

2018/19 audits

Notes for guidance

Assessing public bodies' response to EU withdrawal

Background

The UK is expected to leave the European Union (EU) on 29 March 2019. The UK Government and the EU agreed the terms of the withdrawal on 25 November 2018. The UK Parliament has to vote on whether to approve this withdrawal agreement before 21 January 2019. At the time of writing, it is unclear when this vote will take place. If approved by the UK Parliament, the 27 EU member states and the European Parliament will need to ratify the withdrawal agreement before 29 March 2019. There remains significant uncertainty about the outcome of this process. Whatever happens, EU withdrawal will inevitably have implications for devolved government in Scotland and for Scottish public bodies. It is therefore essential that public bodies are preparing for the UK's exit from the EU on 29 March 2019.

In October 2018, Audit Scotland published a [paper](#) that presents our view of the key issues that withdrawal from the EU presents to Scottish public bodies. It focuses on three areas – people, finance, and rules and regulation – and suggests questions that all public bodies should be asking themselves in the months up to 29 March 2019. We would encourage auditors to share this paper with audited bodies and audit committees.

Purpose

There are considerable uncertainties about the implications of EU withdrawal. At a minimum, by the end of 2018/19, Audit Scotland expects all public bodies to have assessed the potential impact of EU withdrawal on their operations and identified any specific risks and how they will respond to them.

Auditors have an important role in assessing how public bodies are responding to the potential risks presented by EU withdrawal. Audit Scotland's [guidance](#) on planning 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. Auditors should consider the risks of EU withdrawal when scoping, planning, performing and reporting their work.

We have produced this guidance to support auditors in making judgements on preparedness for EU withdrawal as part of the 2018/19 audit work. We have developed criteria against the questions we set out in our [EU key issues paper](#) in October, and the criteria should be read alongside this. This illustrates what a public body that is under prepared, partly prepared or well prepared might look like. The 'well prepared' criteria are based on examples that we have seen in public bodies that are actively doing work to understand and assess the potential implications of EU withdrawal on their organisation. Auditors should refer to the questions in our [EU key issues paper](#) as a basis for discussions with audited bodies. The criteria set out in the table below should help to inform auditors' judgements on audited bodies' response to and preparation for EU withdrawal.

How to use the criteria

The guidance in the table below provides auditors with examples of the action that audited bodies may have taken to prepare for EU withdrawal. Auditors should use this as a framework to assess what audited bodies have done, to help inform an overall judgement on how well the audited body had prepared for EU withdrawal by 29 March 2019.

Audited bodies will not necessarily align exactly with the criteria below and some questions may not be applicable to all bodies. There is not a one-size-fits-all approach to preparing for EU withdrawal. Public bodies, even within sectors, will be affected in different ways and will experience different levels of impact at different times. Public bodies' preparation for EU withdrawal should be proportionate to the level of risk. When assessing the reasonableness of audited bodies' preparations, auditors should use their knowledge of the organisation to judge the amount and type of preparation required.

There remains significant uncertainty about the arrangements under which the UK will leave the EU or the point at which this will become clear. If the UK leaves the EU without an agreement on the terms of withdrawal, there will be no transition period and public bodies will need to respond immediately. We would expect audited bodies to be planning for this possibility now, but the pace and scale of preparations will need to increase if this becomes more likely. In the event of a 'no deal' scenario the criteria set out below remain relevant, but some things will be more of a priority than others. Auditors should assess how audited bodies are prioritising the biggest risks, what these risks are, and how bodies are responding to them.

Reporting

All annual audit reports for 2018/19 should include a single overall judgement on how well the audited body had prepared for EU withdrawal by 29 March 2019 and, where relevant, an update on how the audited body is continuing to respond to emerging risks.

Preparing for and responding to the impact of EU withdrawal will continue after the UK has left the EU on 29 March 2019. Although the focus of reporting will be on what audited bodies had done to prepare by 29 March 2019, auditors should report on significant activity after this date to provide an up-to-date picture of progress in what may be a very fast-moving environment.

Where possible and relevant, current issues returns (see paragraph 137 of the [audit planning guidance](#) for submission dates) should include commentary on what audited bodies are doing to assess the potential impact of EU withdrawal on their operations and identify any specific risks and how they will respond to them.

The impact of EU withdrawal on the public sector will feature in audit work for the foreseeable future. The 2018/19 audit work should provide information on how public bodies are responding to EU withdrawal that can help to inform other audit work. This includes planned performance audits on local government and the NHS in Scotland, Scotland's colleges, higher education finances, and the NHS workforce. Audit Scotland will continue to

examine the implications of EU withdrawal through the 2019/20 annual audits and our performance audit programme.

If you have any questions or feedback on the guidance, please contact:

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By 29 March 2019 the audited body was...	Under prepared	Partly prepared	Well prepared
PEOPLE AND SKILLS			
How is the audited body communicating with staff about the potential impact of EU withdrawal and preparing to support any employees who may be affected?	<ul style="list-style-type: none"> The audited body has not communicated with staff on the potential implications of EU withdrawal for the organisation, the services it delivers or people's roles. The audited body does not know how many non-UK EU nationals it directly employs. The audited body has no plans in place to support non-UK EU national staff. 	<ul style="list-style-type: none"> The audited body is communicating with staff occasionally on the potential implications of EU withdrawal for the organisation, the services it delivers and / or people's roles. The audited body is in the process of identifying how many non-UK EU national staff it directly employs. The audited body has prepared a plan to support non-UK EU national staff and is starting to implement this. 	<ul style="list-style-type: none"> The audited body is communicating with staff regularly on the potential implications of EU withdrawal for the organisation, the services it delivers and people's roles. The audited body knows how many non-UK EU national staff it directly employs (if any). The audited body is taking action to support staff who may be affected by EU withdrawal. This could include: <ul style="list-style-type: none"> communicating up-to-date information about the rights of EU nationals to live and work in the UK after March 2019, and the next steps employees may need to take if they wish to continue working in the UK provision of tailored advice through drop-in sessions signposting to other forms of support.
Which parts of the workforce (sectors/skills/services/regions) are most at risk from the impact of EU withdrawal?	<ul style="list-style-type: none"> The audited body has not undertaken any work to identify which areas of the workforce are most at risk from EU withdrawal. 	<ul style="list-style-type: none"> The audited body is in the process of identifying what departments / service areas / regions non-UK EU national staff work in. The audited body is starting to assess risks to the workforce and identify actions to mitigate them. 	<ul style="list-style-type: none"> The audited body knows what departments / service areas / regions non-UK EU national staff work in. The audited body has assessed the potential impact of any reductions in its workforce in these areas on service delivery. Any risks to the workforce arising from EU withdrawal are reflected in risk registers and actions to mitigate these risks are in operation. The audited body has considered any potential workforce risks in the context of any wider retention and recruitment pressures.
How is the audited body reflecting the implications of EU withdrawal in its long-term workforce planning?	<ul style="list-style-type: none"> Key workforce planning documents do not consider the long-term implications of EU withdrawal on the workforce. The audited body has not undertaken any analysis of the potential risks to its workforce. 	<ul style="list-style-type: none"> Key workforce planning documents reflect potential risks to the workforce from EU withdrawal. The audited body is developing plans to respond to these risks. 	<ul style="list-style-type: none"> Analysis of risks to the workforce as a result of EU withdrawal is being used to inform long-term workforce planning. This may include: <ul style="list-style-type: none"> Key workforce planning documents reflect risks to the workforce and include plans to respond. Actions to mitigate workforce risks are being discussed by the relevant people (e.g. consideration at the Board, committees, management teams). Modelling of potential changes and analysis of the impact of different scenarios on the workforce has been done.

By 29 March 2019 the audited body was...	Under prepared	Partly prepared	Well prepared
<p>What are the workforce implications for the third sector and private organisations that provide services in partnership with the audited body or on its behalf?</p> <p>(This may be NOT APPLICABLE for some public bodies)</p>	<ul style="list-style-type: none"> The audited body has not approached its partners in the third and private sectors for information on their workforce. 	<ul style="list-style-type: none"> The audited body has identified the third and private sector organisations that provide services in partnership or on its behalf and is seeking information from them on their workforce and any potential risks associated with EU withdrawal. 	<ul style="list-style-type: none"> The audited body has asked partners in the third and private sectors to identify how many non-UK EU national staff they employ and / or are directly involved in providing services on the audited body's behalf. Potential risks to service delivery by third and private sector partners are reflected in risk registers. The audited body has sought assurance from third and private sector partners about how they are mitigating these risks.
<p>How is the audited body reflecting the implications of EU withdrawal on the workforce in its local area in its economic strategies?</p> <p>(This may be NOT APPLICABLE for some public bodies)</p>	<ul style="list-style-type: none"> The audited body has not assessed the potential economic implications of EU withdrawal on its local workforce. 	<ul style="list-style-type: none"> The audited body is in the process of assessing the potential economic implications of EU withdrawal on its local workforce. The audited body is developing plans to respond to these risks. 	<ul style="list-style-type: none"> Economic impact assessments have been carried out to identify overall exposure to the local workforce from EU withdrawal. The audited body has identified the sectors / businesses / areas that may be most affected by EU withdrawal. Economic strategies reflect any identified risks and plans to mitigate them are in operation (e.g. plans to attract and retain people to work in specific sectors / with specific skills).
FINANCE			
<p>What level of funding does the audited body, and its partners, receive from the EU and through which funding streams (if any)?</p>	<ul style="list-style-type: none"> The audited body does not know what EU funding it, and its partners, receive. 	<ul style="list-style-type: none"> The audited body is in the process of identifying what EU funding it, and its partners, receive. 	<ul style="list-style-type: none"> The audited body understands what EU funding it receives (if any), including: <ul style="list-style-type: none"> how much when and over what time period what it funds how it is delivered The audited body knows what EU funding its partners receive, that is directly linked to its service delivery.
<p>What financial risks are associated with any changes after the UK has left the EU, during any transition period and beyond?</p>	<ul style="list-style-type: none"> The audited body has not assessed the potential impact of EU withdrawal on its funding and finances. 	<ul style="list-style-type: none"> The audited body is in the process of assessing the potential impact of EU withdrawal on its funding and finances. The audited body is developing plans to respond to these risks. 	<ul style="list-style-type: none"> The audited body has assessed the potential impact of EU withdrawal on its funding and finances and identified any risks to the audited body, the services it provides and service users This may include exposure to increased costs, for example, due to changes in exchange rates. Any financial risks arising from EU withdrawal are reflected in risk registers and actions to mitigate these risks are in operation

By 29 March 2019 the audited body was...	Under prepared	Partly prepared	Well prepared
How is the audited body reflecting the implications of EU withdrawal in its long-term financial planning?	<ul style="list-style-type: none"> Key financial planning documents do not consider the long-term implications of EU withdrawal. The audited body has not undertaken any analysis of the potential long-term financial risks arising from EU withdrawal. 	<ul style="list-style-type: none"> Key long-term financial planning documents reflect potential risks from EU withdrawal. The audited body is developing plans to respond to these risks. 	<ul style="list-style-type: none"> Analysis of financial risks arising from EU withdrawal are being used to inform long-term financial planning. This may include: <ul style="list-style-type: none"> Key financial planning documents reflect any risks and include plans to respond. Ongoing actions to mitigate financial risks are being discussed by the relevant people (e.g. consideration at the Board, committees, management teams). Modelling of potential changes and analysis of the impact of different scenarios on the audited body's finances has been done.
How is the audited body capitalising on opportunities to access alternative funds or redesign replacement funding streams? (This may be NOT APPLICABLE for some public bodies)	<ul style="list-style-type: none"> The audited body has not considered any ways in which it could access alternative funds or influence the redesign of replacement funding streams. 	<ul style="list-style-type: none"> The audited body is seeking information on alternative funding streams and / or monitoring developments relating to replacement funding streams. 	<ul style="list-style-type: none"> The audited body is engaging in discussions on alternative or replacement funding streams that it has an interest in. This may include: <ul style="list-style-type: none"> speaking to other public bodies / organisations with an interest in the same funding streams participating in forums/ working groups to share views and make recommendations providing evidence to the Scottish/UK Parliament on proposed EU funding replacements (e.g. UK Shared Prosperity Fund)
RULES AND REGULATIONS			
What are the potential implications of changes to trade and customs rules on the audited body's supply chains and the cost and availability of products and services?	<ul style="list-style-type: none"> The audited body does not know which products and services that are vital for the operation of the organisation and service delivery are sourced from the EU. 	<ul style="list-style-type: none"> The audited body has identified the products and services sourced from the EU that are vital for the operation of the organisation and service delivery (e.g. food, medicine, medical equipment). The audited body is in the process of assessing the potential impact of any changes to the cost and /or accessibility of products and services The audited body is developing contingency plans to respond to potential outcomes. 	<ul style="list-style-type: none"> The audited body has identified the products and services sourced from the EU that are vital for the operation of the organisation and service delivery (e.g. food, medicine, medical equipment, building supplies). The audited body has undertaken modelling / scenario planning of the potential impact of any changes to the cost and /or accessibility of products and services. The audited body has contingency plans for potential outcomes (e.g. an increase in costs or the need to find alternative supplies of specific products and services).
What EU regulations/legislation are directly relevant to the audited body's role, such as monitoring compliance (if any)?	<ul style="list-style-type: none"> The audited body does not know which EU regulations / legislation directly apply to the operation of the organisation or the services it provides. 	<ul style="list-style-type: none"> The audited body is in the process of identifying which EU regulations / legislation directly apply to the operation of the organisation or the services it provides. 	<ul style="list-style-type: none"> The audited body knows which EU regulations / legislation directly apply to the operation of the organisation or the services it provides (if any) (e.g. procurement rules, recognition of professional qualifications, environmental regulations, food safety standards).

By 29 March 2019 the audited body was...	Under prepared	Partly prepared	Well prepared
<p>What impact would potential changes to regulations/legislation have on how the audited body delivers services and on its service users?</p>	<ul style="list-style-type: none"> The audited body has not considered the impact of potential changes to EU regulations / legislation on service delivery or service users. 	<ul style="list-style-type: none"> The audited body is in the process of assessing the potential impact of changes to EU regulations / legislation on service delivery and service users under different scenarios. The audited body is developing plans to respond to any risks. 	<ul style="list-style-type: none"> The audited body has assessed the potential impact of changes to EU regulations / legislation on service delivery and service users under different scenarios. Any risks to service delivery or service users arising from changes to EU regulations / legislation are reflected in risk registers and actions to mitigate these risks are in operation. Operational and service delivery plans reflect any risks and include plans to respond, and this is being discussed by the relevant people (e.g. consideration at the Board, committees, management teams).
<p>How is the audited body capitalising on opportunities to streamline or improve the regulatory environment? (This may be NOT APPLICABLE for some public bodies)</p>	<ul style="list-style-type: none"> The audited body has not considered any ways in which it could engage with others or influence discussions on improving the regulatory environment. 	<ul style="list-style-type: none"> The audited body is discussing ways in which the regulatory environment could be improved internally (e.g. in teams, committees) and identifying ways to feed in its views more widely. 	<ul style="list-style-type: none"> The audited body is engaging in discussions on the regulatory environment in areas it has an interest in. This may include: <ul style="list-style-type: none"> speaking to other public bodies / organisations participating in forums/ working groups to share views and make recommendations providing evidence to the Scottish/UK Parliament on ways to streamline or improve the regulatory environment.
<p>How is the audited body planning for the possibility that the UK Government and the EU fail to reach an agreement on arrangements for the UK's exit from the EU?</p>	<ul style="list-style-type: none"> The audited body has not considered the potential implications of a 'no deal' scenario on the organisation or the services it delivers. 	<ul style="list-style-type: none"> The audited body has identified and prioritised the risks to the organisation and the services its delivers if the UK and the EU fail to reach an agreement on arrangements for the UK's exit from the EU (i.e. a 'no deal' scenario). The audited body is developing contingency plans to respond to the possibility of a 'no deal' scenario. 	<ul style="list-style-type: none"> The audited body has identified and prioritised the risks to the organisation and the services its delivers if the UK and the EU fail to reach an agreement on arrangements for the UK's exit from the EU (i.e. a 'no deal' scenario). The audited body has contingency plans in place that identify the immediate action that will need to be taken in the event of a 'no deal' scenario. This may include identifying how resources will be diverted to manage any immediate risks. Ongoing contingency planning is being actively discussed by the relevant people (e.g. consideration at the Board, committees, management teams).