayle Fitzpatrick	Complete	Yes	The amended wording was agreed with the Chair prior to publication.
ASB116	Board	19	Impact of Covid-19 on Audit Scotland finances	Stuart Dennis to prepare a draft response for the Chair on Audit Scotland's response to Covid-19.	01/06/2020	Jun-20	Stuart Dennis	Stuart Dennis	Complete	Yes	Letter sent to the Chair of the SCPA on 17/06/20.
ASB117	Board	19	Impact of Covid-19 on Audit Scotland finances	Diane McGiffen to liaise with the Chair on possible dates for an additional Board meeting.	01/06/2020	Jun-20	Diane McGiffen	Diane McGiffen	Complete	Yes	An additional Board meeting was convened 19/08/2020 to consider this together with Audit Scotland's response to the Covid-19 pandemic. Further C19 reports are on the agenda for today's meeting.
ASB118	Board	7	Governance arrangements: Review of Standing Orders	Diane McGiffen to report back on the options available to support public meetings of the Board.	19/08/2020	Sep-20	Diane McGiffen	Diane McGiffen	Complete	Yes	The options to support future public Board meetings was considered at the meeting of the Board and 30 September 2020 and members agreed this action was now closed.
ASB119	Board	8	Review of action tracker	The Chair to share a copy of the letter to the Chair of the Scottish Commission for Public Audit.	19/08/2020	Aug-20	Alan Alexander	Alan Alexander	Complete	Yes	A copy of correspondence was circulated to members on 28 August 2020.
ASB120	Board	9	Covid-19 update	The Board agreed a standing item on Covid secure workplaces and new ways of working be scheduled for future meetings of the Board and Remco.	19/08/2020	N/A	Diane McGiffen	Diane McGiffen	Complete	Yes	This has been added as a standing item on the respective agenda planners for the Board, Audit Committee and Remco and Board members agreed, at its meeting on 30 September, that this action is completed.
ASB121	Board	9	Covid-19 update	David Blattman to circulate a link to the workplace assessment tool.	19/08/2020	Sep-20	David Blattman	David Blattman	Complete	Yes	David Blattman emailed members a note and the link the to the worplace assesement tool following the Board meeting on 19 August 2020.
ASB122	Board	9	Covid-19 update	Diane McGiffen to schedule a meeting with the Chair, Stephen Boyle and Elma Murray.	19/08/2020	Sep-20	Diane McGiffen	Diane McGiffen	Complete	Yes	A meeting was scheduled on 7 September 2020 and the Chair provided a verbal update at the Board meeting on 30 September, following which members agreed this action be closed.
ASB123	Board	10	Covid-19 update	A Board workshop to be scheduled in the first quarter of 2021.	30/09/2020	Mar-21	Diane McGiffen	Diane McGiffen	Ongoing	No	Members availability will be canvassed in December 2020.
ASB124	Board	13	Remuneration and Human Resources Committee performance and future priorities	A further discussion at the next meeting of the Remuneration and Human Resources Committee on priorities and approach to diversity and inclusiveness.	30/09/2020	Nov-20	David Blattman	David Blattman	Complete	No	The Remuneration and Human Resources Committee discussed future priorities at their meeting on 4 November 2020.

## Strategic improvement programme

Associate Director, Corporate Performance and Risk and  
Communications Manager

Item 12

25 November 2020

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### Purpose

1. This report provides an update on the new Strategic Improvement Programme.

### Context

2. This Strategic Improvement Programme (SIP) has been developed at a time of unprecedented change and uncertainty.
3. Scotland's public sector currently faces greater challenges than at any point since devolution, and public spending is growing significantly. Audit Scotland must also change and grow in order to continue to support the Auditor General for Scotland and the Accounts Commission to deliver independent, reliable and high-quality public audit. Independent assurance to the people of Scotland that public money is spent properly and robust audit that helps public services improve are crucial as the country tackles these unprecedented circumstances.
4. Covid-19 has added significant pressure on Scotland's public bodies and public services at a time when they already face major stresses and strategic challenges. These include the UK's withdrawal from the EU, the need to reshape health and social care, changing demographics, climate change and the devolution of significant financial responsibilities. It has also exacerbated existing risks in financial sustainability and service provision.
5. The pandemic has brought significant increases in public spending, with corresponding public and Parliamentary interest in how this money is being spent.
6. Women, young people and Black, Asian and minority ethnic Scots have been disproportionately affected by Covid-19, reinforcing existing inequalities and the negative impacts seen in previous economic downturns and recessions.
7. The pandemic has accelerated the pace of public service reform, in many areas including digital transformation, collaborative leadership and community engagement.
8. In addition to these external factors the last nine months have seen significant change in the organisation. Since March 2020 we have been operating as a dispersed virtual organisation and have rapidly adopted new ways working in all areas of the business. There have also been the appointments of a new Auditor General for Scotland, an Interim Chair of the Accounts Commission and changes to the membership of the Audit Scotland Board.
9. Throughout the period of the pandemic we have been very clear that our main priorities have been the health, safety and wellbeing of our colleagues and the quality of the audit. These are themes which are central to the programme and are key drivers in the projects and workstreams.
10. The experience of the last nine months has been challenging. But it has also demonstrated the resilience of Audit Scotland both organisationally and in terms of our colleagues. It has also demonstrated our ability to be responsive, flexible and innovative. These are characteristics we want to retain, nourish and build on in the years to come and the SIP has a role to play in this. Some of the changes we have made to the way we conduct business this year would have taken much longer to develop and implement. In most cases, these have been made over a remarkably short period of time and in some cases overnight. We have a strong track record in development and improvement, and this provides a strong foundation on which to build.

### Purpose

11. Scotland's public sector is facing greater challenges than at any point since devolution and public spending is growing significantly. High quality, independent public audit is essential.

12. Audit Scotland's responsibilities are growing and changing, so we are growing as an organisation and changing how we work, to be world leaders in public audit.
13. We are focussing on the priorities facing Scotland, and developing our approaches and the skills and resources we need to deliver world class audit and provide world class careers.
14. The SIP coordinates our organisation-wide strategies and projects to meet these aims and ensure everything we do is built on the principles of wellbeing, quality, inclusion and sustainability. These principles are set out in more detail in Appendix 1.
15. Investment in more flexible, agile and efficient ways of working and enhancement to our digital and professional support capacity will ensure our audit reporting is keeping pace with the changes in public finances and services and in technological developments and that we are able to support colleagues make the most of changes to working patterns and practices arising from the pandemic.
16. Additional recruitment will ensure we are able to attract and retain the highest quality of candidates and build the skills and expertise we need to develop public audit.
17. Greater strategic capacity will enable us to respond to the rapidly changing environment, and for public audit to be a clear voice for good governance and improvement as we move towards recovery and renewal.

## Programme objectives

18. The key objectives of the Strategic Improvement Programme are to:
  - drive our organisational transformation and improvement over the next 18 months
  - provide a bridge between the 'recovery phase' and what will become a new longer-term operating model
  - assure and inspire our colleagues
  - ensure we deliver on our core commitments on audit (quality, focus, methodology and value added)
  - ensure we deliver on our commitments on how we run the organisation – being people focussed by prioritising the health, safety, wellbeing and development of our people, and by being innovative and efficient.

## Programme structure, focus and content (projects/ workstreams)

19. The programme structure retains our two main strategic objectives:
  - Delivering World Class Audit.
  - Being a World Class Organisation.
20. The continued use of these as an organising framework helps to provide some continuity at a time of significant change.

## Delivering world class audit

21. The main objectives here are to:
  - Review, redefine and clearly articulate the purpose, role and value of public audit in Scotland.
  - Develop new audit methodologies which ensure we are:
    - focussing on the right issues

- at the leading edge of quality, professional standards and practice
- delivering audits which are efficient, effective, and which make a difference
- maintaining and safeguarding our focus on quality.

**22.** The projects and workstreams which will help us achieve this are summarised below.

### Vision and purpose

- Public Audit in Scotland – a refreshed and clear statement by the Auditor General for Scotland, the Accounts Commission and Audit Scotland which sets out the vision, purpose and value of public audit to external and internal stakeholders and the general public in the new operating environment.

### Focus and scope

- The new rolling work programme – which sets out the priorities, themes and subject areas of the performance and overview audits for the years to come, while retaining maximum flexibility.
- The new code of audit practice – which sets out the expectations for audit under the next round of audit appointments.

### Methodology

- New audit approach – which will refresh our approach to audit (including Best Value audit) and address the issues identified through reviews under the Audit Quality Framework. This new approach will be supported by the implementation of our Digital audit strategy – which will develop our approach and capacity to harness digital technology in delivering the audit work and sharing insights.
- New audit outputs – which will ensure that we use a tailored and flexible approach to getting the audit messages out in an effective and timely way so that they can add the most value.

### Delivery

- 2020/21 financial audit recovery plan – which aims to ensure we are in the best position to recover from the recent disruption and minimise the impact on the 2020/21 audits
- One organisational deployment – which will help us to resource the audits based on need (in terms of the quantum of capacity, skills and experience) rather than management structure.
- New audit appointments – which will secure a mixed market for public audit delivery in Scotland in the years to come.

### Being a world class organisation

**23.** The main objectives here are to:

- Make sure Audit Scotland is an organisation of choice – to attract, develop, retain and support a highly skilled and valued workforce.
- Develop new ways of working which support our colleagues' health, safety and wellbeing and ensure equality of experience under the new hybrid/ virtual working models.
- Improve our strategic and operational agility, flexibility, resilience and efficiency.
- Support colleagues to produce high quality work in a new and dynamic operating environment.



24. The key projects and workstreams which will help us achieve this are:

- **People:** this workstream focusses on how we work together in an inclusive way in a dispersed/virtual environment, individual and collective wellbeing, learning and development and our attraction and recruitment strategy/approach.
- **Building Capacity:** this workstream is about identifying the quantum, skills, experience and specialisms we need to achieve our objectives. In the short term the focus is on building capacity to respond to the audit expectations around Covid-19, to ensure there is sufficient organisational capacity to deliver the core audit work in challenging circumstances and develop/protect capacity to deliver the Strategic Improvement Programme and support innovation and improvement.
- **Finances:** in the short term the focus is on the 2020/21 Spring Budget Revision and the 2021/22 budget. The next stage will be a review of the fees and funding model and the Medium-Term Financial Plan.
- **Digital:** the new Digital Services Strategy is designed to ensure that we maximise the use of technology to support core service delivery and new ways of working. The three key strands are cyber security, virtual business and digital transformation.
- **Workspaces:** in the short term this workstream is focusing on the provision of Covid secure workspaces and supporting colleagues working remotely. We will then look at the longer-term requirements for home working and office accommodation to meet the needs of a more dispersed workforce which is working in new and more flexible ways.
- **Internal communications:** which will ensure that colleagues are informed and engaged, this will be particularly important as we operate under a more virtual/dispersed model.

25. There are a number of other supporting development projects which form part of the programme and which support the overall objectives, business continuity and efficiency. These include assessments for a new payroll system, a new recruitment and selection system/module, the ongoing roll out and development of the time recording system and performance dashboards and the Citrix replacement/roll out of laptops etc.

## Project relationships and dependencies

26. The SIP has many 'moving parts' and many of the projects and workstreams are interconnected and interdependent. By way of example, the implementation of a new long-term audit methodology is dependent on:

- the development and integration of new methodologies for financial audit and best value audit
- the development and implementation of digital auditing (as set out in the digital audit strategy)
- the appropriate digital infrastructure in place (through the Digital Services Strategy)
- the capacity and skills (through the People Strategy and the Building Capacity workstream)
- the resources in place to deliver these (through the 2021/22 budget and the Medium-Term Financial Plan).

27. The key relationships and interdependencies are shown diagrammatically in Appendix 2.

## Key milestones

28. Key milestones over the coming months include:

November	<ul style="list-style-type: none"><li>• Digital Audit Strategy</li><li>• Digital Services Strategy</li><li>• Audit Planning Guidance published</li></ul>
December	<ul style="list-style-type: none"><li>• 2020/21 SBR and 2021/22 Budget submission</li><li>• People strategy</li><li>• Building Capacity recruitment campaign begins</li><li>• One organisational deployment project scoping begins</li></ul>
March	<ul style="list-style-type: none"><li>• Budget confirmed</li></ul>
April	<ul style="list-style-type: none"><li>• Rolling work programme published</li></ul>
May	<ul style="list-style-type: none"><li>• Refreshed Public Audit in Scotland statement published</li></ul>

29. Some projects workstreams are well established and well under way, others are provisional or are at the scoping stage. A detailed programme Gantt chart is currently being developed which will include all of the projects/workstreams and their phases and milestones. An overview is attached as Appendix 3.

## Communications

30. We want to use the SIP to communicate the overarching vision, direction and aims of our development, and the reasons for doing it. Consistent internal/external communications will be important in this, as well as using the core messaging of the SIP to frame aspects of external and internal communications (including the recruitment campaign, budget submissions and corporate development projects such as the digital services strategy).

## Programme governance and reporting

31. The programme governance arrangements will ensure that appropriate governance is in place, while retaining sufficient agility and flexibility to support innovation.

32. The Management Team is the Programme Board, its main role is:

- approving project scopes where appropriate
- making decisions regarding prioritisation and resources where required
- considering quarterly programme updates as part of scheduled Management Team meetings
- approval of outputs/deliverables.

33. Project/workstream leads are responsible for the delivery of the individual projects and will report to the Programme Board.

34. We will also establish a programme co-ordination group – this will help to ensure that the relevant links are made and there is consistency across the projects (in terms of objectives, dependencies and timescales). The group/members of the group will also provide support and challenge for the project teams and act as a sounding board for testing ideas and proposals. We are keen to ensure that the principles of simplicity, flexibility and pragmatism highlighted above apply to the programme governance and this group will operate as a virtual group.

35. Programme updates will be reported to the Management Team and the Board on a quarterly basis using a programme dashboard.

## Recommendations

**36.** The Board is invited to consider:

- the purpose, objectives, structure and content of the programme
- the proposed governance and reporting arrangements.

## Appendix 1

25 November 2020

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### Draft principles

#### Wellbeing

- Wellbeing and the safety of our colleagues are priorities and will be the overriding guide to decisions we make about how we work.
- We will create and refine flexible working practices which support colleagues to both work safely and deliver high quality services to our external and internal stakeholders.

#### Quality

- The quality, independence and rigour of our work is not negotiable.
- We will move deadlines and timeframes if necessary, to ensure and safeguard quality.

#### Inclusion

- All colleagues should have equal opportunities for participation, progression and Learning and Development.
- Colleagues' working patterns are their choice and all should be treated equally.

#### Sustainability

- We will maintain and strengthen the sustainability and resilience of the Scottish model of public audit.
- We will reduce our environmental impact by developing new ways of working.

## Appendix 2

25 November 2020

### Links and dependencies between the projects/ workstreams

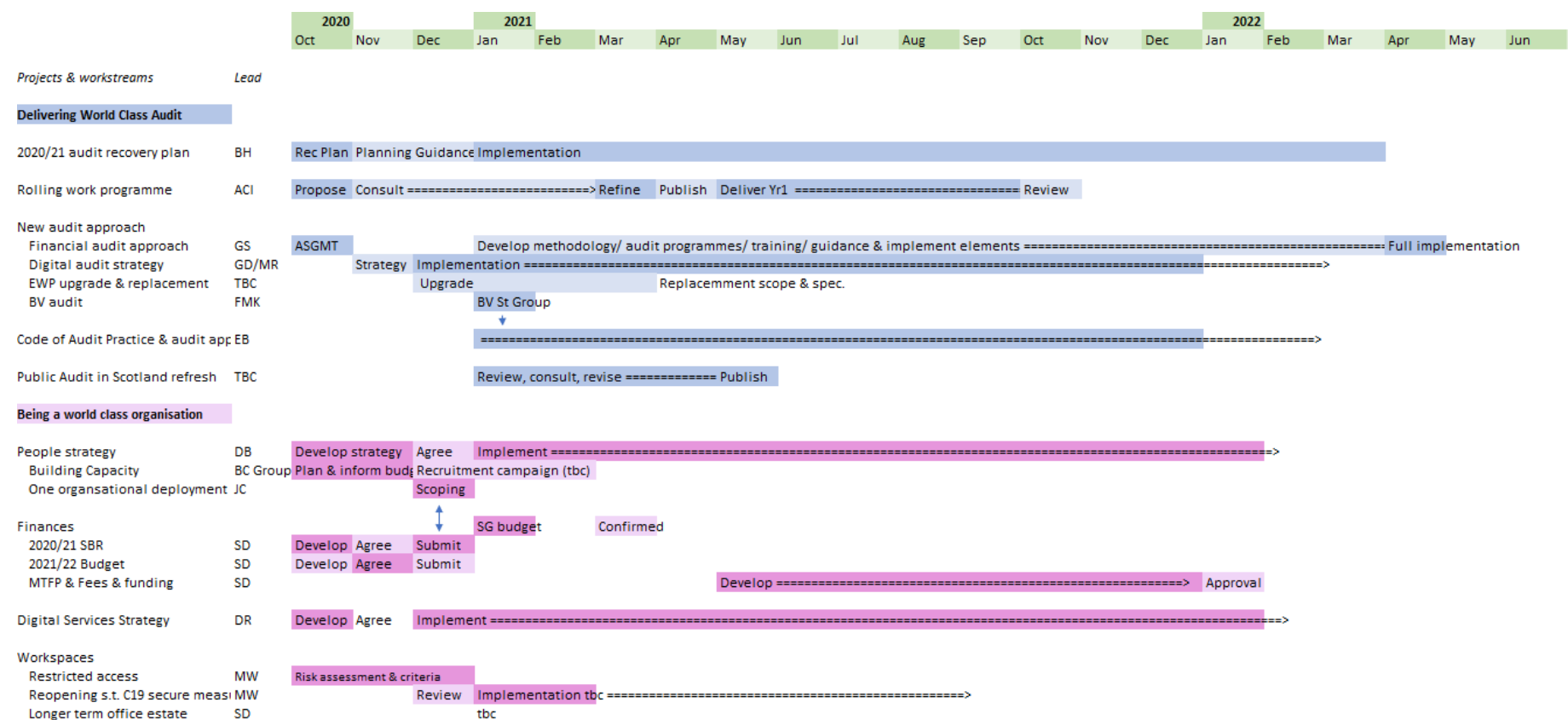


## Appendix 3

25 November 2020

### Programme timeline and milestones

Programme summary at November 2020



## Purpose

1. This report provides an update on Audit Scotland's response to the Covid-19 pandemic. It summarises the current position and the implications for Audit Scotland as an organisation and for the audit work.

## Background

2. The Board considered a detailed Covid-19 update at its last meeting on 30 September 2020 and a further update was provided at the Audit Committee on 5 November 2020.
3. The Incident Management Team (IMT) continues to meet on a weekly basis, Covid-19 remains a standing item on the agenda for Management Team and the Board and regular updates have been issued to all colleagues and Board members.
4. On 23 October 2020 the Scottish Government published [Coronavirus: Scotland's Strategic Framework](#) which set out a five tier approach. The [Local protection levels](#) were most recently updated on 17 November 2020. Our offices remain closed and we continue to operate as a virtual organisation.

## Our response to Covid-19

5. On 19 March 2020 the Auditor General for Scotland advised the Public Audit and Post Legislative Scrutiny Committee (PAPLS) that Scotland's public services were under exceptional pressure due to Covid-19 and advised that our approach to audit during these circumstances would be pragmatic, flexible and consistent. Our approach was further detailed in [Covid-19: impact on public audit in Scotland](#) in May, [Covid-19: how public audit in Scotland is responding](#) in June and [Covid-19 Financial Impact](#) in August 2020.
6. We have also issued briefings on the [Emerging Fraud Risks](#) (July), a [guide for Audit and Risk Committees](#) (August), supported the production of the Strategic Scrutiny Group's [scrutiny response to Covid-19](#) (November) and published a series of [blog posts](#) and a summary of the [risks and issues facing public services](#) in light of the pandemic.
7. To date we have prioritised our statutory audit obligations and paused/re-scheduled areas of audit work where we have more discretion, in consultation with the Auditor General for Scotland and the Accounts Commission. We have also been clear that we will do what is achievable, but that cannot guarantee all deadlines can be met. This is due to the disruption in audited bodies as well as to Audit Scotland. We have also been clear that, while timescales may change, audit quality remains an absolute priority and is even more important at times of significant disruption.
8. The disruption continues to impact on productivity and this and other cost pressures mean that the financial situation is also challenging, this will be reflected in a Spring Budget revision and the 2021/22 budget bid to the Scottish Commission for Public Audit (SCPA). We are also reviewing the medium-term financial plan and the fees and funding strategy.

## Organisational implications and responses

### Our people

9. From the start of the pandemic we have adopted a safety-first approach, prioritising the health, safety and wellbeing of our colleagues. This continues to be a key priority. We have worked hard to support colleagues who are now all dispersed, working from home and juggling sometimes quite difficult home and work responsibilities. This support has taken a variety of forms, including regular communications and engagement, advice and guidance, access to systems and the provision of digital and office equipment.
10. Since the last update:

- One colleague has tested positive for Covid-19 and is recovering well.
- Fewer than five colleagues are currently shielding.
- The sickness absence rates for quarter two remained low, though slightly higher than in previous years and below the 2019 CIPD benchmark (5.9%).
- The absence statistics for October show that there has been a 30% decrease in the number of colleagues who are absent, but an increase in total absence days compared to the same month last year, this is mainly attributable to a small number of longer-term absence cases.
- An analysis of the time logged by colleagues to the C-19 business continuity time recording codes tells us that 1,911 days have been logged by 246 colleagues since March 2020. (This equates to an average of 7.77 days per colleague who has used the code).

## Digital and office equipment

11. To date we have issued 296 items of digital equipment to 206 colleagues. These items have mainly been screens, keyboards and mice. The total cost to date has been £19,466.99, an average of £94.49 per colleague who has needed equipment.
12. We have also issued 275 items of office equipment to 205 colleagues. These items have included desks, chairs, footrests, and some items have been issued from existing stock in the offices. The total cost to date has been £13,165.10, an average of £64.22 per person who has needed equipment.

## Office accommodation

13. The Audit Scotland offices have been closed with effect from 17 March 2020 and we expect this to be the default position for some time to come. On 17 September 2020 the IMT confirmed that the offices would remain closed for the remainder of 2020. This is consistent with the current government guidance.
14. Our Covid Secure Workplaces working group has carried out a detailed risk assessment and planning for Covid-19 secure workspaces. On 27 October 2020 the Management Team agreed the criteria and process to provide limited access to a small number of colleagues to attend the office to perform business critical tasks which cannot be performed remotely and which support business continuity.
15. Management Team will review the position on offices in December 2020 with reference to the Scottish Government guidance at that point in time.
16. Between 28 September and 16 October 2020, we surveyed colleagues on their future working preferences. The response rate was 89.6% and 76% of colleagues expressed a preference for a hybrid working from home/office model in the future. We intend to run a similar survey in the future to assess any change in opinions and to inform our longer-term office requirements. This review will consider both the capacity required and purpose of the offices.

## Financial management

17. The outturn on core funding was £404k (13.9%) above budget in quarter two (Q2) 2020/21. The Q2 financial performance report is on the agenda for the meeting of the Board on 25 November 2020.
18. The Board will also consider the 2020/21 Spring Budget Revision and the 2021/22 Draft Budget Submission at its meeting on 25 November 2020.

## Audit implications and responses

19. Extended audit timetables have been implemented for NHS and local government bodies. A three-month extension applies for NHS audited accounts, which are to be published by 30 September 2020. A two-month extension applies to local government, with accounts expected to be published by 30 November 2020.
20. The deadline for the laying of central government bodies' accounts in the Scottish Parliament is unchanged, at the end of December 2020. College accounts must be signed by 31 December 2020 and laid by 30 April 2021.



21. As at 12 November 2020, 141 sets of accounts have been signed off, including 91% of the NHS accounts and 76% of the Central Government accounts. This is fewer than we would have completed by this point in a normal year but better than we were forecasting earlier in the year. At the time of writing delays are expected on 10 sets of accounts, though the situation remains fluid.
22. The delays to the audits this year will delay the start of planning for 2020/21 audits. Planning guidance for the 2020/21 audits was issued earlier in the month and discussed at the annual planning conference on 18 November 2020. The guidance recognises the impact of the timing of the 2019/20 audits and the consequential later start to 2020/21 audits, the challenges in completing audits remotely, and the additional complexities and uncertainties. We view 2020/21 as a transitional year, leading in future to audit timetables which were possible before the pandemic. The guidance reinforces the message that the well-being of audit teams remains paramount and the continued expectation for high-quality audit.
23. A revised schedule for Best Value Assurance Reporting to the Accounts Commission in 2020 has been prepared which reflects the impact of Covid-19 on both auditors and councils. Best Value Assurance Reports on Dundee City Council and Aberdeenshire Council were published in September and October 2020 respectively.

### Rolling work programme refresh in the context of Covid-19

24. The Auditor General for Scotland (AGS) and the Accounts Commission Interim Chair have met regularly over recent months and agreed a shared set of priorities/key themes which will inform the focus and targeting of future audit work in response to the impact of Covid-19.
25. The AGS has prepared draft longer-term work programme which is currently the subject of consultation with the Scottish Parliament's Public Audit and Post-legislative Scrutiny Committee (PAPLS). Feedback from PAPLS and subject committees of the Parliament on the draft proposals is expected in quarter three.
26. The Accounts Commission considered the key strategic risks facing local government bodies and what this might mean for its audit priorities and future work programme at its strategy seminar in August 2020. The Commission is continuing to take this work forward through its *Insight* Programme which will inform the preparation of the Commission's new strategy. It is anticipated this will be published in Spring 2021. The Commission is also considering the rolling work programme with a view to external consultation early in 2021.

### Next steps

27. The experience to date has demonstrated how flexible and resilient Audit Scotland is as an organisation. As we move beyond the 'response phase' we are keen to learn from what this phase has told us and harness and build on the innovation, creativity and flexibility to develop new ways of working.
28. This has informed our refreshed Strategic Improvement Programme which is the subject of an update report on today's agenda.

### Recommendations

29. The Board is invited to:
  - note the actions taken to date in respond to the Covid-19 pandemic
  - note the ongoing actions and next steps.

## Purpose

1. This report presents the financial result for the six months to 30 September 2020.

## Background

2. Detailed variance analysis and explanation is provided in Appendix 1 attached to this report. Appendix 1 also includes a section on the key financial risks that need to be managed in 2020/21 and for future budget proposals.
3. The report was discussed by Management Team on 27 October 2020 and considered by the Audit Committee on 4 November 2020.

## Discussion

4. In the second quarter of the 2020/21 financial year Audit Scotland's Net Operating Expenditure was £3,318k which was £404k (13.9%) more than budget.
5. In-house income for 2019-20 audits was in total £408k (9.4%) less than budget with a negative volume variance of £375k and a negative price variance of £33k.
6. Fee income earned for 2019-20 audits carried out by external firms net of fees and expenses paid to the firms was £49k better than budget. Income recognition was £40k worse than budget with fees and expenses payable to the external firms being £89k less than budget.
7. Staff costs including agency expenditure was £157k (1.8%) more than budget.
8. Other expenditure was £110k (6.6%) better than budget. The main positive variances were recorded in travel and subsistence (£179k) and printing/office costs (£29k). The main adverse variances were in legal, professional and consultancy (£54k) and information technology (£20k).
9. There will be a requirement for an in-year budget adjustment to meet a potential funding shortfall of between £1.25 million and £2 million (5.5% to 7.3% of total budget).

## Virement

10. There were no instances of budget virement in excess of £20k in the six months to 30 September 2020.

## Recommendation

11. The Board is invited to note the financial results for the six months to 30 September 2020.

## Headline Results

The summary financial position to 30 September 2020:

£000	Annual Budget	Actual	Budget	Var.	% Var.	Prior Year	Note
Fee Income - In House	8,099	3,950	4,358	(408)	-9.4%	4,497	1
Fee Income - Audit Firms	4,947	2,962	3,002	(40)	-1.3%	3,111	2
Central Charges	5,646	2,823	2,823	0	0.0%	2,765	
Rebate	0	0	0	0	-	0	
Interest	0	1	0	1	-	2	
Other Income	0	1	0	1	-	20	
IAS 19 Income	0	0	0	0	-	0	
<b>TOTAL INCOME</b>	<b>18,692</b>	<b>9,737</b>	<b>10,183</b>	<b>(446)</b>	<b>-4.4%</b>	<b>10,395</b>	
Approved auditors	4,435	2,575	2,664	89	3.3%	2,738	2
Staff salaries and oncosts	17,916	8,754	8,737	(17)	-0.2%	8,230	3
Payroll provisions incl. severance	0	0	0	0	-	0	
Agency and secondment costs	75	178	38	(140)	-368.4%	282	3
IAS 19 Pension costs	100	0	0	0	-	0	
Property costs	944	425	414	(11)	-2.7%	403	
Travel and subsistence	886	170	349	179	51.3%	433	4
Legal, professional and consultancy	861	206	152	(54)	-35.5%	221	5
Training	490	109	113	4	3.5%	188	
Recruitment	145	75	70	(5)	-7.1%	48	
Printing and office costs	284	76	105	29	27.6%	146	6
Information technology	486	256	236	(20)	-8.5%	232	7
Audit	60	37	30	(7)	-23.3%	32	8
Depreciation	342	173	171	(2)	-1.2%	186	
Other costs	383	21	18	(3)	-16.7%	16	9
<b>EXPENDITURE</b>	<b>27,407</b>	<b>13,055</b>	<b>13,097</b>	<b>42</b>	<b>0.3%</b>	<b>13,155</b>	
<b>NET OPERATING (EXPENDITURE)</b>	<b>(8,715)</b>	<b>(3,318)</b>	<b>(2,914)</b>	<b>(404)</b>	<b>-13.9%</b>	<b>(2,760)</b>	

## Income and Expenditure Summary

### 1. Fee Income – In House

Variances arise in fee income as a result of volume and price differences. Volume variances occur when audit work is carried out at different times and/or durations than the previous year. Price variances reflect the difference in actual fees to indicative fees originally budgeted and is based on additional work undertaken and agreed with the audited body.

The table below shows the performance by sector at 30 September 2020 for the in-house audits:

	2019/20 Audit Year			Prior Years	Total
	Volume		Price		
	WIP %	£	£	£	£
Local Government	-4.91	-220	+41	-	-179
Health	-8.14	-120	+19	-	-101
FE	-5.50	-2	-	-	-2
Central Government	+1.94	+21	-95	-	-74
Non-statutory	-6.70	-54	+2	-	-52
<b>Total – September 20</b>	<b>-4.88</b>	<b>-375</b>	<b>-33</b>	<b>-</b>	<b>-408</b>

#### Local Government

Local Government audits are 4.91% behind budget leading to an adverse volume variance of £220k. The positive price variance of £41k is due to increased fees being applied to local government bodies with the most significant increases being applied to Aberdeenshire Council, Angus Council, Fife Council and Scottish Borders Council. The current adverse position is expected due to numerous factors linked to the coronavirus pandemic with the completion percentage being 8.97% behind the prior year actual position. Audit sign-off for the local government sector has been extended from September to November and there is a possibility that a small number of the larger bodies could be delayed past this revised date. The situation continues to be closely monitored.

#### Health

Overall health audits are 8.14% behind budget leading to a negative volume variance of £120k. The positive price variance is due to an increase in the fee for NHS Tayside. The completion percentage for the sector at this stage last year was 100%. This variance is due to the impact of the coronavirus pandemic with some health boards not in a position to submit annual accounts within the revised deadlines. The deadline for audit sign-off of the health sector was extended to the end of September, however, audit work remains outstanding for some bodies due to various complications.

#### Further Education (FE)

ASG undertake 2 FE audits, Dundee & Angus College and Edinburgh College. Progress on 19/20 audits is currently 5.50% behind schedule. The year-end for colleges is different to the rest of the public sector and the sign-off of these audits takes place by the end of December each year. The current planning expectation is that this target will be met.

#### Central Government

Central Government chargeable audits are 1.94% ahead of plan leading to a positive volume variance of £21k. Within this sector it is a mixed picture with some audits complete and others further behind compared to previous years. Current planning assumptions are based on an expected audit sign-off of the audited bodies in this sector by December. The main reason for the price variance is due to the official start date of a new body, South of Scotland Enterprise, being later than expected with the audit requirement now commencing in 2020/21 instead of 2019/20.

**Non-statutory**

The European Agricultural Fund Account (EAFA) audit is behind schedule by 6.70%. The audit of the European Agricultural Guarantee Fund will conclude and from 16 October 2020 it is anticipated that this will be funded through the national framework. The United Kingdom Co-ordinating Body (UKCB) has advised that the balance of Rural Development Programme funding can continue to be spent under EU regulations from 16 October 2020 to 15 October 2023. The projected impact is that the fee and audit requirements will reduce by around 25~30%.

**2. Fee income and expenditure – Audit Firms**

The adverse income variance of £40k is offset with the positive expenditure variance of £89k for approved auditors. Effectively this approach highlights a net favourable variance of £49k on chargeable audits.

Audit firms can negotiate fee increases within set parameters above indicative fees with audited bodies. Primarily increases in fees will relate to increased complexity and additional work undertaken for which the audited body has agreed to pay an additional fee.

The table, below, shows the performance for approved auditors by sector to 30 September 2020:

	2019/20 Audit Year		Prior Year	Total
	Volume	Price	Price	
	WIP %      £	£	£	£
Local Government	-3.24      -92	+34	-	-58
Health	-4.62      -47	+2	-	-45
Water	-5.00      -7	-	-	-7
FE	+7.05      +31	+3	-	+34
Central Government	-0.69      -3	+39	-	+36
<b>Total – September 20</b>	<b>-2.42      -118</b>	<b>+78</b>	<b>-</b>	<b>-40</b>

**Local Government**

Audits in the local government sector are 3.24% behind plan leading to an adverse volume variance of £92k. Audit firms have agreed fees above expected fees for some bodies leading to a price variance recognition of £34k.

**Health**

Health audit completion based on the prior year actuals is 4.62% behind trajectory generating an adverse volume variance of £47k. In addition to the volume variance there is a £2k price variance due to agreed fees being higher than expected.

**Water**

The adverse volume variance is due to the audit being behind the prior year actual.

**Further Education (FE)**

Progress on 2019/20 audits is 7.05% ahead of schedule leading to a positive completion position of £31k.

**Central Government**

Central government audits are slightly behind schedule leading to a minor negative volume variance of £3k. The £39k price variance is due to a number of agreed fee increases with the largest increases being applied to Bord na Gaidhlig, Historic Environment Scotland and Scottish Canals.

## 3. Staff &amp; Agency Costs

Business Group	Annual Budget £000	Actual £000	Budget £000	Variance £000	Actual Average w.t.e.	Budget w.t.e.	Note
ASG staff costs	9,396	4,457	4,479	22	150.7	154.5	a)
ASG agency & secondments	75	166	38	(128)			
PABV staff costs	4,542	2,273	2,271	(2)	74.1	73.5	b)
PABV agency & secondments	0	12	0	(12)			
CSG staff costs	2,210	1,135	1,108	(27)	37.4	35.7	c)
CSG agency & secondments	0	0	0	0			
Business Support staff costs	703	365	352	(13)	19.8	18.7	d)
Business Support agency & secondments	0	0	0	0			
Governance & Other staff costs	1,165	524	527	3	19.1	20.0	e)
Governance & Other agency & secondments	0	0	0	0			
<b>Total staff costs</b>	<b>18,016</b>	<b>8,754</b>	<b>8,737</b>	<b>(17)</b>	<b>301.1</b>	<b>302.4</b>	
<b>Total agency &amp; secondments</b>	<b>75</b>	<b>178</b>	<b>38</b>	<b>(140)</b>			

- a) **ASG Staff costs** - in the first 6 months of the year the average number of staff employed in ASG has been 3.8 w.t.e. less than the funded budget. The establishment is based on 156.1 w.t.e. with the application of a 1% vacancy/turnover factor reducing the funded w.t.e. to 154.5. The overall saving to budget is due to lower than planned staffing levels (£114k) and higher average actual salary costs per employee (£92k). As in previous years there will be an intake of professional trainees at the end of October. ASG will receive an allocation of the ringfenced new financial powers budget to meet recruitment planning requirements.

**ASG agency costs** – it is projected that the overspend will continue to enable us to fill resourcing gaps and protect capacity to ensure we can meet the revised audit certification deadlines. Covid-19 has meant there are significant additional resourcing/capacity challenges on the availability of staff and there has also been an impact due to the increase in the length of time it takes to undertake audits. This year much of the focus of agency staff deployment has been to assist EAFA work, which helps to enable in-house staff to gain more experience on other audits. This additional cost will be managed through reduced expenditure on travel & subsistence, other savings and staffing variances (reduced seasonal auditor and student placement costs). The deployment of agency staff will assist in minimising the shortfall in income recognition as at 31 March 2021.

- b) **PABV staff costs** - on average PABV have been 0.6 w.t.e. above budget year to date (£20k) which is due to the provision of cover for essential posts (e.g. maternity leave) and the 1% vacancy factor. This overspend is being reduced by a positive price variance (£18k). It is projected that this overspend will decrease as the year progresses due to staff turnover and an allocation of additional monies from the new financial powers budget, with the final position being within the allocated budget.

**PABV secondment costs** - secondment costs of £12k relate to a Scottish Parliament member of staff seconded to assist with housing benefit audit work. This secondment finished in May and is being funded by an underspend in the PABV consultancy budget.

- c) **CSG staff costs** - The average staff resource requirements in CSG has been higher than the funded w.t.e. (£50k) due to staff turnover being lower than expected and the provision of cover for maternity leave. This overspend is currently partially funded by the favourable variance on average actual salary costs (£23k). During the second half of the year the overspend will reduce with the final outturn overspend projection being met from savings within other expenditure budget headings.
- d) **Business Support Staff costs** - w.t.e. above funded figure (£20k) due to the provision of cover for maternity leave. The actual average salary costs are slightly better than budget (£7k).
- e) **Governance & Other staff costs** - slightly below budget due to the vacancy at the start of the financial year for a non-executive board member and a reduction in Accounts Commission members with the Chair leaving at the end of July.

**4. Travel and subsistence**

Expenditure on travel and subsistence has significantly reduced compared to the same period last financial year. This is due to homeworking and audit work being delivered remotely rather than onsite at the public bodies. Expenditure will be significantly less this financial year with the savings being used to support the overspend on agency expenditure and other financial pressures.

**5. Legal, professional and consultancy**

The overspend is due to increased expenditure on legal services, corporate subscriptions and external firms' expenditure for best value assurance reports. This is a budget virement issue as this is expenditure that is being met by reduced expenditure in other budget headings. Further budget management work is required to establish if this is likely to be recurring and a permanent budget adjustment is required to resolve this in the long term.

**6. Printing and office costs**

The current underspend is due to reduced expenditure on printing and is a direct consequence of the policy of staff working from home. Also, expenditure on monitoring is lower than budget which is due to some expenditure being classified as corporate subscriptions. Expenditure year to date is £70k less than the prior year and it is projected that there will be significant savings on print/copier and mobile phone expenditure in 2020/21.

**7. Information technology**

Software licence expenditure is the reason for the current overspend position within information technology. With homeworking and remote audit the current default position it is essential that we have sufficient licences (e.g. microsoft, mki) to enable the safe delivery of our work requirements. As previously reported, the projection in this expenditure heading will be in excess of budget with the plan to meet this overspend by savings within other digital services budget headings.

**8. Audit**

The current overspend is a timing issue on invoices received and accruals made for the internal audit work plan. The full year position is planned to be within the budget allocation of £30k.

**9. Other costs**

The minor overspend is due to one-off expenditure being incurred with the budget being phased equally over the financial year. This will be corrected as we progress through the financial year.

**Overview of Financial Risks**

The overall financial impact for Audit Scotland of the organisational and audit implications of Covid-19 means we will be unable to deliver our statutory obligation of a balanced budget unless approval is received for additional funding from Parliament.

Financial models of the potential shortfall based on our current position and future in-year expectations indicate that the worst-case scenario is in the region of £2 million and the best-case scenario is £1.25 million. The key financial risks that we need to manage in 2020/21 include:

- shortfall in fee income recognition
- additional costs to deliver audit
- resource availability
- impact on firms' costs

The recognition of fee income is a key component of our budget proposals with the extension to deadlines of 2019/20 audits leading to a delay in the start to planning of the 2020/21 audits. Effectively these extensions mean we will not have completed as much audit work as in previous years as at 31 March 2021. International reporting standards only allow us to recognise in the accounts the amount of income we have earned for the work we have completed up to that point

in time. The shortfall in income recognition depending on the outcomes of the best- and worst-case scenarios have the potential to vary between £1.25 million up to £1.75 million.

People costs represent 66% of our total expenditure and the forecast modelling includes the need for additional temporary staff (agency and short term ex-employee contracts), lower staff turnover due to the economic situation arising from the pandemic and the impact of audit deadline extensions on the recognition of untaken leave as at the 31st March. The additional unplanned financial impact is between £0.5 million and £0.7 million.

Any saving in fees and expenses paid to external firms due to work completion percentages being lower than planned at 31 March 2021 will be offset by a projected shortfall in the recognition of fee income.

To offset some of the financial pressures there are projected forecast savings in other operating expenditure which are mainly due to the significant reduction in travel and subsistence with staff unable to travel to undertake on-site audit work. Further savings have been identified in stationery & printing, other (e.g. annual wellness checks) and other accommodation costs (e.g. catering, security waste). There will be an increase in information technology expenditure with the requirement to ensure compliant and secure technology to meet the demands of all staff working from home. The overall expected savings are in the region of £0.4 million.

Our original budget proposal highlighted that we would aim to manage within our overall budget allocation, but it will be necessary to seek in-year adjustments if significant challenges arise. Covid-19 is a significant challenge for us with significant financial consequences requiring us to seek a budget adjustment in 2020/21 between £1.25 million and £2 million.

In the longer term there are financial issues that will need to be considered in our budget submissions to the SCPA. These include:

- The future of the current fees and funding model
- Resourcing pressures and additional cost of audit post Covid-19
- Pension fund pressures
- Auditing post Covid-19
- Firms procurement exercise
- EAFA
- Pay award uncertainty

### Capital Expenditure and Funding

To date there has been £53k of capital expenditure against the full year allocation of £150k. This expenditure relates to the purchase of 60 laptops.

**Stuart Dennis**  
Corporate Finance Manager  
4 November 2020



## Purpose

1. To provide the Board with a review of organisational performance in quarter two (Q2) 2020/21.

## Background

2. The performance information is reported under the two strategic objectives of 'delivering world class audit' and 'being a world class organisation' in line with the Corporate plan.
  - Appendix 1 provides a summary of performance for each strategic objective.
  - Appendix 2 provides the detailed performance information.

## Q2 performance summary

3. Performance over all is good in what remain challenging circumstances and is better than we may have anticipated given the amount of disruption due to Covid-19. This is largely due to the commitment, professionalism and flexibility of colleagues across the organisation.
4. It is also the case that the Covid-19 pandemic continues to have a significant impact on Audit Scotland and the bodies we audit. The pandemic is affecting our ability to deliver audits and our financial position. This can be seen most clearly in our 'RAG' assessment on three of our performance objectives.
5. The following objectives are 'red'. This is defined as 'Not progressing/significant additional management action required':
  - We conduct relevant and timely audits and report in public (where the main impact is on delivery dates and budgets).
  - We manage our resources effectively (where the main impact is on audit costs and income).
  - We maximise our efficiency (where the main impact is on colleague productivity).
6. We expect a negative impact on performance to continue to show in the quarterly reports for 2020/21 and anticipate this will extend into 2021/22.

## Delivering World Class Audit

7. Local Government and NHS audit deadlines have been rescheduled while Central Government and Further Education dates remain the same as in previous years. We have advised audited bodies and stakeholders about the potential impact this may have on deadlines.
8. There were 184 publications in quarter two including; 96 annual accounts, 81 Annual audit reports, two Best Value Assurance Reports, one annual audit plan and four other publications. This is lower than the equivalent quarter in 2019/20 where there were 226 publications.
9. To date we have delivered thirty-three per cent of the total planned outputs due for the year 2020/21 and 96 per cent of these were on time.
10. Media mentions, downloads and social media engagements are down on the same quarter last year. This is due to the lower number of performance audits being published at present, less promotional content to broadcast, and a busy news agenda dominated by Covid-19.

11. Audit Scotland audits were 18% above budget in Q2.
12. We have reviewed the rolling work programme, made proposals to the Auditor General for Scotland and the Accounts Commission and the revised programme is now the subject of consultation.

### Being a world class organisation

13. We have continued to prioritise communication and engagement with colleagues across the organisation using a broad range of channels. This includes formal business messaging (through the regular Incident Management Team (IMT) updates, the Covid-19 yammer channel, pulse surveys, the weekly Staying Connected communications and video posts and blogs from members of Management Team) and informal channels (including the 'How we doing' yammer channel, on-line quiz events, virtual tea breaks and check-ins via video conferencing).
14. We had 287.1 (98.9%) whole time equivalent colleagues in place at the end of the quarter against an establishment 290.2. The absence rate is slightly higher than Q2 in previous years but remains low at 1.66 days.
15. The outturn on core funding was £404k (13.9%) above budget in Q2.

### Forward look

16. Quarter three includes the revised deadline for the local and central government financial accounts and 30 September was the deadline for the NHS accounts. At the time of writing two NHS audits have missed the deadline and we expect 11 central and 7 local government accounts may be late. Current projections indicate that 10% of all audits may miss the deadline in 2020/21. This, and the consequential delayed start to the audit planning process is expected to impact on the delivery of the 2020/21 audits.
17. All audits are carried out in accordance with the code of audit practice and the relevant professional standards. Currently our assessment of performance on quality is at 'amber' as we recognise that the unavoidable approach to remote/virtual auditing presents challenges to both auditors and the organisations we audit. The internal and external reviews of audit quality will take place in Q3 and Q4. The results from these reviews will provide clearer information on the quality of audit delivered in 2020. The outcome of the reviews will be considered by the Audit Quality Committee and will be reported in the quarterly performance reports to the Management Team and Board and in the annual report on quality.
18. The Auditor General for Scotland and the Accounts Commission interim Chair have met regularly over recent months and agreed a shared set of priorities/key themes which will inform the focus and targeting of future audit work in response to the impact of Covid-19.
19. The Auditor General for Scotland has prepared draft longer-term work programme which is currently the subject of consultation with the Scottish Parliament's Public Audit and Post-legislative Scrutiny Committee (PAPLS). Feedback from PAPLS and subject committees of the Parliament on the draft proposals is expected in quarter three.
20. The Accounts Commission considered the key strategic risks facing local government bodies and what this might mean for its audit priorities and future work programme at its strategy seminar in August 2020. The Commission is continuing to take this work forward through its *Insight* Programme which will inform the preparation of the Commission's new strategy. It is anticipated this will be published in Spring 2021.
21. The Incident Management Team continues to meet to monitor and respond to the organisational impact of the Covid-19 situation. This, alongside other priorities have informed a review and refocussing of our strategic improvement programme, which was the subject of further Management Team discussion on 17 November 2020.









### Recommendations

22. The Board is invited to review the performance in quarter two and consider whether any additional management action is required.

## Appendix 1

25 November 2020

### 2020/21: Q2 performance summary

 <b>Delivering world-class audit</b>	Measure in Q2	Previous quarter	Same quarter last year	Direction of travel in Q2 this year compared to Q2 last year
<b>We conduct relevant and timely audits and report in public.</b>				
Reports 2021(Q2)	184	44	226	
Reports 2021(YTD)	230	44	309	
On time (YTD)	96%	100%	95%	
Audit Budget (YTD)	+18%	+14.56%	-4%	
<b>We get our messages out effectively</b>				
Media mentions (Q2)	125	101	340	
Downloads (Q2)	210,057	262,497	232,975	
Social media engagements (Q2)	3,822	2,178	7,991	

### Key performance messages in Q2

- The RAG for the 'relevant and timeliness' objective remains red. This reflects the impact of Covid-19 on both Audit Scotland and the bodies we audit. The significant increase in cost and the potential impact of delaying audits are also reason for the RAG assessment.
- We delivered 184 audits/reports in Q2. This is fewer than in previous years due to the rescheduling of audits. Central and local government audit are not due until Q3.
- NHS accounts and annual audit reports were due to be completed by 30 September 2020. Most reports (79%) were delivered on time, however three accounts (2 ASG 1 Firms) and six Annual Audit Reports (2 ASG and 4 Firms) are outstanding and this may also impact on timeliness of the remaining audits.
- Audits were delivered at 18% above budget and outwith our 5% tolerance for this measure.
- Communications statistics show we are getting our messages out, despite the scaled back promotion of reports. This is reflected in media mentions downloads and social media figures.

### Key actions

- The key actions for this strategic objective are covered by the projects and workstreams in the revised Strategic Improvement Programme. This includes workstreams on refreshing/refining the role of audit in a Covid/post Covid world, the annual audit process for 2020/21, the revised rolling work programme, audit methodology and digital audit and the new Code of Audit Practice and audit appointments.














**Key:**

Red = Not progressing/significant additional management action required.

Amber = Progressing and management action planned.

Green = On target/no need for additional management action

**2020/21: Q1 performance summary**

 Being a world-class organisation	Measure in Q2	Previous quarter	Same quarter last year	Direction of travel in Q2 this year compared to Q2 last year
<b>We manage our resources effectively</b>				
Budget Variance (YTD)	+13.9%	+10.9%	+0.5%	
WTE establishment (YTD)	98.9%	98.6%	96.7%	
<b>We maximise our efficiency</b>				
Staff costs (YTD)	8,754k	4,400k	8,230k	
Agency/secondment costs (YTD)	178k	78k	282k	
Average cost per audit day (Q2)	433.5	429.8	432	
Proportion of audit time (Q2)	65%	60%	72.5	
<b>We empower and support our people to be engaged, highly skilled and perform well</b>				
Absence (YTD)	3.29 days	1.63 days	2.06 days	
Staff turnover (YTD)	1.75%	2.43%	3.01%	
Exams pass rate (YTD)	80%	78%	75%	
Training events (Q2)	22	28	39	
Training attendees (Q2)	526	405	374	
IT uptime (Q2)	100%	99.91%	99.43%	

**Key performance messages in Q2:**

- The outturn on core funding was £404k (13.9%) above budget. There was 53k capital spend in Q2.
- The average number of colleagues employed in the quarter were 98.9% of the establishment which is slightly higher than the same quarter last year.
- Absence levels remain low and slightly higher than previous years. We remain below the 2019 CIPD benchmark (5.9%).
- The proportion of audit time was 65%, which is down from 72.5% in the same quarter last year.
- There have been 22 training events and 526 attendees, which is up on the same quarter last year.
- IT up time remains consistently high.

## Key actions

The key actions for this strategic objective are covered by the projects and workstreams in the revised Strategic Improvement Programme. This includes workstreams on resourcing and one organisational deployment, our workforce strategy, learning and development and wellbeing and the longer-term fees and funding model.

## Appendix 2

25 November 2020

### Performance detail

2020/21: Quarter 2

 Delivering world-class audit	We conduct relevant and timely audits and report in public.
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Key Performance Questions	2018-19				2019- 20				2020-21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Are relevant audits being delivered?	G	G	G	G	G	G	G	G	A	A		
Are audits delivered on time?	G	G	G	G	G	G	G	G	A	A		
Are audits delivered on budget?	G	G	G	G	G	G	G	G	R	R		

#### Key messages

The overall performance assessment RAG status for this objective is red as a result of the impact of the Covid-19 pandemic. Red is defined as *'Not progressing/significant additional management action required'*. This management action is ongoing.

- We are on track to complete most 2019/20 audits by 31 December.
- Almost all NHS boards are now signed off by the deadline of 30th September, as are half of central government bodies and IJBs, and we are broadly on track with local authorities. The three outstanding NHS bodies are late due to late receipt of draft accounts from the audited body.
- There are 22 audits projected to miss the revised deadline, this is about ten per cent of all audits.
- Annual Audit plans for the 2020/21 are scheduled for quarter four, however these may be delayed due to the delays in the 2019/20 audit work.
- Audit expenditure is 18% above budget and remains significantly outwith the 5% tolerance target.

#### Performance

In **Quarter 2**: we delivered 184 audit/reports.

- 25 NHS reports (Accounts 12, AARs 13)
- 64 Central Government (Accounts 33, AARs 31)
- 88 Local Government (Accounts 51, AARs 37)
- 1 Annual Audit plan
- 2 BVARs (The Moray Council and Dundee City) were published in line with the agreed revised schedule.

- 4 other reports were published including the National Fraud Initiative and three new outputs were published as part of our new programme of briefings on the impact of Covid-19 on public finances and public bodies in Scotland (i.e. Covid-19: emerging fraud risks, Covid-19: guide for audit and risk committees, and Covid-19: Implications for public finances in Scotland)

**Year to date:** we delivered 230 audit/reports.

- 36 NHS reports (Accounts 20, AARs 16)
- 71 Central Government (Accounts 37, AARs 34)
- 88 Local Government (Accounts 51, AARs 37)
- 18 Annual Audit plans
- 7 Performance reports (2 Performance audit, 4 BVARs, 1 overview)
- 10 Other reports.

The revised dates for delivery of the 2020/21 financial audit and Annual reports are:

Sector	Total AS	Total Firms	New date	Delay	Scheduled Quarter
LG	66	39	30-Nov	2-month delay	Q3
CG	47	29	31-Oct	no change	Q3
NHS	10	13	30-Sep	3-month delay	Q2
FE	2	19	31-Dec	no change	Q3
Total	125	100			

The audit work programme faces unprecedented change and uncertainty due to the impact of Covid-19 pandemic. Our initial May 2020 position statement on [the impact of Covid-19 on public audit in Scotland](#) made clear that this uncertainty means that our work programme will need to be more dynamic and flexible than in the past. This includes changes to existing audits (paused, delayed and rescheduled, scope changes or ultimately audits stopped altogether), but also the use of a wider range of different audit outputs such as blogs, roundtables and briefing papers on key audit themes and issues in future.

During quarter two the Auditor General for Scotland and the Accounts Commission agreed a revised short-term (2020/2021) work programme reflecting the impact of the Covid-19 coronavirus pandemic on both auditors and audited bodies. The key changes made to the short-term programme include:

- Changes to the strategy, timing and approach for future overview reporting (NHS and local government) to reflect the impact of Covid-19 on those sectors.
- Proposed ways forward for 'paused' audits and performance audit reports which were due to be published in 2020/21 but which had not yet started at the time of the start of lockdown.
- A rescheduled programme of Best Value Assurance (BVAR) reporting, adjusted to reflect the additional time and flexibility now available to complete the current Best Value assurance programme as a consequence of the Auditor General for Scotland/Commission decision to extend current audit appointments to September 2022. This included the changed planned publication date for the City of Edinburgh BVAR from quarter two to quarter three.
- The teacher work planning briefing (previously quarter three) has now been removed from the work programme.
- The Skills planning and investment audit (previously quarter three) is now planned as a Covid-19 briefing paper to be published in 2021.

**Audit/report schedule 2020/21**

	Q1	Q2	Q3	Q4
Annual Audit Plans Audit Scotland (125)	2 FE ✓  <u>Late from 19-20 Q4 return</u> 7 LG ✓ 6 CG ✓	<u>Late from 19-20 Q4 return</u> 1 CG ✓		66LG 47CG 10 NHS
Annual Audit Plans Firms (100)	FE 15 ✓ <u>Late from 19-20 Q4 return</u> LG 1 ✓ CG 2 ✓	FE 1 (Q1) ✓	FE 3 (Q1) ✓	39 LG 29 CG 13 NHS
Accounts certified Audit Scotland (125)	NHS 2 ✓ CG 3 ✓	NHS 6 ✓ CG 21 ✓ LG 24 ✓	2 LG ✓ 4 CG ✓	
Accounts certified Firms (100)	NHS 6 ✓ CG 1 ✓	NHS 6 ✓ CG 12 ✓ LG 27 ✓	1 LG ✓ 11 CG ✓	
Annual Audit Reports Audit Scotland (125)	NHS 1 ✓ CG 2 ✓	NHS 6 ✓ CG 19 ✓ LG 20 ✓	NHS 1 (Q2) ✓ 6 CG ✓	
Annual Audit Reports Firms (100)	NHS 2 ✓	NHS 7 ✓ CG 12 ✓ LG 17 ✓	4 LG ✓ 8 CG ✓	
Performance Audit (6)	Affordable Housing ✓ Highlands and Islands Enterprise: Cairngorm Mountain ✓ Education outcomes X (audit paused - now Q1 2021)  Social Security X (audit paused, date TBC)		Skills planning and investment X (audit paused – 2021)	Digital in Local Government
Best Value Assurance Report (7)	Argyll and Bute Council ✓ North Ayrshire Council ✓	Dundee City Council ✓ Moray Council ✓	Aberdeenshire Council  City of Edinburgh Council	Falkirk Council X (now 2021 date TBC)
Overview Report (3)	Local government in Scotland ✓			Local government: financial NHS in Scotland



Statutory (1) Numbers to be confirmed during year	S22 City of Glasgow College ✓		Health and central government S22s (as required)	Health and central government S22s (as required)  Local government s102s (as required)  Scottish Government Consolidated Accounts
Other (13) Numbers to be confirmed during year	Fraud and irregularity report 2019/20 ✓ Quality of Public Audit in Scotland annual report 2019/20 (QPAiS) ✓ Transparency report 2019 ✓ Equal Pay in councils Impact Report ✓ Covid-19: Impact on public audit in Scotland ✓ Covid-19: How public audit in Scotland is responding ✓	National Fraud Initiative ✓ Covid-19: Emerging fraud risks ✓ Covid-19: Guide for audit and risk committees ✓ Covid-19: Financial impact ✓	Housing Benefit Annual Report  Teacher workforce planning briefing X (removed from programme)	Skills planning and investment audit X (briefing paper to be published 2021 tbc)
Published	46	184	40	

There were no delays to any performance audits, BVARs or other outputs based on the revised short-term (2020/2021) PABV work programme agreed by the Auditor General for Scotland and the Accounts Commission in quarter two.

On time YTD (Q2)	Number delivered on time	delivered Late	Due but not yet delivered	% of planned delivered to date	% on time YTD	Comment
Annual Audit Plans – AS (125)	2	0	0	2%	100%	All FE Annual Audit plans were published on time. All other Annual audit plans are due to be published in Q4.
Annual Audit Plans – Firms (100)	15	1	3	16%	96%	All FE Annual Audit plans are published. Four were delivered late due to waiting for Audit Committee taking place after the due date. All other Annual audit plans are due to be published in Q4.
Accounts certified – Audit Scotland (125)	56	0	2	45%	98%	48% of accounts certified to date 2 NHS Accounts yet to be delivered.
Accounts certified – Firms (100)	52	0	1	52%	99%	52% of accounts certified to date 1 NHS Accounts yet to be delivered.
Annual Audit Reports – Audit Scotland (125)	48	1	2	39%	97%	40% of accounts certified to date 2 NHS Annual audit report yet to be delivered.
Annual Audit Reports – Firms (100)	38	0	4	38%	96%	38% of accounts certified to date 4 NHS Annual audit report yet to be delivered.
Performance Audit (6)	2	0	0	33%	100%	No performance audits were published in Q2.
Best Value Assurance Report (6)	4	0	0	67%	100%	The two BVARs completed during Q2 were delivered on-time.

Overview Report (3)	1	0	0	33%	100%	No overview reports were published in Q2.
Statutory Reports (1)	1	0	0	n/a	100%	No statutory reports were published in Q2. The number of 'other' outputs varies each year and are often responses to risks or issues arising during the year.
Other Outputs (13)	10	0	0	n/a	100%	The number of 'other' outputs varies each year and are often responses to risks or issues arising during the year. The NFI and three Covid-19 briefing papers were published in Q2.
Total (704)	229	2	12	33%	96%	

**On budget:** In Q2 the expenditure on audit is

	Budget £	Actual £	£ Variance	% Variance
ASG	£8,624,610	£10,369,579	£1,744,969	20%
PABV	£796,482	£791,969	£-4513	-1%
Total	£9,421,092	£11,161,548	£1,740,456	18%

### Issues/ risks

- There is considerable uncertainty about the short-term and long-term impact of the pandemic on public bodies and Audit Scotland.
- Ongoing uncertainty around workforce capacity (and constraints such as childcare, remote working, etc) is affecting auditor availability to undertake core audit work.
- There are significant risks around our ability to deliver the financial audits to time and budget. This is a red risk in the risk register.

### Forward look

#### 2020/21 Annual Audit Plans

Planning normally would have begun across many clients (NHS and CG) in October/November with annual audit plans delivered to committees before Christmas. This will unlikely be the case this year. Planning guidance has yet to be realised from Professional Support and ASGMT are yet to decide how they plan to approach planning for 2020/21. The Audit Directors have engaged with ASG colleagues on the audit planning process and options are being reviewed by Professional Support to ensure ISA compliance. Prior to the pandemic Professional Support were revising the audit approach with training due to be delivered late 2020/early 2021 for implementation across all 2020/21 audits. A decision has yet to be made as to whether this will be rolled out in 2020/21. ASGMT will discuss and agree to a wider recovery plan at its strategic planning day in October 2020.

#### The rolling work programme

The Auditor General for Scotland and the Accounts Commission interim Chair have met regularly over recent months and agreed a shared set of priorities/key themes which will inform the focus and targeting of future audit work in response to the impact of Covid-19. These key themes are:

- Economic recovery and growth:** *how public money is being used to support the economy and its response to, and recovery from, Covid-19*
- Policy priorities:** *progress on key policy commitments and public services' ability to deliver on long-term strategic priorities and outcomes*
- Inequalities:** *impact of Covid-19 on different groups in society, with a focus on the risk of exacerbation of existing inequalities*
- Innovation and transformation:** *how public bodies are learning lessons and innovating and transforming public services*
- Governance and accountability:** *how public bodies are ensuring proper and effective use of public money across the public sector and within individual bodies.*

The Auditor General for Scotland has prepared draft longer-term work programme proposals which he is currently consulting the Scottish Parliament's Public Audit and Post-legislative Scrutiny Committee (PAPLS) on. Feedback from PAPLS and subject committees of the Parliament on the draft proposals is expected in quarter three. This material will also be used for engagement with the Scottish Government and other key external stakeholders later in the year.

The Accounts Commission considered the key strategic risks facing local government bodies and what this might mean for its audit priorities and future work programme at its strategy seminar in August 2020. The Commission is continuing to take this work forward through its *Insight* Programme which will inform the preparation of the Commission's new strategy. It is anticipated this will be published in Spring 2021.

Key Performance Questions	2018-19				2019-20				2020-21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Are we assured about the quality of our work?	G	G	G	G	G	G	G	G	A	A		
Are we improving the quality of our work?	G	G	G	G	G	G	G	G	A	A		

### Key messages

In quarter one we changed this RAG from green to amber due to the increased risk to quality whilst working remotely due to the pandemic. The risk to Audit quality is monitored by the Audit Quality Committee and the Audit Committee. While we are aware of the risk to quality caused by the pandemic working context there is not currently evidence of that quality is being compromised. The internal and external quality reviews will provide data on audit quality in Q4. The refresh of the audit methodology has been impacted in terms of capacity and timescales.

### Quality assurance and improvement during quarter two included:

We continue to maintain our programme of quality-related audit developments. During quarter two, training was provided to all PABV colleagues on the revised PABV Audit Management Framework (AMF) which has now been updated to reflect INTOSAI auditing standards. The training also aimed to address areas for improvement in audit practices highlighted in earlier audit quality reviews. Due to the impact of lockdown working conditions a virtual training package was designed using Microsoft Sway to allow colleagues to complete the training at a time which suited them over the summer. Uptake of training overall was high, with 61 (95%) colleagues completing the course as at 30 September 2020.

### Technical guidance/notes published in quarter two included:

We responded to 298 technical queries this quarter, all within the timescale and published the following to help quality of audits:

- A bulletin on technical developments and emerging risks in the quarter.
- Two technical guidance notes and nine frequently asked questions outputs to assist auditors with financial statement audits.
- 12 briefing notes to provide auditors with a synopsis of new technical documents.
- Five technical update sessions to Audit Services Group and audited bodies on housing benefit certification and the National Fraud Initiative.
- Audit Management Framework training to 60 auditors.
- Revisions to the Audit Management Framework on attending Parliamentary committees either virtually or through a hybrid option.
- Prepared the annual report for PABV Leadership team summarising key points and actions arising from the audit review meetings and a quality update for a PABV Audit Managers meeting in September.

### Forward look:

The internal and external quality reviews usually take place in quarter three as the majority of audits are complete by this time. This year with audits still ongoing in quarter three (and some into quarter four) the timing and process for quality reviews are under review. Internal quality reviews will still go ahead and ICAS will likely work reviews to a later timetable. We will provide a further update in quarter three.

Key Performance Questions	2018-19				2019-20				2020-21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Are we getting messages out effectively?	G	G	G	G	G	G	G	G	G	G		

### Key messages

During quarter two we:

- continued to develop a range of different approaches to communicating the messages from our audit work to key stakeholders with significantly increased use of blogs and the piloting of a range of different shorter reporting styles
- continued to engage with audited bodies and key stakeholders (including the firms, scrutiny partners and UK and Ireland audit agencies)
- continued to engage with Scottish Parliament.

### Covid-19 update:

The Auditor General for Scotland briefed the Parliament's PAPLS in August 2020 about the impact of Covid-19 on the work programme and public audit more generally. This provided the opportunity to start a discussion with the committee about the priorities as Auditor General for Scotland and how he and the work of Audit Scotland can best support the committee in supporting effective parliamentary scrutiny.

The Controller of Audit and the Director of Audit Services provided similar briefings for the Accounts Commission during quarter two.

There is ongoing engagement with audited bodies and key stakeholders (including the firms, scrutiny partners and UK and Ireland audit agencies) about respective experiences of and response to the pandemic. This includes the impact on staff, public bodies and audit programmes.

We have received very positive feedback from audited bodies and key stakeholders on the three new outputs i.e. Covid-19: emerging fraud risks, Covid-19: guide for audit and risk committees, and Covid-19: Implications for public finances in Scotland. These were published in quarter two as part of our new programme of briefings on the impact of Covid-19 on public finances and public bodies in Scotland.

### Engagement: In quarter two we attended:

- Eight Parliamentary Committees.
- 12 external working group meetings - to ensure Audit Scotland is engaging with relevant standard setters as they prepare and review relevant codes, manuals, standards and guidance.

### Consultations: We responded to five consultations on:

- A review of Coherent Provision and Sustainability in Further and Higher Education
- Impact of Covid-19 on the financial sustainability of Local Government in Scotland
- Scottish Housing Regulator - Consultation on our future regulatory approach in response to Covid-19
- DWP housing benefit subsidy arrangements
- Data sharing by Scottish public authorities.

**Parliamentary engagement**

Month	Parliamentary questions mentioning Audit Scotland	Mentions of Audit Scotland's work across committees	Mentions of Audit Scotland during FMQs	Audit Scotland staff appearances at committees	Total
Jul	3	6	2	0	11
Aug	1	6	1	3	11
Sept	1	20	1	5	27
Quarter Total	5	32	4	8	49

**Communications**

	Q1	Q2	Q3	Q4	YTD	19/20
Media	101	125			226	1,333
Downloads	262,497	210,057			472,554	1,043,838
Engagements*	2,178	3,822			6,000	25,901

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

Our media and social media engagements figures are down compared to Q2 last year (Media 340, Downloads 232,975 and engagements 7,991).

**Media**

The top three published reports by media coverage in Q2 were BVAR Moray, National Fraud Initiative, BVAR Dundee.

- The traditionally quieter summer months, combined with a lighter performance audit programme, resulted in a quieter quarter than normal in terms of media coverage.
- However, strong BVAR reports on Moray and Dundee councils were able to cut through news media dominated by the ongoing response to the pandemic.
- An NFI report highlighting the potential for increased fraud across the public sector (because of the need to respond quickly to Covid-19) also resonated.
- Two out of the six reports published this quarter were briefings. It is likely that we will continue to see more use of different outputs (blogs, briefings, vlogs, animations) to get information into the public domain quickly, in a way that aids transparency across the public sector.
- Our internal media and online reporting may need to be refreshed to give a better sense of the impact we are making as different outputs increasingly become the norm. The Communications Team will monitor this.

**Downloads**

- The Covid-19 briefing on the Implications for Public Finances was the most popular stand-alone report across the quarter, with around 1500 downloads across August and September 2020.
- In quarter one, the NHS Overview report from 2019 and the 2018 Mental Health report consistently showed up as among the top downloads. This trend continued in quarter two, with over 4,000 downloads of the two reports combined – showing the interest in the state of Scotland's health services as they respond to Covid-19.

**Social media activity**

- Social media activity began to return to normal levels in quarter two, but with fewer reports still being published there was a knock-on effect on the amount of content the Communications team had to work with. That is reflected in the still relatively modest amounts of engagement with posts across our Audit Scotland platforms.
- Popular posts from the quarter included a welcome to our new Auditor General for Scotland, Stephen Boyle; Elma Murray taking up the post of Interim Chair of the Accounts Commission, and the success of some of our auditors in making ICAS's Top 100 Young Accountants long list.

### Correspondence

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

New correspondence cases	Q1	Q2	Q3	Q4	YTD	19/20
Number of cases	31	31			62	136
Acknowledgement within five working days	100%	97%			98%	99%
Final response within 30 working days	96%	100%			97%	94%

- Figures above are for new and reopened cases.
- The missed acknowledgements within five working days are due to logistical issues with responding to physical letters during Covid-19.
- In addition, we had 20 audit enquiries (compared to 23, Q2 19/20) – relating to queries about our work (e.g. figures within our reports, guidance and access to materials/reports).

### FOI/EIR/Complaints

- There were seven FOI requests, no EIRs and no complaints received in Q2. All FOIs were answered with the 20 day deadline.

Key Performance Questions	2018-19				2019-20				2020-21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Is our work delivering impact?	G	G	G	G	G	G	G	G	G	G		
Are our recommendations leading to improvements?	G	G	G	G	G	G	G	G	G	G		
Are we offering insight and foresight and making information and intelligence available to others?	Y	G	G	G	G	G	G	G	G	G		

<p><b>Examples of where work has made a positive impact or positive feedback received include:</b></p> <p><b>Central government</b></p> <ul style="list-style-type: none"> <li>Audit work was undertaken to ensure that the new operating lease and associated lease incentive were correctly included in the accounts. We highlighted the relevant guidance and noted that failure to account for this correctly would have resulted in pervasive errors in the accounts.</li> <li>On completion of the 2020 financial audit, the chair of the Audit and Risk Committee wrote to the Auditor General for Scotland to praise the work of the Audit Scotland team, highlighting the maturity of the relationship and that the hard work put in from both the executive and the auditors was paying dividends.</li> <li>Two issues were found during the financial statements audit which had a significant impact on the balance sheet. Non-current assets were overstated by £390m and the audited body has agreed to look at its processes in future. The land and property acquisitions provisions balance was over-stated by £20m as it had not been adjusted in light of more recent estimates - the audited body has agreed to review the process in 2020/21. In addition the audited body has agreed to publish its senior management team's registers of interest, in line with the Scottish Government's guidance.</li> <li>We had reported on issues with relocation costs in the remuneration report, and the associated policy. The audited body carried out work in 2019/20 which resulted in improvements in controls, the quality of reporting in the annual report and accounts, and a new relocation expenses policy being approved by the Board.</li> <li>Our recommendations in both the Annual Audit Report and S22 report have resulted in the audited body producing a Corporate plan and an associated Business Plan.</li> </ul> <p><b>Local Government</b></p> <ul style="list-style-type: none"> <li>An audited body included the graphic used in the Account Commission's 'What is integration?' Report (2018) within its own Annual Accounts to provide illustration of the IJB Model.</li> <li>Acting on a 2018/19 recommendation the body reviewed the level of ear marked reserves for decommissioning of land. This established partial liability and a £30m provision was booked as prior year adjustment.</li> </ul> <p><b>Health</b></p> <ul style="list-style-type: none"> <li>Last year we recommended that an audited body should review its performance report to develop a more accessible account of overall performance which is more consistent with other corporate publications. The management commentary in the 2019/20 performance report has improved significantly, reflecting the wide range of the organisation's activities, giving case study examples and using easy to understand language and graphics and financial performance links more clearly to the financial statements.</li> </ul> <p><b>Other</b></p> <ul style="list-style-type: none"> <li>In her September vlog the Director of ASG advised of the many emails she had received from audited bodies telling her how much they appreciate how Audit Scotland has gone about its work this year in both attitude and approach.</li> </ul>
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Key Performance Questions	2018-19				2019-20				2020-21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Are new processes, products and services being developed?	G	G	G	G	G	G	G	G	G	G		
Are products and study programmes suitable and appropriate for emerging issues?	G	G	G	G	G	G	G	G	G	G		

#### Key messages:

We continue to develop new ways to get messages out in a timely way.

In August 2020 we published [Covid-19: A guide for Audit and Risk Committees](#) and a [Covid-19: Financial impact report](#), which highlighted that Public spending must adapt to Covid-19 as it will have significant consequences for public spending in Scotland now and well into the future. The Covid-19 e-hub is also being updated with blogs as appropriate to ensure key messages and information can be shared in a timely way and is not restricted to formal audit reports and the associated reporting deadlines.

The revised Audit Approach was due to be rolled out in Q3. Discussions are underway as to when best to roll out the revised approach given current work pressures and climate. The outcome of these discussions will be reported in quarter three.

#### During quarter two:

- The Accounts Commission began to consider the key strategic risks facing local government bodies as a consequence of Covid-19 (as reflected in the above themes) and what this might mean for its audit priorities and future work programme at its strategy seminar in August. The Commission is continuing to take this work forward through its *Insight* Programme which will inform the preparation of the Commission's new strategy and work programme which the Commission anticipates publishing in Spring 2021.
- The Auditor General for Scotland prepared draft longer-term work programme proposals which he is currently consulting the Scottish Parliament's PAPLS committee on. Feedback from PAPLS and subject committees of the Parliament on the draft proposals is expected in quarter three. This material will also be used for engagement with the Scottish Government and other key external stakeholders later in the year.

Key Performance Questions	2018-19				2019-20				2020-21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Are we managing our resources effectively	G	G	G	G	A	A	A	A	R	R		
Are we maximising efficiency?	G	G	G	G	A	A	A	A	R	R		

### Key messages

In the six months to 30 September 2020 Audit Scotland's Net Operating Expenditure was £404k (13.9%) more than budget.

We are aware from engagement with firms and other agencies that they are facing similar financial challenges including, in some cases, an increase of up to 20% in expenditure.

### Action

- The Audit Scotland Board is reviewing the financial position and identifying short and medium term responses and options and engaging with the SCPA.
- The key financial risks we will need to manage in 2020/21 include:
  - Shortfall in closing work in progress at 31 March 2021
  - Additional costs to deliver audit
  - Resource availability
  - Impact on firms' costs
  - EAFA completion.

### Resource management

In the six months to 30 September 2020 Audit Scotland's Net Operating Expenditure was £404k (13.9%) more than budget.

	Q1	Q2	Q3	Q4	19/20
Actual	(2,049)	(3,318)			(13,715)
Budget	(1,847)	(2,914)			(17,442)
Variance K	(202)	(404)			(426)

**Staff** - The average number of staff in the quarter was 287 (98.9%) of establishment

	Q1	Q2	Q3	Q4	19/20
2020/21 establishment w.t.e	290.2	290.2			286.4
Average number of staff employed in 2020/21 w.t.e:	288.5	287			285.9
No. of staff at end of quarter w.t.e:	286.4	287.1			291.1

**Staff and Agency costs** – The total staff costs in the six months to 30 September 2020 are 17k above budget.

	Annual Budget £000	Actual YTD	Budget YTD	Variance	Actual Average WTE	Budget WTE
Total Staff costs 2020-21	18,016	8,754	8,737	(17)	301.1	302.4
Total agency & secondments 2020-21	75	178	38	(140)		
Q2 Staff costs 2019-20	16,751	8,230	8,323	93	296.4	296.1
Q2 agency & secondments 2019-20	75	282	69	(213)		

**Legal, professional and consultancy:** the budget this year has increased due to the ongoing Audit appointments process and the NFI which runs every other year. The overspend is due to increased expenditure on legal services, corporate subscriptions and external firms' expenditure for best value assurance reports. This is a budget virement issue as this is expenditure that is being met by reduced expenditure in other budget headings. Further budget management work is required to establish if this is likely to be recurring and a permanent budget adjustment is required to resolve this in the long term.

	Q1	Q2	Q3	Q4
Actual	81	206		
Budget	101	152		
Prior year spend	87	221		

**Estate:** There is a £11k overspend in estate costs in the six months to 30 September 2020, mainly due to the purchase of essential furniture and equipment for staff to work safely from home and also the purchase of new locks for the doors at WP.

	Q1	Q2	Q3	Q4
Actual	215	425		
Budget	205	414		
Prior year spend	202	403		

**Costs of travel:** Travel costs in the six months to 30 September 2020 are lower than budget. Expenditure on travel and subsistence has significantly reduced compared to the same period in the last financial year. This is due to homeworking and audit work being delivered remotely rather than onsite at public bodies. Expenditure will be significantly less this financial year and the savings are being used to support the overspend on agency expenditure and other financial pressures. The ongoing expenditure is due to the car lease scheme.

	Q1	Q2	Q3	Q4
Actual	87	170		
Budget	110	349		
Prior year spend	207	433		

**Capital Expenditure and Funding:** To date there has been £53k of capital expenditure against the full year allocation of £150k. This expenditure relates to the scheduled purchase of 60 laptops.

**Digital Services**

IT Network	Q1	Q2	Q3	Q4	19/20
IT uptime (%)	99.91	100			99.36
Working hours lost	0.09	0			631.8
Average time lost per person (minutes)	0.67	0			2hrs

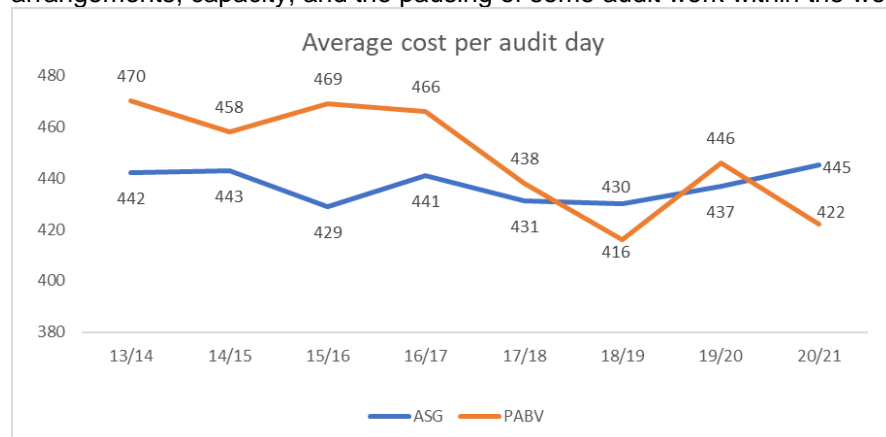
**IT Incident management summary** (incident targets are expected to achieve 97%)

- 93.72% of the 831 requests were accepted within the response time SLA)
- 96.79% of the requests were closed within the fix time SLA
- An average of 2.5 incidents were logged per user.

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

	20/21 (%)				19/20 (%)			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
ASG	62	65			67	71	57	63
PABV	58	65			72	74	64	73

The reduction in audit time from the same quarter last year is due to the impact of Covid-19 and auditing remotely. The impact of the pandemic on staff working arrangements, capacity, and the pausing of some audit work within the work programme.



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

Key Performance Questions	2018-19				2019-20				2020-21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Are we managing information and intelligence effectively (Internal)	Y	Y	G	G	G	G	G	G	G	G		

### Key messages

The Audit Scotland Incident Management Team (IMT) has been in operation since March 2020 in accordance with the Business continuity Plan. The IMT is maintaining oversight of information and intelligence, the impact on financial and performance audit programmes, and ensuring the health of colleagues and stakeholders is at the core of its thinking.

Audit intelligence relating to Covid-19 is being coordinated by a designated lead Audit Director. The IMT receive regular updates on the progress of the audit work and key messages form part of the IMT all staff communications. The Auditor General for Scotland and the Controller of Audit provide regular updates in relation to engagement with parliamentary committees and the Accounts Commission. The IMT also discusses the responses of other organisations including the other UK audit agencies based on regular engagement.

The IMT receives regular updates on organisational performance in the context of the pandemic. This includes updates on:

- Our people - including sickness absence, annual leave balances, disruption due to the pandemic, staff survey results (pulse surveys, workstation assessments and future working preferences and feedback from team meetings etc.
- Finance – budget pressures/the proposed SBR.
- Digital – including system performance, service desk requests and updates on items issued to colleagues to support effective home working.
- Buildings and services – including items of office equipment issued to colleagues to support effective home working and updates from the Covid Secure Workplaces working group.

We continue to prioritise communication and engagement with colleagues cross the organisation using a broad range of channels. This includes formal business messaging, through the regular IMT updates, the Covid-19 yammer channel, the weekly Staying Connected communications and video posts and blogs from members of Management Team. We also use more informal channels including the ‘How we doing?’ yammer channel, on-line quiz events and virtual tea breaks, ‘the kitchen’ and check-ins via video conferencing.

Covid-19 is a standing agenda item for the meetings of Management Team, the Audit Committee, Remuneration and Human Resources Committee and the Board. The Board also considers an update report at each of its meetings.

Key performance questions	2018-19				2019-20				2020-21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Are our people empowered and engaged?	G	G	G	G	G	G	G	G	G	G		
Are our people highly skilled?	G	G	G	G	G	G	G	G	G	G		
Are people performing well?	G	G	G	G	G	G	G	G	G	G		
How effective is communication and collaboration across the organisation?	G	G	G	G	G	G	G	G	G	G		
Are career paths offered across the organisation?	G	G	G	G	G	G	G	G	G	G		
Do we understand and support diversity within the workforce?	G	G	G	G	G	G	G	G	G	G		

### Key messages

The HR & OD team continue to work closely with people leads and managers across the organisation to support learning and wellbeing within teams. The team have also been supporting looking at our future ways of working by hosting a people summit in September. The outcome of this work will also feed into the workforce plan for 2021. The team have reviewed our diversity and inclusion priorities for the year ahead and beyond following the reporting this summer. Recruitment has continued and is being conducted virtually.

### Covid-19 update

Wellbeing is a key focus for us as we approach the winter months and we all continue to work remotely. The HR & OD team are actively supporting managers to continue to support their teams. All staff are working remotely from home, with the annual financial statements audit being undertaken 'off-site'. This is a challenging and significantly different approach for auditors and audited bodies, with audit work taking longer than would be the case in a standard audit. Additional PABV colleagues have been assigned to financial audit this Summer to support final accounts work and a package of training and support has been developed jointly by Professional Support, ASG and PABV to ensure colleagues are equipped to undertake this role.

### Forward look

People strategy (including workforce plan and learning and development strategy) to be finalised in Q3.

### Empowered and engaged:

#### Highly Skilled

In Q2 all colleagues were asked to complete a homeworkers training and workstation assessment. Excluding those still on maternity/sick leave, 99 per cent of colleagues completed the assessment by 30/09/20, leaving just 4 people outstanding.

All colleagues in PABV were asked to complete online training on the Audit Management Framework. We delivered our first virtual induction with nine new starters over August/September.

#### Wellbeing

The SAMH charity group worked with Communications to prepare material and activities for the How we Doing? Week. These were shared and promoted through Yammer and on the SharePoint/Staying Connected sites. HR&OD will soon be sharing the 'How to get support' document with all colleagues which, in addition to sign-posting internal and external support (e.g. counselling), this will also launch the informal 'buddy system'.

The HR&OD team facilitated the first Colleague Conversation about working from home in September. The next one in the series is taking place at the end October (both promoted on Yammer).

A number of resources were developed for colleagues to provide support, advice and guidance on managing mental health and wellbeing during the pandemic. Audit Scotland also participated in Mental Health Awareness Week (18-24 May), with activities for staff including online sessions on topics such as mental wellbeing and mindfulness.

All colleagues were invited to complete a 'Disability Confident' survey and the results will help us support colleagues with disabilities or long-term health conditions.

**Career Paths:** In quarter two we welcomed one new start into the organisation and filled four vacancies. Of the external campaigns three were external appointments and one was an internal promotion. One additional internal campaign was completed for the role of International Liaison Manager and we promoted two senior auditors who are now qualified with the Institute of Chartered Accountants Scotland.

Vacancies filled	20/21 YTD	19/20
Internal	2	19
External	3	35
Total	5	54

**Absence levels:** Remain low but there is an increase compared to Q2 last year.

	Q1 days	Q2 days	Q3 days	Q4 days	ytd days
<b>Audit Scotland – 20/21</b>	1.63	1.66			3.29
Audit Scotland – 19/20	1.6	0.46	1.33	1.32	4.97
Audit Scotland - 18/19	1.28	0.76	1.41	1.4	4.85
Audit Scotland - 17/18	0.69	1.16	1.07	1.12	4.40

**Staff turnover:** Resignations and leavers are lower than Q2 2019/20 (2019/20 resignations 1.0 and all leavers were 1.33%)

	Q1	Q2	Q3	Q4	YTD	19/20	CIPD benchmark
Resignations %	1.39	0.35			1.75	3.34	
All Leavers %	2.43	0.71			3.15	6.32	

**Exam results:** There were eight exams with a pass rate of 88 percent.

	Q1	Q2	Q3	Q4	YTD	19/20
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Exams taken	27	8			35	122
Exams passed	21	7			28	102
% pass rate	78	88			80	84

**Highly skilled** - Due to the higher number of technical training events the total number of events in quarter two are higher than normal as they reflect all staff completing Homeworkers training and all PABV staff completing the Audit Management Framework training.

	Q1		Q2		Q3		Q4		YTD		19/20	
	Events	Attendees	Events	Attendees	Events	Attendees	Events	Attendees	Events	Attendees	Events	Attendees
Health & Safety	0	0	0	0					0	0	9	117
Knowledge Cafes	0	0	1	25					1	25	13	154
Learning & Development	0	0	1	287					1	287	13	184
Management Development	6	30	1	3					7	33	16	71
Organisational Development	5	20	11	89					16	109	19	94
Technical Training	17	355	8	122					25	477	28	437
Total	28	405	22	526					50	931	98	1057



## **Purpose**

1. This report provides an outline scope of the Corporate Governance Review of Board arrangements proposed to take place in January/February 2021.

## **Background**

2. The Board of Audit Scotland is committed to strong corporate governance and continuous improvement and as such the Board has always welcomed internal and external review.
3. In June 2018, the Scottish Commission for Public Audit (SCPA) agreed to undertake 'an informal review to seek assurance that the composition, resources and time commitment of the members of Audit Scotland is sufficient to meet the future challenges of the further devolution of powers and Brexit and to ensure that the SCPA's oversight role remains effective'.
4. The review focused on the composition of the Board, its resources and the time commitment of the members, its current workload capacity and its preparedness for further devolution and Brexit, the role of the SCPA in appointing and interacting with the members of the Board and the role of the SCPA in holding the Board to account.
5. The review concluded that:  
  
'There is significant evidence to confirm that the Board of Audit Scotland has established robust governance arrangements that contribute to robust leadership, challenge and scrutiny. The existing Board members work well together contributing to the Board's overall effectiveness. Looking forward, whilst acknowledging the uncertainties inherent with significant change, Board members are currently adequately equipped in terms of resources, capacity and preparedness.'
6. The [report](#) made 11 recommendations overall, most of these related to the SCPA. It made recommendations to Audit Scotland on matters relating to quorum, directions and attendance at Audit Committee. These were considered by the Board and the Standing Orders were updated to reflect the recommendations as appropriate.
7. On 16 March 2020 Audit Scotland's Incident Management Team initiated the Business Continuity Plan due to increasing prevalence of the Covid-19 pandemic. The Board met on 24 March 2020 via teleconference. At that meeting the Board agreed to temporarily suspend some of the Standing Orders. These were in relation to; meeting in public, the requirement for papers to be issued to members five days before the meeting and the publication of papers on the website in advance of meetings. The Board also agreed to keep the Standing Orders under review at future meetings.
8. The [Standing Orders](#) were updated as part of the annual review of corporate governance policies, tabled at the 30 September 2020 meeting alongside the Financial Regulations, Scheme of Delegation, Codes of Conduct for Members and Code of Conduct for Employees. Following the annual review, the Standing Orders remain under review at each Board meeting, given that pandemic related restrictions remain in place and consequently some Standing Orders remain suspended.
9. The Board also agreed to a focused review of specific corporate governance arrangements, in addition to the annual review of corporate governance policies. At the Board meeting on 19 August 2020 it was agreed the scope of the focused corporate governance review would be considered by the Board at its meeting on 25 November 2020 as this would allow new members to settle into their roles and better inform the scope of the review.
10. The focused review of Board arrangements will take place in the context of other considerations, including a potential review of [Public Audit in Scotland](#) and the partnership agreement between the Auditor General for Scotland, the Accounts Commission and Audit Scotland.

## Scope of the Corporate Governance Review

11. The Chair of the Audit Scotland Board and Corporate Governance Manager met to consider the scope of the review and the proposed areas are set out below.

### Matters taken in public and in private

12. The Board remains committed to openness and transparency. In business as usual Board meetings would be held in public. Given the pandemic, Board meetings are not currently being conducted in public/in person until there are Covid-19 safe office working conditions in place.
13. The Board aims to hold discussion on all agenda items publicly, however, on occasion there are papers that require to be taken in private. These items are agreed by the Board and the criteria for private papers mirror those agreed by the Board in relation to the publication of papers.
14. The three main criteria for items to be taken in private/reports not for publication are:
- statutory/security/legal
  - commercial sensitivity
  - effective conduct of business.
15. Even in these circumstances, papers may be published subject to specific redactions from the text.
16. The review will consider:
- defining public and private matters within the Standing Orders
  - the balance of public and private items at meetings
  - how items taken in private are reflected within the meeting minutes.

### Meeting minutes

17. The review will consider the minuting of meeting in terms of style, content and level of detail.

### Induction and personal development of members

18. Audit Scotland's Non-Executive Board members are appointed by the Parliament and the Auditor General for Scotland and Chair of the Accounts Commission are members by virtue of their appointment to those positions. Audit Scotland does not make the appointments to the Board.
19. Each Board member brings a wealth of skills and experience to Audit Scotland and it is also important that Board members have the relevant information, support and skills to fulfil their role effectively.
20. Audit Scotland has a comprehensive onboarding and induction process for new members. The process was reviewed by internal auditors, BDO during October 2020 and reported to the Audit Committee on 4 November 2020. The internal audit report provided substantial assurance on the design and operational effectiveness of the process and made no recommendations. As a result, it is not proposed that the induction process forms part of the review.
21. The areas proposed for the review are:
- a skills/training needs analysis process for members
  - the arrangements to support the ongoing development of Board members
  - the review/appraisal process undertaken by the Chair
  - a skills/information needs check-in session for new members (within the first six months of appointment).

## Collective Board development

- 22.** Over the course of the last two years the Board has held development sessions which have focused on managing relationships with key stakeholders and managing organisational risks. These sessions are typically supported by an external facilitator.
- 23.** The next Board development session is scheduled to take place in the first quarter of 2021.
- 24.** The review will explore what the focus and approach of development sessions should be over the course of the next 12-24 months.

## Timescale and methodology for the Corporate Governance Review

- 25.** The review is provisionally scheduled to take place between January and February 2021, in keeping with the principle that new board members should have the opportunity to settle into their roles and experience Board business.
- 26.** The review will be undertaken via a survey on the areas outlined in the scope above and follow-up discussions between the Corporate Governance Manager and members to clarify potential improvement areas and recommendations.
- 27.** The findings of the review will be considered by the Board at its meeting on 24 March 2021.

## Recommendations

- 28.** The Board is invited to consider and agree the proposed scope, methodology and timescales for the review.