

Agenda

Tuesday 29 January 2019 at 10.15am

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

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

Standing items

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

Strategy and planning

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

Conclusion

15. Any other business
 16. Review of meeting
-

17. Date of next meeting: 18 March 2018

Items to be taken in private

18. Leased cars procurement

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

For approval

19. Stakeholder engagement update

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

For information

Wednesday 28 November 2018, 12.00pm

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

Present:

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

Apologies:

None

In attendance:

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

1. Welcome and apologies

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

2. Declarations of interest

There were no declarations of interest.

3. Decision on items to be taken in private

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

4. Chair's report

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

The members welcomed the update.

5. Accountable Officer's report

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

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

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

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

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

The Board welcomed the update.

6. Accounts Commission Chair's report

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

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

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

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

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

The Board welcomed the update.

7. Review of minutes

Board meeting, 31 October 2018

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

8. Review of actions tracker

The Board noted the updates provided by the action tracker.

9. New financial powers and constitutional change update

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

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

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

The Board welcomed the update.

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

10. Digital Economy Act 2017

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

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

Following discussion, the Board welcomed the report.

11. Q2 Financial performance report

Stuart Dennis, Corporate Finance Manager, joined the meeting.

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

Following discussion, the Board welcomed the report.

Stuart Dennis, Corporate Finance Manager, left the meeting

12. Q2 Corporate performance report

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

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

Following discussion, the Board welcomed the report.

13. Q2 Becoming world class improvement programme report

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

Following discussion, the Board welcomed the report.

14. Annual review of corporate governance policies

Alex Devlin, Corporate Governance Manager, joined the meeting.

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

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

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

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

Alex Devlin, Corporate Governance Manager, left the meeting.

15. Any other business

There was no further business.

16. Review of meeting

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

17. Date of next meeting

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

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

Purpose

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

Background

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

Next steps

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

Recommendation

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



The Scottish Parliament
Pàrlamaid na h-Alba

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

Scottish Commission for Public Audit

Audit Scotland Budget Proposal for 2019/20



Published in Scotland by the Scottish Parliamentary Corporate Body.

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

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Committee Membership



Colin Beattie
Scottish National Party



Bill Bowman
Scottish Conservative
and Unionist Party



Alison Johnstone
Scottish Green Party



Rona Mackay
Scottish National Party



Jenny Marra
Scottish Labour

Introduction

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

Budget Proposal 2019/20

Overview

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

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

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

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

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

New Financial Powers and Constitutional Change

11. In its 2018/19 submission Audit Scotland set out three-year funding projections for implementing new financial powers as associated audit work. Over a three-year period to 2021/22 Audit Scotland plans a phased approach to increases in resource requirement such as staffing.
12. The budget proposal highlights the additional work requirements in 2019/20 arising from financial and performance audit work on Social Security Scotland. Audit Scotland confirmed that the audit work on Social Security Scotland will also include an assessment of its set-up costs.
13. In addition, further audit work will be required, with the National Audit Office, in respect of Scotland's VAT share and the Scottish Rate of Income Tax. This extra work will enable Audit Scotland to provide additional assurance to the Scottish Parliament on VAT assignment and on HMRC's administration of different tax bands and rates for Scottish taxpayers.
14. For 2019/20, Audit Scotland has proposed that a further 4.5 Whole Time Equivalents (WTEs) at a cost of £285k will be required to deliver this additional workload. The Commission questioned why this had increase from the projected 1 WTE in the Budget Proposal for 2018/19. The Auditor General explained that it was a "timing difference rather than an increase". She went on to explain that—

” The exact timetable for the roll-out of the new financial powers is not fixed and keeps changing. For example, on social security, the Scottish Government has entered into an agreement with the Department for Work and Pensions (DWP) to take on responsibility for some of the benefits sooner, which means that the audit work needs to run more quickly. I am just about to appoint an auditor to the new social security agency to cover that. In addition, we think that the timetable for the full devolution of the assignment of VAT revenues is about to be agreed. ⁴
15. In assessing the level of work required in new or emerging areas of audit work the Auditor General explained that—

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

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

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

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


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

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

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

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

Staffing

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

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

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

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

Costs of auditing sectors

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

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

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

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

Conclusion

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

- [1] Finance and Constitution Committee. (2017, June 30). Budget Process Review Group Final Report. Retrieved from https://www.parliament.scot/S5_Finance/Reports/BPRG_-_Final_Report_30.06.17.pdf [accessed 21 January 2019]
- [2] Audit Scotland. (2018, December 4). Letter from the Auditor General for Scotland. Retrieved from http://www.parliament.scot/ScottishCommissionforPublicAudit/18_12_5_Letter_SCPA_Budget_Submission_December_2018.pdf
- [3] Scottish Commission for Public Audit. (2018, December 12). Official Report, col 5. Retrieved from [http://www.parliament.scot/ScottishCommissionforPublicAudit/Meeting_of_the_Commission_12_December_2018_Draft\(12_December_2018\).pdf](http://www.parliament.scot/ScottishCommissionforPublicAudit/Meeting_of_the_Commission_12_December_2018_Draft(12_December_2018).pdf)
- [4] Scottish Commission for Public Audit. (2018, December 12). Official Report, col 6. Retrieved from [http://www.parliament.scot/ScottishCommissionforPublicAudit/Meeting_of_the_Commission_12_December_2018_Draft\(12_December_2018\).pdf](http://www.parliament.scot/ScottishCommissionforPublicAudit/Meeting_of_the_Commission_12_December_2018_Draft(12_December_2018).pdf)
- [5] Scottish Commission for Public Audit. (2018, December 12). Official Report, col 19. Retrieved from [http://www.parliament.scot/ScottishCommissionforPublicAudit/Meeting_of_the_Commission_12_December_2018_Draft\(12_December_2018\).pdf](http://www.parliament.scot/ScottishCommissionforPublicAudit/Meeting_of_the_Commission_12_December_2018_Draft(12_December_2018).pdf)
- [6] Scottish Commission for Public Audit. (2018, December 12). Official Report, col 9. Retrieved from [http://www.parliament.scot/ScottishCommissionforPublicAudit/Meeting_of_the_Commission_12_December_2018_Draft\(12_December_2018\).pdf](http://www.parliament.scot/ScottishCommissionforPublicAudit/Meeting_of_the_Commission_12_December_2018_Draft(12_December_2018).pdf)
- [7] Audit Scotland. (n.d.) Audit Quality Annual Report 2017/18. Retrieved from http://www.audit-scotland.gov.uk/uploads/docs/report/2018/as_audit_quality_1718.pdf
- [8] Scottish Commission for Public Audit. (2018, December 12). Official Report, col 16. Retrieved from [http://www.parliament.scot/ScottishCommissionforPublicAudit/Meeting_of_the_Commission_12_December_2018_Draft\(12_December_2018\).pdf](http://www.parliament.scot/ScottishCommissionforPublicAudit/Meeting_of_the_Commission_12_December_2018_Draft(12_December_2018).pdf)
- [9] Scottish Commission for Public Audit. (2018, December 12). Official Report, col 11. Retrieved from [http://www.parliament.scot/ScottishCommissionforPublicAudit/Meeting_of_the_Commission_12_December_2018_Draft\(12_December_2018\).pdf](http://www.parliament.scot/ScottishCommissionforPublicAudit/Meeting_of_the_Commission_12_December_2018_Draft(12_December_2018).pdf)
- [10] Scottish Commission for Public Audit. (2018, December 12). Official Report, col 12. Retrieved from [http://www.parliament.scot/ScottishCommissionforPublicAudit/Meeting_of_the_Commission_12_December_2018_Draft\(12_December_2018\).pdf](http://www.parliament.scot/ScottishCommissionforPublicAudit/Meeting_of_the_Commission_12_December_2018_Draft(12_December_2018).pdf)



Purpose

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

Background

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

Kingman Review of FRC

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

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

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

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

Audit market study

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

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

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

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

Conclusion

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

Recommendation

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

Purpose

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

Background

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

Review of 2018 and next steps

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

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

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

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

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

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

Conclusion

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

Professional Support: summary of priorities from our 2018 plan

Securing world class audit

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

Making a difference

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

Building a better organisation

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

Purpose

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

Background

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

EU withdrawal

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

¹ http://www.audit-scotland.gov.uk/uploads/docs/um/pg_eu_withdrawal_public_bodies.pdf

Scottish budget for 2019/20

7. The Scottish Government published its budget for 2019/20 on 12 December 2018, following publication of the UK budget on 29 October 2018. The Scottish Fiscal Commission published its five-year forecasts of tax revenues, social security spending and onshore GDP on the same day. The Local Government Finance Settlement was published on the 17 December 2018. The budget has yet to be agreed by the Scottish Parliament, so it is likely that there will be further changes to the budget before it is finalised.
8. The Director of Performance Audit and Best Value provided a briefing on the Scottish budget for 2019/20 at the Accounts Commission meeting on 10 January 2019.² This included an overview of the overall budget, real-terms budget trends and the impact of the budget plans for local government.
9. The Scottish budget is becoming increasingly complex as a result of the financial powers devolved through the 2012 and 2016 Scotland Acts. The funding for the 2019/20 budget includes revenue from Scottish income tax and two fully devolved taxes (Land and Buildings Transaction Tax and Scottish Landfill Tax). The revenues raised from these taxes is forecast to be £12.5 billion, 94 per cent of which is income tax. Assigned Value Added Tax (VAT) is shown in the budget for the first time. Scotland will receive the first 10 pence of the standard rate of VAT and the first 2.5 pence of the reduced rate, which is forecast to total £5.8 billion in 2019/20. In 2019/20, Scotland will be responsible for five social security powers, at an estimated cost of £434 million.
10. The ongoing EU withdrawal process causes uncertainty over the UK and Scottish budget positions. In the event of a 'no-deal' exit from the EU, both the Chancellor and the Cabinet Secretary for Finance, Economy and Fair Work have noted that they may need to revisit the priorities in their budgets.

Social security powers

11. Social Security Scotland began delivering the Best Start Grant in December 2018. In January 2019, the Cabinet Secretary for Social Security announced the appointment of the chair and three members of the Scottish Commission on Social Security. Dr Sally Witcher, who is the Chief Executive of Inclusion Scotland, will be the first chair of the Commission. The Commission will be responsible for scrutinising the social security system to ensure it is delivered in line with the principles of the social security charter (*Our Charter*), which the Scottish Government laid for approval by the Scottish Parliament on 11 January 2019.³ The Charter sets out what people can expect from the new social security system, including the design of policy, recruitment and training of staff, delivery of services, and the culture of Social Security Scotland. The Auditor General for Scotland (AGS) will appoint the auditor for the Scottish Commission on Social Security in early 2019.

Audit reporting

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

² http://www.audit-scotland.gov.uk/uploads/docs/meeting/post/2019/ac_190110_papers.pdf (page 75)

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

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

Organisational arrangements

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

Conclusion

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

Purpose

1. This report updates the Board on the latest results of the Best Companies Survey and highlights next steps. The report invites the Board to consider and comment on the results.
2. Our overall best company index (BCI) score is 640.3, our highest BCI score to date. This represents an increase of 5.2 points from October 2017. Audit Scotland has also retained its 'One to Watch' status for the tenth year and sits just 19.2 points away from the one-star accreditation threshold.

Background

3. We first took part in the Best Companies survey in 2009, reporting the results in early 2010. This is our tenth consecutive year of taking part in Best Companies. The survey is one way in which we collect feedback from colleagues. It is one way that we assess the engagement of colleagues and listen to feedback. The results help to support dialogue, exploration and discussion about how to make Audit Scotland a better place to work and deliver world-class public audit in a sustainable manner.
4. The survey enables colleagues to participate in a way that ensures anonymity and this latest survey was completed by colleagues in November 2018. Results were available from late-December.

Context

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

Best Companies Results summary

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

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

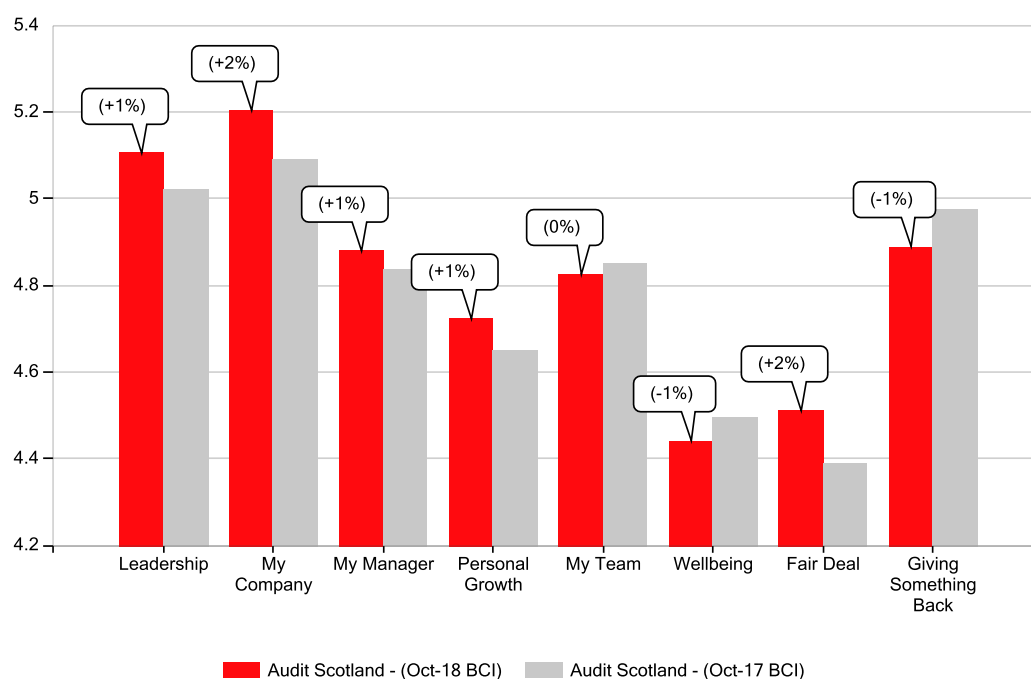
Next steps

12. Leadership Group members are considering the data alongside other intelligence we already have about our people and the running of our business. This will be further explored within business group management teams and Charlotte Anderson from the HR & OD team is working with colleagues to assist with the deeper data analytics.
13. The HR & OD Manager is working with the Director of Performance Audit & Best Value to schedule further developmental discussions with Leadership Group on the theme of wellbeing, leadership and management. This will be taken forward through the upcoming Leadership Group meetings and the HR & OD Manager is working to integrate the Best Companies dialogue along with other data to help inform our priorities for 2019/20.
14. Audit Directors will continue their work with colleagues to adjust the way we resource our work to ensure it is undertaken in an efficient and sustainable way, helping to secure a high quality audit.

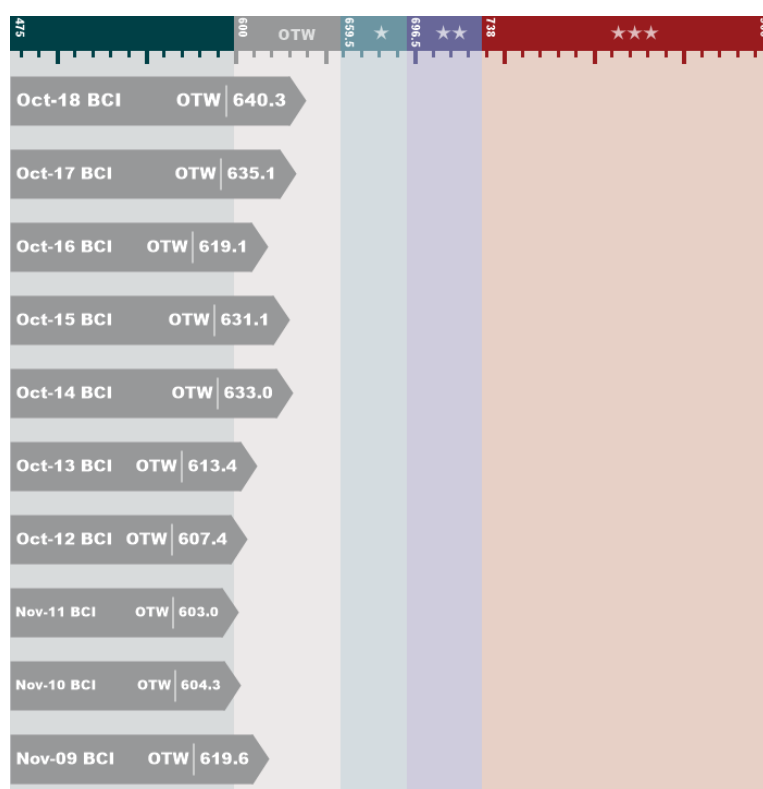
Recommendations

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

October 2018 and 2017 - Comparison by factor



Overall score 2009 – 2018



Six year trend – by factor

