

MINUTES OF THE AUDIT SCOTLAND BOARD
2015

Minutes of Meeting of **Audit Scotland** held on 22
January 2015 in the offices of Audit Scotland at
110 George Street, Edinburgh at 10:00hrs

PRESENT: J Maclean (Chair)
C Gardner
I Leitch
D Sinclair
H Logan

APOLOGIES: None

IN ATTENDANCE: D McGiffen, Chief Operating Officer
R Frith, Assistant Auditor General
A Devlin, Corporate Governance Manager
A Clark, Assistant Director, Performance Audit and Best Value

<u>Item No</u>	<u>Subject</u>
1.	Apologies
2.	Declarations of Interest
3.	Chair's Report
4.	Minutes
5.	Matters Arising from Minutes
6.	Minutes of the Audit Committee meeting dated 18 September 2014
7.	Strategic Planning 2015-18
8.	Funding and Fee Arrangements Presentation and Discussion
9.	Risk Management Policy, Strategy and Assurance Framework
10.	Review of Corporate Governance Documents
11.	Smith Commission Update
12.	Community Planning Partnerships: Review of 2013/14 Audit Programme and Proposed Future Approach
13.	Best Companies Survey Results
14.	Accountable Officer's Report
15.	Accounts Commission Chair's Report
16.	AOB
17.	Date of Next Meeting

1. Apologies

There were no apologies received.

2. Declarations of Interest

Heather Logan and Douglas Sinclair declared their membership of the Audit and Advisory Committee of the Scottish Public Services Ombudsman.

3. Chair's Report

The Chair congratulated Ian Leitch on his appointment as Chair designate by the SCPA, following its recent recruitment exercise. The Chair offered to provide any help and assistance that Ian would wish over the coming months in preparation for assuming the role in October 2015. The Chair also welcomed Heather Logan's express commitment to continuing as Chair of the Audit Committee.

The Chair reported on his activity since the previous Board meeting, including discussions with the Accountable Officer and Chief Operating Officer, attending a meeting of the Management Team on 20 January 2015 and attending a meeting with the Accountable Officer and Lord Smith to discuss the recent Smith Commission report.

4. Minutes of the meeting dated 20 November 2014

The minutes of the meeting dated 20 November 2014, which had been previously circulated, were approved as an accurate record.

5. Matters Arising from the minutes of the meeting on 20 November 2014

• **Item 8 – 2014/15 Spring Budget Revision**

It was noted that the Chief Operating Officer had submitted a request to the Scottish Commission for Public Audit for a £1,716k Spring Budget Revision, as approved by the Board in November 2014.

• **Item 9 – Review of Corporate Governance Documents**

It was noted that the Chief Operating Officer had published the revised Standing Orders and Code of Conduct for Board members, and that the Financial Regulations and Scheme of Delegation were to be considered at item 10.

• **Item 12 – European Agricultural Funds Audit**

It was noted that a firm date for the report back during 2015 would be agreed with the Director of Audit Services Group when the audit work was further advanced.

The Board asked whether there was an update on the Edinburgh Office re-provision. The Chief Operating Officer advised that negotiations with the landlord were underway, and the design aspects of the project and the appointment of a project manager were progressing, but that there was nothing specific to report. She advised that a more detailed update would be provided in February 2015. It was agreed with Douglas Sinclair that an update would be provided to the Accounts Commission at its February meeting.

Action:

- **The Chief Operating Officer to provide an update report to the Board on the Edinburgh Office re-provision in February 2015, and to attend the Accounts Commission meeting in February 2015 to provide an update.**

6. Minutes of the Audit Committee meeting dated 18 September 2014

The minutes of the Audit Committee meeting dated 18 September 2014, which had been previously circulated, and had been approved by the Audit Committee at its meeting on 20 November 2014, were noted as an accurate record.

7. Strategic Planning 2015-18

The Chief Operating Officer introduced the Strategic Planning 2015-18 report, which had been previously circulated. She provided an overview of progress on the development of the Strategy for Public Audit and the Corporate Plan and invited members to consider and offer any initial observations on the corporate strategy map.

The Board began by discussing the Strategy for Public Audit and it was noted that the Accountable Officer and the Chair of the Accounts Commission would be meeting in early February to discuss an advanced draft. There was discussion of how the Strategy for Public Audit shapes the Audit Scotland Corporate Plan, and it was agreed that the Accounts Commission would have the opportunity to consider the Strategy and the Corporate Plan before the Board received them for final consideration and approval. It was agreed that the Accountable Officer, the Chair of the Accounts Commission and the Chief Operating Officer would discuss the arrangement for this further.

There was discussion of the draft strategy map with particular comment on the statements about Audit Scotland's purpose and impact. The Board questioned whether the ambitions under Building a Better Organisation undersold the current status of the organisation and there was a discussion about how the workstreams had developed and been discussed internally.

The Board noted the assurance that the key timescales would still be met although some of the smaller milestones had been missed.

Following further discussion, the Board welcomed the update.

Action:

- **The Accountable Officer and Chair of the Accounts Commission Sinclair, with the Chief Operating Officer, to agree the arrangements for discussing the Strategy for Public Audit and Audit Scotland's Corporate Plan with the Accounts Commission.**

8. Funding and Fee Arrangements Presentation and Discussion

There was submitted a report by the Assistant Auditor General on the Funding and Fee Arrangements Presentation and Discussion, which had been previously circulated.

The Assistant Auditor General gave the Board a presentation, copies of which were tabled, on funding and fee arrangements. He outlined:

- the current position
- the legal framework

- the evolution of current arrangements
- the case for reviewing the arrangements now
- the objectives of a funding and fees model, and
- an assessment of the extent to which the current arrangements meet the objectives.

The Assistant Auditor General then led a discussion on options, including no change, some change in funding NHS performance audit work, seeking funding for all performance audit work from the Scottish Consolidated Fund (SCF), or seeking SCF funding for all audit work.

Following detailed discussion, including how costs can be apportioned between sectors and whether there is any cross-subsidy, it was agreed that improving transparency and understanding of the arrangements was essential. It was agreed that the Assistant Auditor General would work up detailed modelling and options to improve transparency and understanding even if there was no change in the funding model, and for the third option which had been outlined, which would seek SCF funding for all performance audit work across all sectors. The Board requested that the detailed working and analysis for this discussion include an overview of the impact of apportionment of costs across sectors incorporating historical and current assumptions and their effect.

The Chair of the Accounts Commission advised that the Board's discussion was sufficiently progressed that a briefing to the Accounts Commission in February 2015 on the issues and options would be important.

Actions:

- **The Assistant Auditor General to provide a further report on the options for increasing transparency and understanding of fees and funding under the current arrangements and for an option in which funding for performance audit work is funded by the Scottish Consolidated Fund. The report should deal with the apportionment of costs across sectors. (March 2015)**
- **The Assistant Auditor General to provide a briefing on funding and fees options to the February 2015 meeting of the Accounts Commission. (February 2015)**

9. Risk Management Policy, Strategy and Assurance Framework

The Chief Operating Officer introduced the Risk Management Policy, Strategy and Assurance Framework report, which had been previously circulated. She invited the Board to consider and approve the draft risk management policy, strategy and assurance framework policy following which a communications plan would be developed to highlight key messages to raise general awareness. It was also proposed that once the policy was approved it would be reviewed by the Audit Committee annually thereafter.

The Board welcomed the risk documents and following further discussion, the Board approved the risk management policy, strategy and assurance framework.

The Chair of the Accounts Commission advised that he was still considering whether the Accounts Commission should develop its own risk register or ensure that its key risks were reflected in the Audit Scotland Risk Register. The Chief Operating Officer offered further discussion with the Chair of the Accounts Commission on the implications of both options.

Action:

- **The Chief Operating Officer to publish the Risk documents and arrange for an annual review by the Audit Committee beginning in February 2016.**

10. Review of Corporate Governance Documents

Alex Devlin, Corporate Governance Manager, joined the meeting.

There was submitted a report by the Corporate Governance Manager on the Review of Corporate Governance Documents, a copy of which had been previously circulated. He advised that the comments received from members and members of the Audit Committee had been incorporated in the attached versions of the Financial Regulations and Scheme of Delegation and revised Members' Code of Conduct.

The Board were invited to approve the amended Financial Regulations and Scheme of Delegation and Members' Code of Conduct.

The Board discussed delegation to groups or teams of people and requested that this be avoided. The Chief Operating Officer agreed to review the Scheme of Delegation again to revise such delegations, where possible, but sought the approval of the Board to the documents, pending those changes.

It was agreed that the wording in the Scheme of Delegation at 1.3 would be revised to

“The Accounts Commission/Chair will select the Secretary to the Accounts Commission.”

Following discussion, the Board approved the corporate governance documents subject to the further revisions identified.

Alex Devlin, Corporate Governance Manager, left the meeting.

11. Smith Commission Update

There was submitted a report by the Assistant Auditor General on the Smith Commission Update, which had been previously circulated. He invited the Board to note the potential implications of the Smith Commission proposals for Audit Scotland's work.

The Chair of the Board and the Auditor General provided an update on their recent meeting with Lord Smith to discuss the Smith Commission recommendations with particular reference to financial scrutiny.

Following detailed discussion, the Board noted the report and updates.

12. Community Planning Partnerships: Review of 2013/14 Audit Programme and Proposed Future Approach

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

The Assistant Director, Performance Audit and Best Value, introduced the Community Planning Partnerships: Review of 2013/14 Audit Programme and Proposed Future Approach report, a copy of which has been previously circulated.

The Board were invited to note the outcome of the 2013/14 Community Planning Partnerships (CPP) audit programme and note the proposed approach to future auditing of community planning.

The Board discussed the success of the CPP programme and the Chair of the Accounts Commission updated the Board on recent consideration of the report by the Local Government and Regeneration Committee of the Scottish Parliament.

The Board discussed the arrangements for maintaining an overview of CPPs and considered how that was embedded in the ongoing work of Audit Scotland. There was also discussion of relationships with other scrutiny bodies.

Following discussion, the Board thanked the Assistant Director, Performance Audit and Best Value for his contribution to the success of this work, and welcomed the report.

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

13. Best Companies Survey Results

There was submitted a report by the Chief Operating Officer on the Best Companies Survey Results, which had been previously circulated.

The Board were invited to consider and comment on the survey results which were Audit Scotland's overall best results since taking part in the survey. The Board also noted Audit Scotland had retained its One to Watch status for the sixth year in succession.

The Board welcomed the positive results and it was agreed that the Chief Operating Officer would again provide a briefing to the Accounts Commission on the survey.

Action:

- **The Chief Operating Officer to brief the Accounts Commission on the Best Companies survey results. (February 2015)**

14. Accountable Officer's Report

The Accountable Officer gave a verbal update on her recent and forthcoming activities. She highlighted the range of events in which she was involved with colleagues across the business including her first meeting of the Shadow Public Sector Audit Appointments Board in December and, more recently, a joint meeting with the Chair with Lord Smith.

She informed the Board of a recent review of security arrangements commissioned by the Chief Operating Officer and notified of the forthcoming Non Compliance with Laws and Regulations (NOCLAR) meeting in Paris.

Following discussion, the Board welcomed the update.

15. Chair of the Accounts Commission's Report

The Chair of the Accounts Commission gave a verbal update on his and the Accounts Commission's activities since November, including a recent meeting with the new Minister for Local Government and Community Empowerment.

Following discussion, the Board welcomed the update.

16. Any Other Business

There was no further business.

17. **Date of Next Meeting**

It was noted that the next Audit Scotland Board meeting would be held on **Friday 27 February 2015** in the offices of Audit Scotland, 18 George Street, Edinburgh following the conclusion of the Audit Committee, Remuneration and Human Resources Committee meetings.

Minutes of Meeting of **Audit Scotland** held on 27
February 2015 in the offices of Audit Scotland at
18 George Street, Edinburgh

PRESENT: J Maclean (Chair)
C Gardner
I Leitch
D Sinclair
H Logan

APOLOGIES: None

IN ATTENDANCE: D McGiffen, Chief Operating Officer
R Frith, Assistant Auditor General
M Walker, Assistant Director, Corporate Performance and Risk
F McKinlay, Director of Performance Audit and Best Value
F Kordiak, Director of Audit Services

<u>Item No</u>	<u>Subject</u>
1.	Apologies
2.	Declarations of Interest
3.	Chair's Report
4.	Minutes
5.	Matters Arising from Minutes
6.	Minutes of the Audit Committee meeting dated 20 November 2014
7.	Q3 Financial Performance Report 2014/15
8.	Q3 Corporate Performance Report 2014/15
9.	Corporate Plan 2015-18 Update
10.	Review of RemCo Performance and Future Priority Areas
11.	Edinburgh Office Reprovision
12.	Complaints Update
13.	Timetable for Statutory Accounts to 31 March 2015
14.	Publication Schedule to June 2015
15.	Accountable Officer's Report
16.	Accounts Commission Chair's Report
17.	AOB
18.	Date of Next Meeting

1. **Apologies**

There were no apologies received.

2. **Declarations of Interest**

Heather Logan and Douglas Sinclair declared their membership of the Audit and Advisory Committee of the Scottish Public Services Ombudsman.

3. **Chair's Report**

The Chair reported on his activity since the previous Board meeting, including discussions and meetings with the Accountable Officer and Chief Operating Officer. He provided an update on a meeting with Paul Grice, Chief Executive of the Scottish Parliament which included discussion of the process for the Scottish Commission for Public Audit recruiting a third non-executive board member for Audit Scotland later in the year. The Chair indicated his intention to discuss further with board members and executives the key skills and experience most required from the new board member.

4. **Minutes of the meeting dated 22 January 2015**

The minutes of the meeting dated 22 January 2015, which had been previously circulated, were approved as an accurate record subject to the addition to Item 8 Funding and Fee Arrangements Presentation and Discussion, (third paragraph of page 4), of *“incorporating historical and current assumptions and their effect”* so that the full paragraph would read:

“Following detailed discussion, including how costs can be apportioned between sectors and whether there is any cross-subsidy, it was agreed that improving transparency and understanding of the arrangements was essential. It was agreed that the Assistant Auditor General would work up detailed modelling and options to improve transparency and understanding even if there was no change in the funding model, and for the third option which had been outlined, which would seek SCF funding for all performance audit work across all sectors. The Board requested that the detailed working and analysis for this discussion include an overview of the impact of apportionment of costs across sectors, incorporating historical and current assumptions and their effect.”

5. **Matters Arising from the minutes of the meeting on 22 January 2015**

The Board agreed to adopt an action tracker process from the next meeting, as adopted by the Audit Committee for matters arising.

• **Item 5 – Matters arising**

It was noted that an update report from the Chief Operating Officer would be considered on the Edinburgh Office Re-provision at item 11, and that the Chief Operating Officer had provided a briefing to the Accounts Commission meeting on the new property in February 2015 which had been positively received.

- **Item 7 – Strategic Planning 2015-18**
It was noted that the draft strategy for public audit, which would most likely become a statement about Public Audit in Scotland and Audit Scotland’s Corporate Plan would be discussed at the March 2015 meeting of the Accounts Commission.
- **Item 8 – Funding and Fee Arrangements - Presentation and Discussion**
It was noted that the Assistant Auditor General would provide a further report on the options for increasing transparency and understanding of fees and funding under the current arrangements, and for an option in which funding for performance audit work is funded by the Scottish Consolidated Fund at the March 2015 meeting of the Board.
- **Item 8 – Funding and Fee Arrangements Presentation and Discussion**
It was noted that the Assistant Auditor General had provided a briefing on funding and fees options to the February 2015 meeting of the Accounts Commission. The Chair of the Accounts Commission advised that the Commission had found the briefing useful, and had confirmed that maintaining the independence of the Commission and its role in any new fees and funding model was a significant concern.
- **Item 9 – Risk Management Policy, Strategy and Assurance Framework**
It was noted that the Risk documents had been published and an annual review scheduled for the Audit Committee beginning in February 2016.
- **Item 13 – Best Company Survey Results**
It was noted that the briefing on the Best Companies results would take place at the March 2015 meeting of the Accounts Commission.

Action:

- It was noted that Item 12 from the matters arising had been omitted from the agenda and that it would be updated and added to the action tracker. **(Chief Operating Officer - Immediate)**

6. Minutes of the Audit Committee meeting dated 20 November 2014

The minutes of the Audit Committee meeting dated 20 November 2014, which had been previously circulated, and had been approved by the Audit Committee at its meeting on 27 February 2015, were noted as an accurate record.

7. Q3 Financial Performance Report 2014/15

The Board considered the Q3 Financial Performance Report 2014/15 which had been considered by the Audit Committee at its meeting on 27 February 2015. The Board noted the discussion at the Audit Committee, in particular, about the causes of additional income and the projected end year position and the impact on it of pension liabilities.

The Board noted the financial position at the end of the third quarter and the projection to the end of the financial year.

8. Q3 Corporate Performance Report 2014/15

Martin Walker, Assistant Director, Corporate Performance and Risk, Fiona Kordiak, Director of Audit Services and Fraser McKinlay, Director of Performance Audit and Best Value joined the meeting.

There was submitted a report by the Assistant Director, Corporate Performance and Risk, on the Q3 Corporate Performance Report 2014/15, which had been previously circulated.

The Assistant Director invited the Board to note the performance in Q3 and highlighted in particular the number of statutory reports published in the previous quarter, that sickness absence levels were at their lowest level since 2011 and the 97 per cent pass rate for trainee exams.

The Board sought clarification on the green rating for KPQ 2.1.1 on delivering audits on time, given that the report narrative showed slippage on 12 out of 107 reports. The Assistant Director explained that as all of the delayed reports had been issued in the two weeks following the end of Q3, and were a small proportion of the total number, the issue had been resolved and so a green rating has been applied. The Chief Operating Officer explained the Management Team's consideration of the performance and the performance rating on this item and that assurance had been received that there was no underlying or systemic issue that might undermine future delivery of those reports, so a green rating had been deemed appropriate. The Chair offered the view that it would be more appropriate to apply an amber rating in these circumstances, and it was agreed to reflect that in the next round of performance discussions.

The Board discussed the cost and value of the production of the performance report and board members discussed their preferences for the format of detailed reports. There was also discussion of the consistency of the graphs used to provide managers' assessments and of the narrative in some section of the report. The Board encouraged the executives to set targets and benchmarks that were ambitious and consistent with the aspiration of being a world class audit organisation, and invited the performance management group to consider setting critical and clear markers for when performance would be rated green.

The Chief Operating Officer welcomed the feedback on the report as it provided helpful focus for improvement.

Following discussion, the Board noted the performance in Q3.

Actions:

- **The Assistant Director, Corporate Performance and Risk to review the performance report for consistency, the benchmarks and targets set and the performance ratings. (May 2015)**

Fraser McKinlay, Director of Performance Audit and Best Value and Fiona Kordiak, Director of Audit Services Group, left the meeting.

9. Corporate Plan 2015-18 Update

The Assistant Director, Corporate Performance and Risk, introduced the Corporate Plan 2015-18 Update report, which had been previously circulated. He invited the Board to note the progress made on the development of the corporate plan.

Following discussion, the Board welcomed the update in advance of receiving the Corporate Plan for approval at its meeting in March and noted that a draft would be considered at the Accounts Commission meeting in March 2015.

Action:

- **The Assistant Director, Corporate Performance and Risk to submit the Corporate Plan 2015-18 to the Board for approval. (March 2015)**

Martin Walker, Assistant Director, Corporate Performance and Risk, left the meeting.

10. Review of RemCo Performance and Future Priority Areas

There was submitted a report by the Chair of the Remuneration and Human Resources Committee, a copy of which had been previously circulated. He invited the Board to note the performance highlights of 2013/14 and comment on the possible future priority items. He advised the Board that as the report from the Remuneration Committee covered a period before he had joined the Board, he had sought confirmation from his predecessor, Katharine Bryan, about the accuracy and completeness of the report, which she had provided.

Following discussion, the Board noted the report.

11. Edinburgh Office Re provision

There was submitted a report by the Chief Operating Officer on the Edinburgh Office Re provision, which had been previously circulated. She invited the Board to note the work underway to secure a new office in Edinburgh and updated the Board that there were now only minor issues to be resolved on the lease as agreement had been reached on the re-assignment of leases. The Chief Operating Officer sought approval for the Accountable Officer and herself or the Chair of the Accounts Commission to sign a lease for the preferred office location when outstanding issues had been resolved.

The Board welcomed the positive resolution of the lease assignment discussion and welcomed the update on the appointment of a project manager.

Following detailed discussion, the Board:

- Noted the progress to secure a new office in Edinburgh.
- Agreed to authorise the Auditor General, and the Chief Operating Officer or the Chair of the Accounts Commission to sign the lease for 102 West Port on the advice of lawyers that a satisfactory conclusion to the lease negotiations had been reached, but to refer back to the Board for further approval if there were any significant changes to the terms on offer.

Action:

- **The Auditor General and the Chief Operating Officer, or the Chair of the Accounts Commission to sign the lease for 102 West Port on satisfactory conclusion of final negotiations. (March 2015)**

12. Complaints Update 2014/15

The Board noted the Complaints Update 2014/15 report, a copy of which has been previously circulated. The Board discussed the threshold for categorising feedback about performance in the delivery of audits as complaints and were advised by the Chief Operating Officer that creating a clearer framework for such categorisation was part of the action outlined in the report under the work in business groups.

13. Timetable for Statutory Accounts to 31 March 2015

There was submitted a report by the Corporate Finance Manager on the Timetable for Statutory Accounts to 31 March 2015, which had been previously circulated and considered previously by the Audit Committee.

Following discussion, the Board approved the timetable.

14. Publication Schedule to June 2015

Fraser McKinlay, Director of Performance Audit and Best Value rejoined the meeting.

There was submitted a report by the Director of Performance Audit and Best Value on the Publication Schedule to June 2015, which had been previously circulated.

The Director of Performance Audit and Best Value invited the Board to note the reports due to be published on behalf of the Auditor General and the Accounts Commission in the period January to June 2015.

Following discussion, the Board welcomed the report.

Fraser McKinlay, Director of Performance Audit and Best Value left the meeting.

15. Accountable Officer's Report

The Accountable Officer gave a verbal update on her recent and forthcoming activities. She highlighted the range of events in which she was involved with colleagues across the business, her attendance at the meeting of Non Compliance with Laws and Regulations (NOCLAR) in Paris, the second meeting of the Shadow Public Sector Audit Appointments Board and a speaking engagement at the Public Sector Excellence in Scotland. She also advised the Board of forthcoming meetings of the International Ethics Standards Board for Accountant in New York on 11 March and the International Auditing and Assurance Standards Board in Brussels on 19 March 2015.

Following discussion, the Board welcomed the update.

16. Chair of the Accounts Commission's Report

The Chair of the Accounts Commission gave a verbal update on his and the Accounts Commission's activities since January, including the meeting of the Accounts Commission on 12 February 2015.

Following discussion, the Board welcomed the update.

16. **Any Other Business**

There was no further business.

17. **Date of Next Meeting**

It was noted that the next Audit Scotland Board meeting would be held on **Thursday 26 March 2015** in the offices of Audit Scotland, 8 Nelson Mandela Place, following the conclusion of the Remuneration and Human Resources Committee meeting.

Minutes of Meeting of **Audit Scotland** held on 26
March 2015 in the offices of Audit Scotland at 8
Nelson Mandela Place, Glasgow

PRESENT: J Maclean (Chair)
C Gardner
I Leitch
D Sinclair
H Logan

APOLOGIES: None

IN ATTENDANCE: D McGiffen, Chief Operating Officer
R Frith, Assistant Auditor General
M Walker, Assistant Director, Corporate Performance and Risk
D Hanlon, Corporate Finance Manager
M Taylor, Assistant Director, Audit Services
J Gillies, Communications Manager

<u>Item No</u>	<u>Subject</u>
1.	Apologies
2.	Declarations of Interest
3.	Chair's Report
4.	Minutes
5.	Review of Action Tracker
6.	Minutes of the Remuneration and Human Resources Committee meeting dated 27 February 2015
7.	Public Audit in Scotland
8.	Draft Corporate Plan 2015-18
9.	2015/16 Operational Budget and Establishment Review
10.	Lease Car Contract
11.	Equality Outcomes and Mainstreaming Report
12.	Audit Scotland Annual Report 2014/15
13.	Securing World Class (a) Fees and Costs (b) Funding and Fee Arrangements Options for Change
14.	Edinburgh Office Reprovision
15.	Accountable Officer's Report
16.	Accounts Commission Chair's Report
17.	AOB
18.	Date of Next Meeting

1. Apologies

There were no apologies received.

2. Declarations of Interest

Heather Logan and Douglas Sinclair declared their membership of the Audit and Advisory Committee of the Scottish Public Services Ombudsman.

3. Chair's Report

The Chair reported on his activity since the previous Board meeting, including discussions and meetings with the Accountable Officer and Chief Operating Officer to discuss succession planning at Audit Scotland. The Chair also provided an update on the Scottish Commission for Public Audit's timetable for recruiting a new member of the Board. Following discussion, it was agreed to defer consideration of the co-option of a further Audit Committee member until the recruitment process was complete.

The Chair commented on the pre-election period and the need for Audit Scotland Board members and staff to adhere to the highest standards of conduct to maintain Audit Scotland's independence and impartiality. Board members agreed.

4. Minutes of the meeting dated 27 February 2015

The minutes of the meeting dated 27 February 2015, which had been previously circulated, were approved as an accurate record.

5. Review of Action Tracker

The Board reviewed the Action Tracker, which had been previously circulated and noted the progress and completed items.

6. Minutes of the Remuneration and Human Resources Committee meeting dated 27 February 2015

The minutes of the Remuneration and Human Resources Committee meeting dated 27 February 2015, which had been previously circulated, and had been approved by the Remuneration and Human Resources Committee at its meeting on 26 March 2015, were noted as an accurate record.

7. Public Audit in Scotland

The Board considered the Public Audit in Scotland report, which had been previously circulated.

The Accountable Officer and Chair of the Accounts Commission outlined the evolution of the Public Audit in Scotland document which had been developed over the previous six months under the working title of strategy for public audit. They explained that the

intention is to create a clear statement of the principles of public audit in Scotland and its relevance and value given the challenges that Scotland will face. The document represents the shared approach of all three parties to the Scottish model of public audit – the Auditor General for Scotland, the Accounts Commission for Scotland and Audit Scotland.

The Chair of the Accounts Commission advised the Board that the draft document had been discussed and agreed at the 12 March 2015 meeting of the Accounts Commission.

Following discussion, the Board welcomed the high level principles set out in the document, endorsed Public Audit in Scotland and noted the arrangements for publication.

8. Draft Corporate Plan 2015-18

Martin Walker, Assistant Director, Corporate Performance and Risk, joined the meeting.

Martin Walker, Assistant Director, Corporate Performance and Risk introduced his report on the Draft Corporate Plan 2015-18, which had been previously circulated. He explained that he had received detailed comments from the Chair, and that these had been incorporated into a revised version of the plan, which he tabled.

Heather Logan advised the Board that she had met with Martin prior to the Board meeting to provide her detailed comments and that alongside some feedback on drafting her main concerns lay in getting right the balance between the ambition of becoming world class and a proper recognition of the quality of current work. The Board discussed the ambition reflected in the plan of becoming a world class public audit agency that improves the use of public money, and suggested ways in which the ambition could be better reflected in the plan by including a clearer explanation of the benefits that it would bring to Scotland.

Douglas Sinclair advised that he had provided comments on the plan and felt that there was still more to do to reflect that Audit Scotland works on behalf of the Auditor General and the Accounts Commission.

It was agreed that members would provide any further comment to Martin, and that a further draft would be circulated by correspondence so that the plan could be finalised and published in April 2015.

Actions:

- **The Assistant Director, Corporate Performance and Risk to issue a further draft of the Corporate Plan by correspondence. (April 2015)**

Martin Walker, Assistant Director, Corporate Performance and Risk, joined the meeting.

9. 2015/16 Operational Budget and Establishment Review

David Hanlon, Corporate Finance Manager, joined the meeting.

The Corporate Finance Manager introduced the Audit Scotland budget 2015/16 report, which had been previously circulated. He advised the Board that no changes were proposed to the overall budget resource approved by the Scottish Commission for Public Audit, but that a number of small offsetting changes were detailed in the report.

The Board discussed budget assumptions and there was discussion of the additional Graphic Designer post which had been created and the work that the communications team do.

Following discussion, the Board noted the contents of the report and approved the operational budget 2015/16.

10. Lease Car Contract

There was submitted a report by the Corporate Finance Manager, a copy of which had been previously circulated. He set out the procurement process that had been followed and the support that had been received from Procurement Scotland throughout the exercise, and explained how costs and projected savings had been calculated. The contract with the preferred supplier would deliver net savings of £31,000 per annum. He advised that, subject to Board approval, it was intended to reinvest a small amount of the savings generated by the procurement exercise in extending the service provided through the contract to manage the administrative processes associated with licence checks and fulfilling the duty of care to employees. The estimated cost of this would be £8,000 to £10,000 per annum, offset by a saving of £3,000 per annum currently spent on driver training.

Following discussion, the Board noted the approach that had been taken and approved Alphabet as the preferred supplier for an initial three years, with the option for an extension of a further three years.

David Hanlon, Corporate Finance Manager, left the meeting.

11. Equality Outcomes and Mainstreaming Report

Mark Taylor, Assistant Director, Audit Services Group joined the meeting

There was submitted a report by the Chair of the Diversity and Equality Steering Group, Mark Taylor, which had been previously circulated, and which provided a progress report on Equality Outcomes and Mainstreaming for Audit Scotland.

Mark outlined the background to the report and the publication requirements and answered questions from Board members about the equality duties and the progress made.

Following discussion, the Board commended the quality of the report and agreed the overall approach to publishing a report on progress covering both mainstreaming and equality outcomes for Audit Scotland, along with the Equal Pay Policy Statement and up to date information on the staffing profile and employment practice. The Board also approved the draft report for publication and noted the arrangements to update monitoring data.

Actions:

- **The Chair of the Diversity and Equality Group to publish the Equality Outcomes and Mainstreaming report. (April 2015)**

Mark Taylor, Assistant Director, Audit Services Group left the meeting

12. Audit Scotland Annual Report 2014/15

James Gillies, Communications Manager, joined the meeting.

There was submitted a report by the Communications Manager on the Audit Scotland Annual Report 2014/15, which had been previously circulated.

The Communications Manager outlined the approach that would be taken this year and sought feedback on some of the themes to be highlighted in the report. He answered questions on the publication and distribution of the report and advised the Board that the report received a high number of downloads during the year.

Following discussion, during which the Board suggested that the EAFA audit work might merit highlighting in the report, the Board noted the plans for the annual report.

13. Securing World Class Audit

There were submitted two reports by the Assistant Auditor General:

- a) Fees and Costs,
- b) Funding and Fee Arrangements and Options for Change

The Assistant Auditor General introduced the report on Fees and Funding and described how Audit Scotland has addressed the requirement to broadly break even taking one year with another for each sector through budget and fee setting processes and making proposals for revisions to cost allocations.

There was detailed discussion of the allocation of costs in different scenarios and of the comparison of fees and costs by sector. The Board recognised the need for the apportionment of costs between sectors and for greater transparency in how this was undertaken. The Board discussed the operational and structural changes that had taken place since the previous allocation of costs across sectors.

There was discussion of the definition of broadly break even that had been applied in previous years and an exploration of consequences for that across sectors. It was noted that the Board had not been given this detailed consideration during fee setting discussions in previous years. It was also noted that Audit Scotland operates with limited flexibility from one year to another, as it cannot hold reserves and has different audit and financial years and so requires flexibility in fee setting to allow audit programmes to be developed on a risk basis and to allow smoothing of fee changes from year to year for audited bodies. The Board discussed the level of flexibility that Audit Scotland should aim to budget for and the need for greater explanation and transparency in this.

The Board requested information on the outturn compared to budget which it was agreed would be provided for 2014/15 at the June meeting along with the draft Annual report and accounts.

The Board deferred discussion of the second paper on options for future Funding and fee arrangements.

Actions:

- **The Assistant Auditor General to schedule further reports to the Board to enable the Board to progress consideration of fees and funding including a report to the June Board meeting on outturn compared with budget by sector. (May 2015)**

14. Edinburgh Office Reprovision

David Hanlon, Corporate Finance Manager, joined the meeting.

The Chief Operating Officer provided a verbal update to the Board on matters relating to the new Edinburgh office including progress with the procurement exercise for fitting out the building.

The Board noted the progress being made.

David Hanlon, Corporate Finance Manager, left the meeting.

15. Accountable Officer's Report

The Accountable Officer gave a verbal update on her recent and forthcoming activities. She outlined the work that would be presented to Parliament before and after the recess and advised the Board that the Audit Scotland was making good progress across a range of large projects, including the office relocation, but that Management Team were concerned to ensure there was enough capacity without colleagues being placed under undue pressure.

Following discussion, the Board welcomed the update.

16. Chair of the Accounts Commission's Report

The Chair of the Accounts Commission gave a verbal update on his and the Accounts Commission's activities since January, including the meeting of the Accounts Commission on 12 March 2015.

Following discussion, the Board welcomed the update.

16. Any Other Business

There was no further business.

17. Date of Next Meeting

It was noted that the next Audit Scotland Board meeting would be held on **Friday 8 May 2015** in the offices of Audit Scotland, 110 George Street following the conclusion of the meetings of the Audit Committee and Remuneration and Human Resources Committee.

Minutes of Meeting of **Audit Scotland** held on 8
May 2015 in the offices of Audit Scotland at 110
George Street, Edinburgh

PRESENT: J Maclean (Chair)
C Gardner
I Leitch
D Sinclair
H Logan

APOLOGIES: None

IN ATTENDANCE: D McGiffen, Chief Operating Officer
R Frith, Assistant Auditor General
M Walker, Assistant Director, Corporate Performance and Risk
F Kordiak, Director of Audit Services Group
A Craik, Senior Audit Manager, Audit Services Group
D Hanlon, Corporate Finance Manager

<u>Item No</u>	<u>Subject</u>
1.	Apologies
2.	Declarations of Interest
3.	Chair's Report
4.	Accountable Officer's Report
5.	Accounts Commission Chair's Report
6.	Minutes
7.	Review of Action Tracker
8.	Minutes of the Audit Committee Meeting dated 27 February 2015
9.	Minutes of the Remuneration and Human Resources Committee meeting dated 26 March 2015
10.	Annual Report on Complaints Handling
11.	SPSO Complaint Review Decision
12.	FOISA Publication Scheme 2015-19
13.	Securing World Class Audit: (a) Fees and Costs (b) Project Timeline and Governance
14.	Update on EAFA
15.	Update on 102 West Port, Edinburgh
16.	AOB
17.	Date of Next Meeting

1. Apologies

There were no apologies received.

2. Declarations of Interest

Heather Logan and Douglas Sinclair declared their membership of the Audit and Advisory Committee of the Scottish Public Services Ombudsman (SPSO). It was agreed that they would not take part in the discussion of item 11 on the SPSO Complaint Review Decision.

Heather asked for advice on the practical management of conflicts of interest.

Russell advised board members that in his role as Ethics Partner, he would be bringing forward an updated discussion document on conflicts of interest, following similar work completed earlier in the year for members of the Accounts Commission. Board members welcomed that contribution and it was agreed to consider a report in June 2015.

Action(s):

- **Russell Frith, Assistant Auditor General to prepare an updated policy on conflicts of interest for board members. (June 2015)**

3. Chair's Report

The Chair reported on his activity since the previous Board meeting, including discussions and meetings with the Accountable Officer and Chief Operating Officer. The Chair advised of his attendance at a recent Accounts Commission meeting, and at the Accounts Commission Strategy seminar and on a recent meeting with Paul Grice, Chief Executive of the Scottish Parliament when he had received an update on the recruitment of a new board member. The Chair advised that he had repeated his offer to discuss the role with shortlisted candidates.

The Chair advised that he had restructured the agenda to bring the Accountable Officer and Chair of the Accounts Commission's reports earlier in the meeting to help set the strategic tone for the meetings.

4. Accountable Officer's Report

The Accountable Officer gave a verbal update on her recent and forthcoming activities. She discussed the likely financial situation for the public sector over the next few years and the impact the general election results may have on the implementation and use of the new powers arising from the Scotland Act and being considered under the Smith Commission proposals. She advised that early indications were of increased workloads and risks in managing public finances, and the need to consider carefully the implications for audit work and reporting. She advised that Audit Scotland was preparing materials for engagement with the new Scottish MPs at Westminster.

The Accountable Officer also gave an update on the Public Audit Committees consideration about changes flowing from the Smith Commission, and its engagement with Audit Scotland on that and how the committee could consider options for reporting on public expenditure.

She also advised that Colin Beattie MSP and Paul Martin MSP would be hosting an event in May for the Auditor General to speak to MSP's about her role in supporting Parliament.

The Accountable Officer also advised that the Auditors General from across the UK and Ireland would be meeting in London on 5 June 2015.

Finally, she advised that following the election moratorium, publications would resume with a report on the implementation of fire service reform in May.

Following discussion, the Board welcomed the update.

5. Accounts Commission Chair's Report

The Chair of the Accounts Commission gave a verbal update on his and the Accounts Commission's activities since March, the Local Government Minister's attendance at a recent Accounts Commission meeting in March, and the strategy seminar held on 27 and 28 April 2015.

He advised that the strategy seminar had discussed community planning partnerships, shared services and the future of Best Value auditing, among other topics, and had heard from a series of external speakers, including Angela Leitch, Chief Executive of East Lothian Council, Councillor Michael Cook from Scottish Borders Council, Rory Mair, Chief Executive of Cosla and Ged Fitzgerald, Chief Executive of Liverpool City Council. He advised that the seminar had provided a valuable opportunity to hear the perspectives of those involved in local government on the challenges that they faced, and also to hear their perspectives on the challenges that the Accounts Commission faces.

6. Minutes of the meeting dated 26 March 2015

The minutes of the meeting dated 26 March 2015, which had been previously circulated, were approved as an accurate record.

7. Review of Action Tracker

The Board reviewed the Action Tracker, which had been previously circulated and noted the progress made and completed items.

The Assistant Director Corporate Performance and Risk, Martin Walker, advised the Board that he had incorporated the feedback he had received from Board members on the Corporate Plan and tabled a final draft of the Corporate Plan.

The Chair advised the Board that he had reviewed the final draft and, subject to a few minor amendments was content to approve it for publication. The Board approved the corporate plan for publication by 15 May 2015, subject to any remaining comments on the final draft.

Action(s):

- **The Assistant Director, Corporate Performance and Risk to consider comments from board members on the final draft before publishing the Corporate Plan by 15 May 2015. (15 May 2015)**

8. Minutes of the Audit Committee meeting dated 27 February 2015

The minutes of the meeting of the Audit Committee, which had been previously circulated and approved by committee members at its meeting on 8 May 2015, were noted as an accurate record, subject to the minor change agreed at the Audit Committee meeting.

9. Minutes of the Remuneration and Human Resources Committee meeting dated 26 March 2015

The minutes of the Remuneration and Human Resources Committee meeting dated 26 March 2015, which had been previously circulated, and had been approved by the Remuneration and Human Resources Committee at its meeting on 8 May 2015, were noted as an accurate record.

10. Annual Report on Complaints Handling

The Board considered the Annual Report on Complaints Handling, which had been previously circulated.

The Assistant Director, Corporate Performance and Risk, invited the Board to note the number and type of complaints received and the assurance that there were no significant issues that needed to be brought to the attention of the Board.

There was discussion of the review of correspondence handling and the Chief Operating Officer advised that once the Management Team had considered the review findings and options, there would be discussion with the Chair of the Accounts Commission to ensure that the Commission's interests were properly reflected in the improvement actions taken.

Following discussion, the Board noted the annual report on complaints handling.

Action(s):

- **The Chief Operating Officer to arrange for discussion of the correspondence handling review with the Chair of the Accounts Commission. (June 2015)**

11. SPSO Complaint Review Decision

Martin Walker, Assistant Director, Corporate Performance and Risk introduced the SPSO Complaint Review Decision report, which had been previously circulated. He invited the Board to note the outcome of the recent SPSO complaint review decision and note the intention to strengthen the guidance for staff on PIDA and develop a policy to set the guidance in context.

Following discussion, the Board noted the SPSO complaint review decision.

12. FOISA Publication Scheme 2015-19

Martin Walker, Assistant Director, Corporate Performance and Risk introduced the FOISA Publication Scheme 2015-19 report, which had been previously circulated. He invited the Board to approve our revised Freedom of Information scheme and its submission to the Scottish Information Commissioner for re-approval for the period 31 May 2015 to 31 May 2019.

The Board discussed the draft publication scheme and noted that additional information may be added over the life of the approval.

Following discussion, the Board approved the Freedom of Information Scheme and its submission to the Scottish Information Commissioner for re-approval.

Action(s):

- **The Corporate Governance Manager to submit the Freedom of Information Scheme to the Scottish Information Commissioner. (May 2015)**

13. Securing World Class Audit

There were submitted two reports by the Assistant Auditor General:

- a) Fees and Costs
- b) Project Timeline and Governance

The Assistant Auditor General introduced the reports by advising the Board that the Fees and Costs paper sought to build on and consolidate the discussion on fees and costs from the previous Board meeting, and the second report set out the timescales and governance arrangements to take the project forward.

Board members sought clarification on what had changed in the proposed draft policy and were advised that the policy was much clearer on the information that would be brought to the Board and on the proposed practical application of the Public Finance and Accountability (Scotland) Act 2000 requirement for Audit Scotland to broadly break even taking one year with another. The Board also discussed the implications of over-spending and of qualified accounts.

Ian Leitch proposed that consideration of the policy on fees and costs be deferred until the June meeting when further information on outturn against budget estimates and trends over time would be provided, and this was agreed. He also restated his view that each sector should pay its full costs, and that those requiring additional audit work should pay for it. He reminded the Board that a key outcome from the exercise should be greater transparency about billing and costs.

It was agreed that Russell would provide Douglas Sinclair and Ian Leitch with drafts of the Board paper in good time for them to provide comments, and the Accountable Officer, Caroline Gardner, apologised that time pressures had prevented that happening before the April Board meeting.

Douglas Sinclair requested that Russell should explore the appetite for changing the current fees model with key stakeholders, including Cosla and directors of finance.

Heather Logan advised the Board that the previous paper had thrown up several questions for her in understanding how the current system operates at a body and sectoral level and she requested further discussion with Russell and his team on these points.

The Assistant Auditor General then introduced his report on the project timeline and governance arrangements for the work on fees and procurement. He invited Board members to consider the timeline and their involvement in the Code of Audit Practice and procurement elements of the work.

There was detailed discussion of the governance arrangements for previous procurement exercises and the allocation of work to in-house teams. Russell explained the rationale of previous boards that it was important to maintain a mixed economy for audit provision so that there was competition to ensure value for money, but also sufficient capacity building and expertise across public and private sector providers.

The Accountable Officer, Caroline Gardner advised that she and Russell were in active discussion about additional resourcing to support the delivery of the programme of work in the run up to the next procurement exercise, and that that support would also bring an external perspective and challenge.

Heather Logan sought clarification on the changes required to the current Code of Audit Practice and received assurances that, although the Code would be improved, there were no risks in non-compliance in audits being undertaken under the current code.

Following discussion, the Board noted the timeline and agreed to consider further the decision required in both reports at the June 2015 Board meeting.

Action(s):

- **The Assistant Auditor General to discuss drafts of his reports for the June 2015 Board with Board members sufficiently in advance of the meeting to enable Board members to comment. (May 2015)**
- **The Assistant Auditor General to explore the appetite for changing the current fees models with key stakeholders, including Cosla and directors of finance. (Summer 2015)**
- **The Assistant Auditor General to bring both reports back to the June 2015 board meeting along with more detailed information to support discussion on the policy on fees and costs. (June 2015)**

14. Update on EAFA

Fiona Kordiak, Director, and Alasdair Craik, Senior Audit Manager, of Audit Services Group, joined the meeting.

There was submitted a report by the Director of Audit Services Group, which had been previously circulated, and which provided an update on progress the European Agricultural Funds Audit.

The Senior Audit Manager, Alasdair Craik, invited the Board to note the progress made on responding to new EC requirements for the conduct of the EAFA audit and the overall approach being taken to contribute to our wider organisational objectives.

The Director of Audit Services, Fiona Kordiak, advised that there had been significant challenges in preparing for the work, but that delivery was on track and that was testament to Alasdair's work.

Following discussion on the early findings of the work, the Board thanked Fiona and Alasdair for their update and noted the report.

Action(s):

- **The Director of Audit Services to provide a further report on progress with the EAFA audit by the end of 2015. (December 2015)**

Fiona Kordiak, Director of Audit Services , and Alasdair Craik, Senior Audit Manager, of Audit Services Group, left the meeting.

15. Update on 102 West Port, Edinburgh

David Hanlon, Corporate Finance Manager, joined the meeting.

The Corporate Finance Manager introduced the update report on 102 West Port, Edinburgh, which had been previously circulated. He invited the Board members to note progress on the move to the new office.

The Board discussed the continued progress in relation to the design and tender process for the construction fit-out.

Following discussion, the Board welcomed the update.

David Hanlon, Corporate Finance Manager, left the meeting.

16. Any Other Business

Internal audit

The Chair of the Audit Committee advised the Board that, following a discussion at the earlier meeting of the Audit Committee, it had been agreed to recommend to the Board that internal audit services be retendered.

Following discussion, the Board agreed to retender internal audit services and to delegate the process to the Chair of the Audit Committee and the Chief Operating Officer.

Action(s):

- **The Chair of the Audit Committee and the Chief Operating Officer to retender internal audit services. (May 2015)**

Remuneration Committee performance and priorities

The Chair of the Remuneration Committee advised the Board that at a meeting of the Remuneration and Human Resources Committee earlier, the Committee members had approved, subject to minor revision, a report detailing the Committee's review of its work and future priorities. As all members of the Board had received the draft report he requested that it be approved by the Board and that the revised draft would be circulated by correspondence.

The Board approved the report on the performance of the Remuneration and Human Resources Committee and on its future priorities.

17. Date of Next Meeting

It was noted that the next Audit Scotland Board meeting would be held on **Thursday 4 June 2015** in the offices of Audit Scotland, 110 George Street following the conclusion of the meeting of the Audit Committee.

Minutes of Meeting of **Audit Scotland** held on 4
June 2015 in the offices of Audit Scotland at 110
George Street, Edinburgh

PRESENT: J Maclean (Chair)
C Gardner
I Leitch
D Sinclair
H Logan

APOLOGIES: None

IN ATTENDANCE: D McGiffen, Chief Operating Officer
R Frith, Assistant Auditor General
M Walker, Assistant Director, Corporate Performance and Risk
D Hanlon, Corporate Finance Manager
D McConnell, Assistant Director, Audit Services
L Slavin, International Liaison Manager
A Devlin, Corporate Governance Manager
I Metcalfe, Corporate Performance Officer
M Johnston, Thomson Gray Associates

<u>Item No</u>	<u>Subject</u>
1.	Apologies
2.	Declarations of Interest
3.	Chair's Report
4.	Accountable Officer's Report
5.	Accounts Commission Chair's Report
6.	Minutes
7.	Review of Action Tracker
8.	Q4 Financial Performance
9.	Q4 Corporate Performance report 2014/15 Annual Report
10.	Working with Other Countries 2014/15 Annual Report
11.	2014/15 Annual Report on Freedom of Information and Environmental Information
12.	2014/15 Draft Annual Report from the Audit Committee
13.	Draft Annual Report and Accounts 2014/15
14.	Draft Annual Impact Report: 'Making a Difference' 2014/15
15.	Review of Remco Performance and Identification of Future Priority Areas
16.	Fit Out Tender for 102 West Port
17.	Becoming World Class (a) Fees and Costs – Outturn 2014/15 (b) Procurement Strategy Discussion (c) Securing the audit
18.	Publications Schedule
19.	AOB
20.	Date of next meeting

1. Apologies

There were no apologies received.

2. Declarations of Interest

Heather Logan and Douglas Sinclair declared their membership of the Audit and Advisory Committee of the Scottish Public Services Ombudsman (SPSO).

It was noted that Russell would arrange individual meetings with board members over the summer to discuss handling conflicts of interest, and that he would now prepare a report on conflicts of interest for the August 2015 meeting.

Action(s):

- **Russell Frith, Assistant Auditor General to meet individually with board members and prepare an updated policy on conflicts of interest for discussion at the August 2015 board meeting. (August 2015)**

3. Chair's Report

The Chair provided an update on his activity since the previous board meeting, including attending the Parliamentary event hosted by Colin Beattie MSP and Paul Martin MSP to promote Audit Scotland's work among MSPs, meetings and telephone conversations with Caroline Gardner and Diane McGiffen, and meetings and telephone conversations about the board's role with prospective candidates for the board vacancy.

4. Accountable Officer's Report

Caroline Gardner provided an update on her activity since the previous board meeting, and introduced a discussion on the implications for audit of the legislative programme outlined by the new UK Government. She discussed the potential implications of continuing and perhaps increased austerity on public services and the response that would require from audit, and she outlined early thinking about the Scotland Bill. She reported that she had reviewed Audit Scotland's new Corporate Plan in the light of the new legislative programme and recent discussions with the Scottish Government Executive team, including the new Permanent Secretary, and stressed the importance of increasing Audit Scotland's capacity to consider employability issues and digital transformation, as well as increasing the pace of internal change.

Caroline discussed the meeting on Friday with Auditors General from the UK and Ireland, and highlighted the forthcoming round table discussion event being hosted for NHS directors of finance on 10 June 2015.

Caroline also drew attention to a forthcoming International Ethics Board meeting she would be attending in New York from 29 July to 1 August 2015.

Finally, Caroline highlighted to the board that the summer months were particularly busy for Audit Scotland staff with audit work on final accounts in progress and major projects, such as the relocation to West Port underway.

5. Accounts Commission Chair's Report

Douglas Sinclair drew the Board's attention to the announcement that the Local Government Minister would not be standing for election in 2016, the publication of the East Dunbartonshire Best Value report and the current advertisement for three new Accounts Commission members.

6. Minutes of the meeting dated 8 May 2015

The minutes of the meeting dated 8 May 2015, which had been previously circulated, were agreed as an accurate record, subject to the removal of two typing errors.

It was noted that the conflict of interest policy discussed under item 2 would be added to the action tracker.

Action(s):

- **The conflict of interest policy being prepared by the Assistant Auditor General for August to be added to the Action Tracker.**

7. Review of Action Tracker

The board noted the update provided by the Action Tracker, which had been previously circulated.

The Board requested that the Action Tracker be produced in a larger font.

Action(s):

- **The Chief Operating Officer to arrange for the Action Tracker to be produced in a larger font.**

8. Q4 Financial Performance

The Board noted the Q4 Financial Performance report, which had been previously circulated and had been considered in detail at the earlier meeting of the Audit Committee.

9. Q4 Corporate Performance report 2014/15 Annual Report

Ian Metcalfe, Corporate Performance Officer, joined the meeting.

Martin Walker, Assistant Director, introduced the Q4 Performance report, which had been previously circulated, and highlighted the overall positive progress made in the previous quarter.

There was a detailed discussion of the report and the board invited the review to consider how the audit discipline of professional scepticism could be applied to the performance reporting framework as it developed further, particularly on the assessment of whether objectives or targets were stretching enough. There was also discussion of how the report is prepared, and the rigour and audit of the supporting information.

The Chief Operating Officer and the Corporate Performance Officer detailed the assurances that the Board could take, both from recent internal audit reports and from the operational checks and balances in place. Martin outlined the review process that was underway to revise the framework in the light of the new corporate plan.

The Board noted the report.

Ian Metcalfe, Corporate Performance Officer, left the meeting.

10. Working with Other Countries 2014/15 Annual Report

David McConnell, Assistant Director, Audit Services and Laurence Slavin, International Liaison Manager, joined the meeting

David McConnell, Assistant Director introduced the Working with Other Countries 2014/15 Annual Report, which had been previously circulated, and highlighted the many benefits that hosting the Eurorai conference had brought through greater exposure to other audit organisations.

Following discussion, the Board approved the report for publication and thanked David and Laurence for their report and encouraged them to seek further opportunities for Audit Scotland to continue to learn from other countries.

Action(s):

- **The Chief Operating Officer to arrange for the publication of the Working with Other Countries 2014/15 Annual Report. (June 2015)**

David McConnell, Assistant Director, Audit Services and Laurence Slavin, International Liaison Manager, left the meeting

11. 2014/15 Annual Report on Freedom of Information and Environmental Information

Alex Devlin, Corporate Governance Manager, joined the meeting

Alex Devlin, introduced the 2014/15 Annual Report on Freedom of Information and Environmental Information Regulations, arrangements and performance, which had been previously circulated. Alex provided an update from the Scottish Information Commissioner's recent Annual Report, which showed that FOI requests to Audit Scotland accounted for 0.12 per cent of all requests recorded by the Information Commissioner. He also highlighted the high performance achieved by Audit Scotland in responding within time. He further advised the board that Audit Scotland had not refused any requests on the grounds of cost, and nor failed to respond.

Following discussion, the Board welcomed the performance demonstrated in the annual report and thanked Alex for the report.

Alex Devlin, Corporate Governance Manager, left the meeting

12. 2014/15 Draft Annual Report from the Audit Committee

The Chair of the Audit Committee submitted the 2014/15 Annual Report from the Audit Committee, a copy of which had been previously circulated and considered at the earlier Audit Committee meeting.

The Board welcomed the report and noted that on the basis of the work reviewed and the progress made during 2014/15, the Audit Committee advised the Board that, in its opinion, there were adequate internal control systems in place at Audit Scotland.

The Board noted the report.

13. Draft Annual Report and Accounts 2014/15

The Chair of the Audit Committee advised the Board that the Audit Committee had met earlier in the day and had considered in detail the Annual Report and Accounts for 2014/15. The Board agreed to accept the recommendation of the Audit Committee to approve the draft Annual Report and Accounts 2014/15.

Action(s):

- **The Chief Operating Officer to arrange for the signing of the Accounts. (June 2015)**

14. Draft Annual Impact Report: 'Making a Difference' 2014/15

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the draft Annual Impact Report: "Making a Difference" 2014/15, which had been previously circulated and outlined the background to and purpose of the report.

Douglas Sinclair welcomed the report and suggested that next year it be expanded to capture the impact of the work of the three parties to Public Audit in Scotland – the Auditor General, the Accounts Commission and Audit Scotland.

Following further discussion on the report, the Board approved it for publication and agreed that the report should be developed further to capture the impact of all three parties to Public Audit in Scotland.

Action(s):

- **Martin Walker, Assistant Director, Corporate Performance and Risk, to arrange for publication of the report. (June 2015)**
- **Martin Walker, Assistant Director, to develop the Annual Impact report further for 2016 to capture the impact of all parties to Public Audit in Scotland. (June 2016)**

15. Review of Remco Performance and Identification of Future Priority Areas

The Chair of the Remuneration and Human Resources Committee introduced the report on the Review of Remco Performance and Identification of Future Priority Areas, which had been previously circulated.

16. Fit Out Tender for 102 West Port

David Hanlon, Finance Manager and Mike Johnston, Thomson Gray Associates joined the meeting

David Hanlon introduced Mike Johnston, project manager for the West Port office to the Board, and provided an update on his report on the Fit Out Tender for 102 West Port, which had been previously circulated.

Mike Johnston provided an update on the tenders received for the work, and the Board noted that the detailed review of costings was underway, but that early indications were that none of the tenders exceeded the budget estimate of the work. He outlined the process of review, discussed with the Board the ways in which further value would be secured from the successful contractor, and outlined the contingencies that had been built in to the draft programme of works.

Following further discussion of the project and key milestones, the Board agreed to authorise the Chief Operating Officer to award a contract to the preferred contractor, on the basis of the detailed tender report from Stuart Gray Associates, and that the Chief Operating Officer should discuss that final report with the Chair of the Board before awarding the contract. It was agreed that, the Chief Operating Officer should revert to the Board for further discussion if the final tender report indicated that the contract was above the approved 2015/16 capital budget provision of £1,340k.

Action(s):

- **The Chief Operating Officer to award a contract for the fit out works at 102 West Port on the basis of the detailed tender report from Stuart Gray Associates, and to discuss that report with the Chair of the Board before awarding the contract. (June 2015)**
- **The Chief Operating Officer is to revert to the Board if the final tender report exceeds the approved capital budget provision of £1,340k. (June 2015)**

David Hanlon, Finance Manager and Mike Johnston, Project Manager, Stuart Gray Associates, left the meeting.

17. Becoming World Class

There were submitted three reports by the Assistant Auditor General, which had been previously circulated, and the Board considered each report.

a) **Fees and Costs – Outturn 2014/15**

Russell Frith, Assistant Auditor General introduced his report on Fees and Costs and provided an overview of the outturn by sector using the budget assumptions detailed in table 2 of the report, and which had been discussed at the March 2015 board meeting.

Ian Leitch advised the Board that he had met with Russell between Board meetings to discuss and probe the analysis of income and expenditure provided so that he could understand the extent to which there was cross subsidy between sectors or not. He asked for further clarification of the outturn by sector following earlier indications given to the Board on the extent to which income and expenditure were in or out of balance each year in each sector. Russell advised that earlier indications were indicative, based on cost allocation assumptions which had been tested and revised, and that, allowing for the

fact that there would always be a degree of subjectivity in the cost allocation assumptions, the outturn by sector indicated in the report was accurate.

Ian Leitch highlighted the outturn achieved in each of the past five years, which indicated a range of surpluses and the Board discussed the parameters within which Audit Scotland operated, including the legislation governing breaking even, the budgeting cycle and the practice of budgeting income at the mid-point of indicative fee ranges. He suggested that the tolerance level for income/expenditure variances by sector should be reduced from the proposed 10 per cent to 5 per cent. It was agreed that as part of the summer budgeting round the Assistant Auditor General would model the impact of that shift, and consider the implications for managing the business.

Ian Leitch also proposed that in principle, the budget should be based on the minimum required from the SCPA, and that any additional or unexpected expenditure should be sought by in year requests for additional budget provision. The Auditor General highlighted the strengths of the current budgeting arrangements in securing the independence of audit funding from the Government, an important principle of public audit, as funding for the Scottish Parliament's running costs and Audit Scotland's costs in auditing government were effectively top-sliced from the Scottish block grant. She raised concerns about the potential for eroding that principle of independence to move to a model that would require Government approval of funding proposals in year, while recognising that an improved approach to budgeting, given the reduced resources now in place, would be important in maintaining a sound approach to financial management.

It was agreed that the Assistant Auditor General and the Chief Operating Officer would develop further options for enhancing the budgeting process alongside the preparation of the 2016/17 budget, which the board would consider at its August 2015 meeting.

Action(s):

- **As part of the summer budgeting round, the Assistant Auditor General would model the impact of a shift from 10 to 5 per cent in the tolerance level. (August 2015)**
- **The Assistant Auditor General and the Chief Operating Officer will develop further options for enhancing the budgeting process alongside the preparation of the 2016/17 budget. (August 2015)**

b) Procurement Strategy Discussion

Russell introduced his Procurement Strategy Discussion report, which had been previously circulated.

Following detailed discussion, the Board agreed to the following provisional conclusions to shape the next stages in developing the procurement plan:

Paragraph 30

Primary consultancy support for performance audit work should be considered separately from this procurement exercise.

Paragraph 32

A single joint procurement exercise should be undertaken on behalf of the Auditor General and the Accounts Commission.

Paragraph 40

The procurement exercise should support a mixed market in the provision of public audit services in Scotland.

Paragraph 47

In house teams should not be required to bid in the tender exercise, but should be able to demonstrate quality and value for money.

Paragraph 54

There are no audit quality related reasons to indicate that a significant shift in the balance of work between in house teams and firms in either direction is needed as the analysis suggests that the current position remains appropriate.

Paragraph 57

There are no price related reasons (taking a UK level view of VAT) to suggest that a significant shift in the overall balance of work between in house teams and firms in either direction is needed as the analysis suggests that the current position remains appropriate.

Paragraph 66

Rotation of auditors should continue to be one of the factors used in determining audit portfolios and, apart from any audits where the Auditor General for Scotland or the Accounts Commission reserve them to Audit Scotland staff, allocations should meet the requirements regarding rotations for listed companies in the EU.

Paragraph 68

Auditors should be asked to submit tenders for each sector where they are seeking appointment.

Paragraph 74

The length of appointments should be five years with the option to extend for up to a further two years.

Paragraph 79

The costs of the subcontract model outweigh its advantages and the Auditor General and the Accounts Commission should appoint audit firms to sign opinions in their own names.

Paragraph 80

The procurement exercise should be undertaken using the open tender route.

Paragraph 85

There should be a link between overall scores and the size of portfolios awarded to successful firms.

Paragraph 87

Audited body involvement should continue to comprise communication of the procurement strategy and confirmation of there being no reason why the provisional appointment should not be confirmed.

The Board thanked Russell for the discussion paper and welcomed the report.

c) **Securing the audit**

Russell introduced his report on Securing the Audit which provided an overview of the objectives, timeline and governance of the project to procure the next round of audit appointments using a new Code of Audit Practice.

The Auditor General reminded the Board of the significance and scale of this project and provided an update on discussions with Russell about additional resourcing to support the work.

Following discussion, the Board noted the report and agreed to consider revisions to the Code of Audit Practice by correspondence before the August 2015 board meeting.

18. Publications Schedule

The Board noted the Publications Schedule to the end of 2015, which had been previously circulated.

19. AOB

The Chair requested an update on the Bribery Act and the extent to which Audit Scotland complied with same.

Action(s):

- **The Chief Operating Officer agreed to provide an update on Audit Scotland's compliance with the Bribery Act. (September 2015)**

20. Date of Next Meeting

It was noted that the next Audit Scotland Board meeting would be held on **Wednesday 19 August 2015** in the offices of Audit Scotland, 8 Mandela Place, Glasgow following the conclusion of the meeting of the Audit Committee and Remuneration and HR Committee.

Minutes of Meeting of **Audit Scotland** held on 19 August 2015 in the offices of Audit Scotland at 8 Nelson Mandela Place, Glasgow

PRESENT: I Leitch (Chair)
C Gardner
D Sinclair
H Logan

APOLOGIES: John Maclean

IN ATTENDANCE: D McGiffen, Chief Operating Officer
R Frith, Assistant Auditor General
M Walker, Assistant Director, Corporate Performance and Risk
I Metcalfe, Corporate Projects Officer
D Hanlon, Corporate Finance
A Devlin, Corporate Governance Manager
M Taylor, Assistant Director, Audit Services

<u>Item No</u>	<u>Subject</u>
1.	Apologies
2.	Declarations of Interest
3.	Chair's Report
4.	Accountable Officer's Report
5.	Accounts Commission Chair's Report
6.	Minutes
7.	Review of Action Tracker
8.	Q1 Corporate Performance 2015/16
9.	Q1 Becoming World Class Improvement Programme Update
10.	Q1 Financial Performance 2015/16
11.	Budget Proposal 2016/17 – Assumptions and Cost Outcomes
12.	Property Update – 102 West Port, Edinburgh
13.	Government Banking Service
14.	New Financial Powers Update
15.	Corporate Governance Policies and Codes of Conduct Review
16.	Complaints Procedure
17.	Becoming World Class – Securing World Class Audit
	(a) Audit Procurement Strategy Discussion
	(b) Draft Revised Code of Audit
	(c) Application of Ethical Standards for Auditors to the Role of the Board
18.	Audit Committee Effectiveness and Board Member Induction
19.	Proposed Board Meeting Dates 2016
20.	AOB
21.	Date of next meeting

1. Apologies

The Chief Operating Officer, Diane McGiffen, advised that the Chair, John Maclean had given his apologies for the meeting. Under Standing Order 12, the Board nominated one of the SCPA appointed board members, Ian Leitch, to chair the meeting.

2. Declarations of Interest

Ian Leitch declared his membership of the Scottish Legal Complaints Commission. Heather Logan and Douglas Sinclair declared their membership of the Audit and Advisory Committee of the Scottish Public Services Ombudsman (SPSO).

3. Chair's Report

In John Maclean's absence, there was no report from the Chair.

4. Accountable Officer's Report

Caroline Gardner provided an update on her activity since the previous board meeting. She advised that work was underway preparing for the start of the new parliamentary session. She reported that Audit Scotland was currently in the peak period for the delivery of audit work and that all of the NHS final accounts work had been completed and reported by the end of June, and colleagues were working to conclude the local government work by the end of September. She advised that the clarity of audit conclusions and quality of audit reporting was very good but that issues of financial sustainability in some public bodies were being highlighted. She advised that she would attend her penultimate meeting of the International Ethics Board for Accountants meeting in New York on 12 to 14 September 2015.

Finally, Caroline highlighted to the Board the continued volume of work underway in addition to core audit activity across a number of projects including the review of correspondence handling, and the relocation to 102 West Port.

Following discussion, the Board thanked Caroline for the update.

5. Accounts Commission Chair's Report

Douglas Sinclair drew the Board's attention to the Accounts Commission's Strategy for 2015/16 which had been recently published and reported on the conclusion of recent best value audits in East Dunbartonshire and Falkirk councils. He provided an update on recruitment to the Accounts Commission and advised that there had been a strong response following a new approach to raising awareness of the role of the Commission for new applicants.

The Board thanked Douglas for the update.

6. Minutes of the meeting dated 4 June 2015

The minutes of the meeting dated 4 June 2015, which had been previously circulated, were agreed as an accurate record.

7. Review of Action Tracker

The board noted the update provided by the Action Tracker, which had been previously circulated.

8. Q1 Corporate Performance 2015/16

Martin Walker, Assistant Director, Corporate Performance and Risk, and Ian Metcalfe, Corporate Performance Officer, joined the meeting.

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the Q1 Corporate Performance report which had been previously circulated. Martin explained the new ratings for some indicators in the report which had moved from green to amber as part of raising the bar on performance. The Board discussed the report and the work to develop the performance reporting system and requested that the report be simplified and shortened where possible. It was agreed that Martin would provide a timetable for the implementation of the new performance management and reporting system once further work had been undertaken with the business on an implementation timetable.

The Board noted the Q1 Corporate Performance report.

Action(s):

- **Martin Walker to provide a timetable for implementing the new performance management and reporting system following further consultation with the business on implementation. (October 2015)**

9. Q1 Becoming World Class Improvement Programme Update

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the Q1 Becoming World Class Performance report, which had been previously circulated, and highlighted the overall positive progress made in the previous quarter.

There was discussion of the report and the Board welcomed the update that it provided.

Martin Walker, Assistant Director, Corporate Performance and Risk, and Ian Metcalfe, Corporate Performance Officer, left the meeting.

10. Q1 Financial Performance 2015/16

David Hanlon, Corporate Finance Manager, joined the meeting.

David Hanlon, Corporate Finance Manager, introduced the Q1 Financial Performance 2015/16 report, which had been previously circulated and had been considered in detail at the earlier meeting of the Audit Committee.

The Board noted the report.

11. Budget Proposal 2016/17 – Assumptions and Cost Outcome

David Hanlon, introduced the Budget Proposal 2016/17 report, which had been previously circulated. David invited the Board to discuss the initial proposals and the options available in setting the budget.

The Board sought clarification on a number of assumptions, including the provision made for additional work to support the new fiscal framework for Scotland, the actions taken to address areas of underspending in previous years, the impact of increased costs and the assumptions made about interest calculations. The Board referred to discussion at the earlier Audit Committee and the need to develop a clear narrative for the 2016/17 budget proposal in the context of managing budgetary pressures, the possibility of longer-term adjustments to funding and the implications for fees.

The Board noted that the budgetary assumptions under consideration would give a more favourable fee position for audited bodies than set out last year and despite the cost pressures being faced.

Following detailed discussion, the Board agreed the broad assumptions outlined in the report as the basis for preparing a detailed budget paper for consideration at the September Board meeting.

12. Property Update – 102 West Port, Edinburgh

David Hanlon, introduced the Property Update, 102 West Port, Edinburgh report, which had been previously circulated. David invited the Board to note the work underway for the forthcoming move to our new office at 102 West Port, Edinburgh, including details on the appointment of our fit-out contractor.

Following discussion, the Board noted the update.

13. Government Banking Service

David Hanlon, Corporate Finance Manager, introduced the report on the Government Banking Service, which had been previously circulated and invited the Board to approve the opening of a new bank account with National Westminster to allow access to the Government Banking Service.

Following discussion, the Board approved the opening of the new bank account.

Action(s):

- **The Corporate Finance Manager to arrange for the opening of the new National Westminster bank account. (August 2015)**

David Hanlon, Corporate Finance Manager, left the meeting.

14. New Financial Powers Update

Mark Taylor, Assistant Director, Audit Services, joined the meeting.

Mark Taylor, Assistant Director, Audit Services, introduced the New Financial Powers Update report, which had been previously circulated. Mark invited the Board to note some of the key developments surrounding further financial devolution and the strengthening of organisational arrangements in this area.

Following discussion about the opportunities and risks for public bodies and Audit Scotland, the Board noted the report and thanked Mark for his update.

Mark Taylor, Assistant Director, Audit Services, left the meeting.

15. Corporate Governance Policies and Codes of Conduct Review

The Board approved the Corporate Governance Policies and Codes of Conduct report, which had been previously circulated and discussed in detail at the earlier meeting of the Audit Committee.

16. Complaints Procedure

The Complaints Procedure report, which had been previously circulated invited the Board to approve the changes to the complaints handling arrangements for Audit Scotland.

Following discussion, the Board approved the changes to the complaints handling arrangements for Audit Scotland.

17. Securing World Class Audit

There were submitted three reports by the Assistant Auditor General, which had been previously circulated, and the Board considered each report.

a) Audit Procurement Strategy Discussion

Russell Frith, Assistant Auditor General, introduced his discussion paper on Audit Procurement Strategy which provided an update from discussions at the June 2015 board meeting. He reported that he had met with Ian Leitch and Heather Logan between board meetings for a more detailed discussion of their concerns.

Ian Leitch stated that he was disappointed with the report and did not feel that it reflected the conclusion of the discussions that had been held, in particular in relation to the expectations on the Audit Services Group to demonstrate value for money alongside the procurement process. He reported that he was also concerned that the interpretation of statutes may be overly narrow or erroneous.

Russell apologised to the Board that the wrong version of the procurement report had been circulated, and that a later version existed which made reference to some of the discussion held between board meetings, but which still wouldn't fully meet Ian Leitch's expectations on some points. He agreed that the procurement process and other activities should support the demonstration of value for money by all providers, and in his view that analysis previously provided to the Board went some way towards that.

Heather Logan shared her concerns about the report. She felt that it was useful to restate the positions of the various parties to the public audit model, but that the role of the non executives on the Board was to secure value for money. She had welcomed the meeting with Ian and Russell and thanked Russell and his team for the work that had gone into it. She stated that it was the Accounts Commission and the Auditor General's role to set the strategy for audit and the Board's role to ensure value for money in the delivery of that strategy. She advised that she was not yet persuaded that the percentage of work recommended for in-house and external providers, or the factors used in constructing the portfolios of work could be demonstrated to deliver best value. She commented on the difference in costs across sectors and asked for clarification on how the portfolios are allocated and appointments made.

Heather commented that there was still work to be done to demonstrate the arguments for one model against another, and that therefore serious consideration should be given to the option of a dual tender process where bidding was done as in previous exercises and

also invited for packages of work. She stated that although the status quo might be the best choice, the evidence to support that conclusion was not reflected in the report, and nor was the discussion about the option to run a dual tender process in which firms bid for unspecified packages of audits.

There was discussion of the potential for a range of procurement options to deliver different levels of cost savings, and there was discussion of the pros and cons of each model.

The Chair of the Accounts Commission, Douglas Sinclair, and the Auditor General, Caroline Gardner, then discussed the benefits to them of having a strong in-house team to deliver and demonstrate value for money. Douglas advised that the Accounts Commission had considered Russell's report on procurement at its August meeting and had supported the recommendations subject to adding an independent external panel member to the selection process.

Following further detailed discussion, the Board agreed that work on the procurement strategy should continue, with:

- Russell Frith preparing a report to explore options to run a procurement exercise based on unspecified and designated packages of audits.
- Fiona Kordiak developing proposals on which to assess the value for money and added value provided by the in-house team.

Action(s):

- **The Assistant Auditor General to explore options to run a procurement exercise based on unspecified and designated packages of audits.**
(September 2015)
- **The Director of Audit Services Group to develop proposals on which to assess the value for money and added value provided by the in-house team.**
(September 2015)

b) Draft Revised Code of Audit

Russell introduced the Draft Revised Code of Audit report, which had been previously circulated. He provided an update on the consultation that had taken place with external and internal stakeholders and drew the Board's attention to the key changes and developments of the Code, in particular:

- Providing more description of the requirements of the wider scope audit.
- Extending requirements under ISAs to better reflect the public sector context.
- The Accounts Commission's description of the expectations of auditors in assessing best value.

Russell explained that the next steps would involve wider stakeholder consultation for two months, including audited bodies, firms, Parliament, COSLA/SOLACE, professional institutes and national audit agencies.

Following discussion, the Board noted the Code of Audit Practice and the next steps in finalising it.

c) **Application of Ethical Standards for Auditors to the Role of the Board**

The Board discussed the report on the Application of Ethical Standards for Auditors to the Role of the Board which invited members to consider the principle of adoption of the principles of the Ethical Standards for Auditors to its role.

Ian Leitch expressed his disagreement with the report's interpretation and proposed application of Ethical Standards for Auditors to the board, in particular he did not accept that the Board was "akin" to the partners in an audit firm. He felt the proposed application of the standards outweighed the benefits, by overly restricting the involvement that board members could have in the wider public sector. Heather Logan echoed that view and advised that in her view the restrictions were unnecessary as none of the independent board members were involved directly in audit. There was also consideration of the role of the Scottish Commission for Public Audit in appointing board members and the discussion that had been held at interview and on appointment with board members about their interests and roles in other organisations.

The Chair of the Accounts Commission, Douglas Sinclair advised that he had more sympathy with the position set out in the report, given the importance of perception in matters of ethics and conduct and that in his view, where reputational risk is concerned it would be better to be over-cautious.

The Auditor General, Caroline Gardner, expressed her sympathy with the paper's attempts to find a way of applying the ethical standards that apply to auditors and audit firms to the key governance body for Audit Scotland, the Board. She recognised that the issues involve fine judgement, and that there are restrictions in place for the boards of the other UK audit bodies. She advised that if the independent Board members do not feel that the proposals are the way ahead, it would be best to take a step back and consider what safeguards could be put in place to support the general principles of the ethical standards and to enhance the current position.

Following discussion, it was agreed that Russell would undertake further discussion with the SCPA to look at the current requirements for board members and that further options would be developed to take into account the perspectives of all board members, and to clarify the actions that should be taken by board members when a conflict or perception of a conflict arises.

Action(s):

- **The Assistant Auditor General to develop further options including practical guidance on handling conflicts. (October/November 2015)**

18. Audit Committee Effectiveness and Board Member Induction

The Board noted the report and actions on Audit Committee Effectives and Board member induction, which had been previously circulated and discussed at the earlier meeting of the Audit Committee.

19. Proposed Board Meeting Dates 2016

Diane McGiffen, Chief Operating Officer, introduced the Proposed Board Meeting Dates 2016 report, which had been previously circulated and discussed at the earlier meeting of the Audit Committee.

Following discussion, the Board invited Diane to revisit the scheduling and location of the board and committee meetings and to prepare revised proposals for the September meeting.

Action(s):

- **The Chief Operating Officer to prepare a revised scheduled for Board meetings in 2016. (September 2015)**

20. AOB

Ian Leitch requested that an alternative date be sought for the September board meeting to allow him to attend. The Chief Operating Officer explained the rationale for the schedule and that she would discuss with the Secretary to the SCPA whether the timetable for this year's budget submission would be altered given the UK spending review.

Action(s):

- **The Chief Operating Officer to discuss the parliamentary timetable for budget submissions with the Secretary to the SCPA and advise on options for the budget submission and the September meeting date. (August/September 2015)**

21. Date of Next Meeting

It was noted that the next Audit Scotland Board meeting would be held on **Thursday 17 September 2015** in the offices of Audit Scotland, 110 George Street, Edinburgh.

Minutes of Meeting of **Audit Scotland** held on 17
September 2015 in the offices of Audit Scotland
at 110 George Street, Edinburgh

PRESENT: J Maclean (joined the meeting by conference call)
I Leitch (Chair)
C Gardner
D Sinclair
H Logan

APOLOGIES: None

IN ATTENDANCE: D McGiffen, Chief Operating Officer
R Frith, Assistant Auditor General
M Walker, Assistant Director, Corporate Performance and Risk
D Hanlon, Corporate Finance
F Kordiak, Director of Audit Services
A Devlin, Corporate Governance Manager

<u>Item No</u>	<u>Subject</u>
1.	Apologies
2.	Declarations of Interest
3.	Chair's Report
4.	Accountable Officer's Report
5.	Accounts Commission Chair's Report
6.	Minutes
7.	Minutes of the meeting of Remco dated 19 August 2015
8.	Review of Action Tracker
9.	Budget Proposal 2016/17
10.	Property Update – 102 West Port, Edinburgh
11.	Securing World Class Audit (a) Audit Procurement Strategy (b) Demonstrating Best Value
12.	Draft Information Services Strategy 2015-18
13.	Review of Information Governance Policies
14.	Review of Whistleblowing and Counter Fraud Policies
15.	Anti-Bribery Arrangements Update
16.	Proposed Board Meeting Dates 2016
17.	AOB
18.	Date of next meeting

1. **Apologies**

There were no apologies.

Ian Leitch advised that he would be chairing the meeting at John Maclean's request, given that John was joining by conference call.

2. **Declarations of Interest**

Ian Leitch declared his membership of the Scottish Legal Complaints Commission. Heather Logan and Douglas Sinclair declared their membership of the Audit and Advisory Committee of the Scottish Public Services Ombudsman (SPSO).

3. **Chair's Report**

John Maclean advised that he had postponed a couple of meetings, but would reschedule these. He reported back on a telephone discussion with Paul Grice, Chief Executive of the Scottish Parliament and would complete the board members' assessment by the end of September.

4. **Accountable Officer's Report**

Caroline Gardner provided an update on her activity since the previous board meeting, including attendance at the Scottish Parliament Public Audit Committee meetings on 2 and 9 September 2015. She advised that the meetings had included a very constructive discussion as the Committee considered its workplan for the coming session in the context of the Scottish Parliament preparing for greater scrutiny of devolved matters. She outlined some new ways of working that would be piloted over the coming months with the Committee.

Caroline advised that the autumn would be a very busy period for colleagues, with the move to 102 Westport, workshops for all colleagues on the progress and next steps on the Building a Better Organisation programme and local authority reports and accounts sign off at the end of September. She advised on a higher than usual number of Section 22 reports emerging, and that the SPCB and Scottish Government audits were on track. She reported on her attendance at the International Ethics Board for Accountants meeting in New York on 12 to 14 September 2015. Finally, Caroline advised that she was hosting the NOCLAR Taskforce Conference in Edinburgh on 1 and 2 October.

Following discussion, the Board thanked Caroline for the update.

5. **Accounts Commission Chair's Report**

Douglas Sinclair advised the Board on recruitment to the Accounts Commission and confirmed the appointment of three new members: Sophie Flemig, Sheila Gunn and Geraldine Wooley.

He reported on a meeting with Aberdeen Council following their Best Value report, and that the Deputy Chair, Ronnie Hinds had held a meeting with Falkirk council following their Best Value report. He also reported on a meeting with the board of the local government benchmarking service and discussions about how benchmarking information is used to drive performance. He reported on a very useful presentation to the Accounts Commission by Mike Owen, Interim Chief Executive, Bury Metropolitan Borough Council,

and Mike Thomas, Director, Grant Thornton, on developments with the Greater Manchester Combined Authority.

The Board thanked Douglas for the update.

6. Minutes of the meeting dated 19 August 2015

The minutes of the meeting dated 19 August 2015, which had been previously circulated, were agreed as an accurate record.

7. Minutes of the meeting of Remco dated 19 August 2015

The minutes of the meeting of the Remuneration and Human Resources Committee meeting dated 19 August 2015, which had been previously circulated, were agreed as an accurate record.

8. Review of Action Tracker

The board noted the update provided by the Action Tracker, which had been previously circulated.

9. Budget Proposal 2016/17

David Hanlon, Corporate Finance Manager, joined the meeting.

David Hanlon, Corporate Finance Manager, introduced the Budget Proposal 2016/17 report, which had been previously circulated. David provided a summary of the strategic context within which the budget proposal was being prepared and described the options for setting fees for the 2015/16 audit year, including a preferred option. David invited the Board to consider the strategic and operational context for the 2016/17 budget proposal.

Ian Leitch advised that he felt the report was good, and that he had benefitted from attendance at a Management Team meeting in August, when an earlier draft had been discussed and from further discussion with the Chief Operating Officer.

The Board discussed the assumptions in the report and the narrative that should be developed to support the budget proposals. The Board considered the supporting material that would be supplied to the SCPA and agreed that this should be consistent with previous years, subject to any requests from the Secretary to the SCPA.

John Maclean advised that he felt the discussion and consideration of the budget and fee proposals had created a better understanding of the process, although that process may still be difficult to explain externally. He advised that the budget narrative should develop further the demonstration of the value added by effective audit, and not simply focus on the costs and charges.

Following further detailed discussion the Board agreed to:

- Approve the preferred option 1 outlined in the report to freeze fees in cash terms, providing real terms reduction.
- Invite the Chief Operating Officer and Assistant Auditor General to develop the budget narrative further to reflect the value of audit, the cost pressures and their impact and the wider strategic considerations facing Audit Scotland including greater

fiscal devolution, the next procurement round and revisions to the fees and costing models.

Action(s):

- **The Chief Operating Officer and Assistant Auditor General to develop the budget narrative to reflect the value of audit, the cost pressures and their impact and wider strategic considerations facing Audit Scotland to include greater fiscal devolution, the next procurement round and revisions to the fees and costing models. (October 2015)**

10. Property Update – 102 West Port, Edinburgh

David Hanlon introduced the Property Update – 102 West Port, Edinburgh report which had been previously circulated. David invited the Board to note the developments and continued work around planning and preparation for the forthcoming move.

The Board welcomed the report.

David Hanlon, Corporate Finance Manager, left the meeting.

11. Securing World Class Audit

(a) Audit Procurement Strategy – Final Decisions

Russell Frith, Assistant Auditor General, introduced the Audit Procurement Strategy – Final Decisions Report, which had been previously circulated.

Russell invited the Board to discuss the paper, taking account of the further information provided on alternative approaches, and invited the Board to agree the procurement strategy as outlined in section 2 of the report.

The Board discussed the advice that had been provided by Procurement Scotland.

Douglas Sinclair advised that following consideration and discussion of various reports on procurement options, the Accounts Commission was content with the approach detailed in section 2.

Following discussion, the Board agreed that the examination of procurement options had tested the existing approach and alternatives and generated better understanding of the risks and opportunities of various approaches. The Board recognised that the existing approach of inviting bids by sectors had demonstrated its ability to deliver a sustainable, competitive market over a long period of time.

The Board approved that the procurement approach should be to seek bids by sector, and approved the timetable set out in the report.

Action(s):

- **Russell Frith, Assistant Auditor General, to progress the procurement of new audit appointments by seeking bids by sector and to report back to the Board at regular intervals during the exercise. (February 2016)**

(b) **Demonstrating Best Value**

Fiona Kordiak, Director of Audit Services, joined the meeting.

Fiona Kordiak, Director of Audit Services, introduced the report on Demonstrating Best Value, a copy of which had been previously circulated.

Fiona invited the Board to note the information relating to the approach of Audit Services Group (ASG) will take to demonstrate that it represents value for money and welcomed any comments on the proposed approach.

Following discussion, the Board welcomed the report.

Action(s):

- **Fiona Kordiak, Director of Audit Services, to prepare a report for the meeting of the Board in October 2015 to provide information on how the Audit Services group demonstrates best value. (October 2015)**

Fiona Kordiak, Director of Audit Services, left the meeting.

12. Draft Information Services Strategy 2015-18

David Henning, Information Services Manager, joined the meeting.

David Henning, Information Services Manager, introduced the Draft Information Services Strategy 2015-18 report, which had been previously circulated. David invited the Board to consider and comment on the proposed strategy and, subject to approval, the next steps.

The Board discussed the cultural issues involved in making the strategy a success, and sought and received confirmation that the strategy was adequately resourced. In response to questions, David explained how information flows could be managed effectively by using subscription based messaging services, for example, to give colleagues more autonomy over the volume of information they receive.

Caroline advised that she welcomed the balance between resilience and innovation that the strategy achieved. She also invited the Board to recognise the real peak of effort that David and his team were making to progress the West Port building, and the Board registered its appreciation for that work.

John Maclean asked if we knew what the relevant strategy would look like in a firm and whether the investment and approach to information services among firms could be explored during the procurement round. Russell Frith agreed to look in to that. Following discussion, the Board approved the strategy and welcomed the report.

David Henning, Information Services Manager, left the meeting.

In a further discussion, the Board asked the Remuneration Committee to consider succession planning for information services roles and market information on salaries.

13. Review of the Information Governance Policies

Alex Devlin, Corporate Governance Manager, joined the meeting.

Alex Devlin, Corporate Governance Manager, introduced the Review of the Information Governance Policies report, which had been previously circulated.

Alex invited the Board to re-approve the Data Protection, Freedom of Information, Records Management and Information Security policies for a further year.

The Board acknowledged the proposed review to rationalise, consolidate and simplify these policies wherever possible to ensure consistency with the culture of empowering and enabling colleagues to work in a more flexible way.

Following discussion, the Board approved the policies for a further year.

14. Review of the Whistleblowing and Counter Fraud Policies

Alex Devlin, introduced the report on the Review of the Whistleblowing and Counter Fraud Policies, which had been previously circulated.

Alex advised the Audit Committee had agreed to recommend the policies to the Board for re-approval and publication on 19 August 2015.

Following discussion, the Board agreed to approve the policies for publication.

Action(s):

- **Alex Devlin, Corporate Governance Manager, to publish the Whistleblowing and Counter Fraud policies. (September 2015)**

Alex Devlin, Corporate Finance Manager, left the meeting.

15. Anti-Bribery Arrangements

Diane McGiffen, Chief Operating Officer, introduced the report on Anti-Bribery Arrangements, which had been previously circulated. Diane invited the Board to note Audit Scotland's continued compliance with the Bribery Act 2010.

Following discussion, the Board welcomed the assurance reported.

16. Proposed Board Meeting Dates 2016

Diane McGiffen, introduced the report Proposed Board Meeting Dates 2016, which had been previously circulated. Diane invited the Board to consider and approve the revised schedule of meeting dates during 2016.

Following discussion, the Board approved the meeting dates for 2016 as set out in the report.

Action(s):

- **Diane McGiffen, Chief Operating Officer, to publish the schedule of meeting dates for the Board, Audit Committee and Remuneration and Human Resources for 2016. (September 2015)**

17. **AOB**

There was no further business.

18. **Date of Next Meeting**

It was noted that the next Audit Scotland Board meeting would be held on **Thursday 29 October 2015** in the offices of Audit Scotland, 102 West Port, Edinburgh.

Minutes of Meeting of **Audit Scotland** held on 29
October 2015 in the offices of Audit Scotland at
102 West Port, Edinburgh

PRESENT: I Leitch (Chair)
C Gardner
H Logan
R Griggs

APOLOGIES: D Sinclair

IN ATTENDANCE: D McGiffen, Chief Operating Officer
R Frith, Assistant Auditor General
M Walker, Assistant Director, Corporate Performance and Risk
D Hanlon, Corporate Finance Manager
F Kordiak, Director of Audit Services

<u>Item No</u>	<u>Subject</u>
1.	Apologies
2.	Declarations of Interest
3.	Chair's Report
4.	Accountable Officer's Report
5.	Accounts Commission Chair's Report
6.	Minutes
7.	Review of the Actions Tracker
8.	Budget Proposal 2016/17
9.	Property Update – 102 West Port, Edinburgh
10.	Securing World Class Audit (a) Audit Procurement Update (b) Demonstrating Best Value (c) Improving the Quality of NHS Accounts – Follow Up Review
11.	Making a Difference (a) World Class Programme Development Update
12.	Board Openness and Transparency
13.	Audit Scotland Web Demonstration
14.	AOB
15.	Date of next meeting

1. Apologies

Apologies had been previously received from Douglas Sinclair for the meeting.

The members noted the Board was not quorate. The members present agreed to consider the agenda items and that a note be kept of any discussion. Where decisions were required, it was recommended approval would be sought via correspondence.

2. Declarations of Interest

Ian Leitch declared his membership of the Scottish Legal Complaints Commission. Heather Logan declared her membership of the Audit and Advisory Committee of the Scottish Public Services Ombudsman (SPSO).

3. Chair's Report

Ian Leitch welcomed Russel Griggs to the Board.

Ian advised of his forthcoming meeting with the Convener of the SCPA and of meetings held with Caroline Gardner and Diane McGiffen.

4. Accountable Officer's Report

Caroline Gardner provided an update on her activity since the previous board meeting, including attendance at the Scottish Parliament Public Audit Committee meetings on 23 September, 7 and 28 October 2015.

Caroline advised that the NOCLAR Taskforce Conference hosted in Edinburgh on 1 and 2 October had been an informative meeting.

Caroline noted that the last month had been an extremely busy time for Audit Scotland, almost all of the concurrent opinions and annual audit reports were now complete and the clarity and quality of reporting had continued to improve. Caroline also noted ongoing work around recent publications including the NHS overview report and statutory reports and highlighted some future scheduled reports.

Following discussion, members of the Board thanked Caroline for the update.

5. Accounts Commission Chair's Report

In Douglas Sinclair's absence there was no report.

6. Minutes of the meeting dated 17 September 2015

The minutes of the meeting dated 17 September 2015, which had been previously circulated, were agreed by those present as an accurate record.

7. Review of the Actions Tracker

The members noted the update provided by the Action Tracker, which had been previously circulated and agreed that completed actions should be removed from the tracker once these had been reported.

Action(s):

- **The Chief Operating Officer to revise content of action tracker. (From December 2015)**

8. Budget Proposal 2016/17

David Hanlon, Corporate Finance Manager, joined the meeting.

David Hanlon, Corporate Finance Manager, introduced the Budget Proposal 2016/17 report, which had been previously circulated. David provided a summary of the report and invited the members to consider the 2016/17 budget proposal for submission to the SCPA.

Members sought clarification on some aspects of the report and discussed a range of issues including audit fees, quality assurance and the application of regulations on the application of the EAFA audit process.

Following further detailed discussion members were supportive of the 2016/17 budget proposal subject to some minor amendments to the wording

Action(s):

- **The Corporate Finance Manager to refine budget proposal in advance of SCPA meeting scheduled for 03 December (November 2015)**

9. Property Update – 102 West Port, Edinburgh

David Hanlon, Corporate Finance Manager, introduced the Property Update – 102 West Port, Edinburgh report which had been previously circulated. David invited the Board to note the developments and continued work around planning and preparation for the impending move.

The members welcomed the report and expressed its thanks to the members of staff who had been working so hard to deliver the project.

The members also briefly discussed options around inviting key stakeholders to view the new office accommodation.

David Hanlon, Corporate Finance Manager, left the meeting.

10. Securing World Class Audit

(a) Audit Procurement Update

Russell Frith, Assistant Auditor General, introduced the Audit Procurement Update report, which had been previously circulated.

Russell invited the members present to discuss the paper, taking account of the further information provided, and welcomed any comments.

The members discussed the update report, noted the next steps in the process and, following discussion, welcomed the update.

(b) **Demonstrating Best Value**

Fiona Kordiak, Director of Audit Services, joined the meeting.

Fiona Kordiak, Director of Audit Services, introduced the report on Demonstrating Best Value, a copy of which had been previously circulated.

Fiona invited the members to note the detailed information relating to Audit Services Group's approach to demonstrating Best Value and welcomed any comments on the approach.

Board members welcomed the comprehensive nature and clarity of the report and went on to ask questions about and offer comments on some aspects of the paper.

Following discussion, the members welcomed the report.

Fiona Kordiak, Director of Audit Services, left the meeting.

(c) **Improving the Quality of NHS Accounts – Follow Up Review**

Russell Frith, Assistant Auditor General, introduced the report on Improving the Quality of NHS Accounts – Follow Up Review, a copy of which had been previously circulated.

Russell invited the Board members to note the improvements achieved to accounts submitted and the further work planned to assist in the continued development of financial reporting.

Following discussion, the members welcomed the report.

11. World Class Programme Development Update

Claire Sweeney, Assistant Director – Performance Audit and Best Value, joined the meeting.

Claire delivered a presentation which covered the context and reasons for taking a new approach to programme development and how the new approach will work in practice. She also set out the progress made so far, some practical examples of the new approach, the next steps and associated timescales.

Board members welcomed the overview of the new approach. The members also considered that an overview presentation on the risk assessment process, which informs the programme, would be helpful at a future meeting.

Action(s):

- **The Chief Operating Officer to arrange a presentation on risk assessment arrangements for a future meeting of the Board. (February 2016)**

Claire Sweeney, Assistant Director, Performance Audit and Best Value, left the meeting.

12. Board Openness and Transparency

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the report on Board Openness and Transparency, which had been previously circulated. Martin invited the members to consider the options set out in terms of the Board and its committees meeting in public and on the publication of papers.

Board members discussed the content of the report and relative merits of the various options. The members agreed that there was potential to increase openness and transparency and requested a further report on the practicalities of this to inform further discussion.

Action(s):

- **The Assistant Director, Corporate Performance and Risk, to bring a further paper to the next meeting of the Board. (December 2015)**

13. Audit Scotland Web Demonstration

James Gillies, Communications Manager, and Shirley James, Web Officer, joined the meeting.

James Gillies, the Communications Manager, introduced the report on the Audit Scotland Web Demonstration and Shirley James, Web Officer, presented the new website which was scheduled to be released the week commencing 9 November 2015.

Board members welcomed the opportunity to see the new website before its scheduled launch and recognised the team's hard work in developing and designing the new site.

14. AOB

There was no further business.

15. Date of Next Meeting

It was noted that the next Audit Scotland Board meeting would be held on **Thursday 3 December 2015** in the offices of Audit Scotland, 102 West Port, Edinburgh.

Minutes of Meeting of **Audit Scotland** held on 3
December 2015 in the offices of Audit Scotland
at 102 West Port, Edinburgh

PRESENT: I Leitch (Chair)
C Gardner
H Logan
D Sinclair

APOLOGIES: R Griggs

IN ATTENDANCE: D McGiffen, Chief Operating Officer
R Frith, Assistant Auditor General
M Walker, Assistant Director, Corporate Performance and Risk
S Murray, Finance Officer

<u>Item No</u>	<u>Subject</u>
1.	Apologies
2.	Declarations of Interest
3.	Chair's Report
4.	Accountable Officer's Report
5.	Accounts Commission Chair's Report
6.	Minutes of the meeting dated 29 October 2015
7.	Review of the Actions Tracker
8.	2015/16 Spring Budget Revision
9.	Q2 Financial Performance Report
10.	Q2 Corporate Performance Report
11.	Becoming World Class Improvement Programme: Q2 Update Report
12.	Securing World Class Audit (a) Ethical Standards
13.	Making A Difference (a) Annual Review and Refresh of the Corporate Plan
14.	Board Openness and Transparency
15.	Property Update – 102 West Port
16.	AOB
17.	Date of next meeting

1. Apologies

Apologies had been previously received from Russel Griggs for the meeting.

2. Declarations of Interest

Ian Leitch declared his membership of the Scottish Legal Complaints Commission. Heather Logan declared her membership of the Audit and Advisory Committee of the Scottish Public Services Ombudsman (SPSO).

3. Chair's Report

Ian Leitch advised of his meeting on 5 November 2015 with the Scottish Commission for Public Audit (SCPA) at which there had been discussion of a number of issues including the question of the quorum for Board Meetings. Ian advised that the SCPA will produce a legacy paper at the end of the Parliamentary session, to inform and advise the incoming SCPA. He advised that it was likely there would be a further look at the governance of Audit Scotland. Board members then discussed the existing arrangements for a quorum and the importance of ensuring representation of the Auditor General and the Accounts Commission at Board meetings. It was agreed that there would be further discussion of this issue in the context of the Board considering the existing Standing Orders and Scheme of Delegation in the new year.

Action:

- **The Chief Operating Officer to schedule a discussion at the Board on Standing Orders and the Scheme of Delegation. (February 2016)**

4. Accountable Officer's Report

Caroline Gardner provided an update on her activity since the previous board meeting. She welcomed the move to the new West Port office and the great effect that it was having on colleagues, with people making full use of the range of working areas and spaces. She invited the Board to record its thanks to the Audit Scotland team who had led and delivered the project. The Board echoed Caroline's comments and invited Diane to share the Board's views on the success of the project and appreciation for the contribution of colleagues who had made it happen.

Caroline advised that the Audit Scotland Budget proposal for 2016/17 had been submitted to the SCPA and that she and the Chair would lead the evidence session with Diane and Russell which was scheduled for 10 December 2015.

Caroline provided an update on the work of the Public Audit Committee of the Scottish Parliament, including recent evidence taking sessions on governance at Coatbridge College. She advised that the PAC work programme was now full until the end of the Parliamentary session in March 2016. She updated the Board on forthcoming publications and advised of Audit Scotland's work with the Parliament more widely, for example on the new fiscal framework.

Caroline referred to her attendance at the International Ethical Standards Board for Accountants and NOCLAR Taskforce in New York on 30 November and 1 December 2015, and reminded the Board that those meetings concluded her term of appointment.

She reminded the Board that, as usual, the Audit Scotland offices formally closed between Christmas and New Year, but that arrangements are in place to manage the Comptroller function during that time.

5. Accounts Commission Chair's Report

Douglas Sinclair provided an update on the work of the Accounts Commission since the previous meeting of the Board, including the recent 40th anniversary event to which Board members had been invited. He advised that he had recently met with members and officers at Moray Council to discuss the finding of the recent Best Value audit, and that the progress evident in Moray Council demonstrated the value of regular audit and reporting.

Douglas also advised on the publication, jointly with the Auditor General for Scotland, of the first report on Health and Social Care Integration one of the most significant public sector reforms since 2000.

6. Minutes of the meeting dated 29 October 2015

The Board considered the note of the meeting of Board members on 29 October 2015, which had been previously circulated. Subject to minor amendment the Board members who had been present confirmed the note as an accurate record of their meeting. The Board noted, as they had at the time, that the meeting on 29 October 2015 had been inquorate, but having considered the note adopted and ratified it.

The Chair advised that, as previously discussed the question of the quorum should be considered in early 2016 as part of a review of Standing Orders, alongside the question of proxies.

7. Review of the Actions Tracker

The members noted the update provided by the Action Tracker, which had been previously circulated, subject to minor amendment.

8. 2015/16 Spring Budget Revision

Steve Murray, Finance Officer, joined the meeting.

Russell Frith introduced the 2015/16 Spring Budget Revision report, which had been previously circulated. He invited the members to consider and approve the proposed submission of a request to the SCPA for an amendment to our 2015/16 budget to fund increased pension charges.

Members acknowledged the additional funding would be provided through the Annually Managed Expenditure process.

Following detailed discussion members approved the submission to seek additional funding as set out in the report.

Action(s):

- **The Corporate Finance Manager to submit a request for an amendment to our 2015/16 budget in relation to pension charges. (December 2015)**

9. Q2 Financial Performance Report

Steve Murray, Finance Officer, introduced the Q2 Financial Performance report, which had been previously circulated and had been considered earlier at the meeting of the Audit Committee. Steve invited the Board to note the results for the six months to September 2015.

Following discussion, the members noted the results presented.

Steve Murray, Finance Officer, left the meeting.

10. Q2 Corporate Performance Report

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

Martin invited members to note the level of activity reported with 99% of reports being delivered and only one report rescheduled to Q3. Following discussion an explanation was provided on the impact that the timing of laying Section 22 reports had on the achievement in the quarter.

Douglas commented that he was impressed by the work being undertaken to support wellbeing and personal growth, and there was a discussion about the use of flexible contracts, secondments and the recruitment of trainees.

The members noted the report and the performance achieved in the quarter.

11. Becoming World Class Improvement Programme: Q2 Update Report

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the second quarterly report on the Audit Scotland Becoming World Class Improvement Programme.

Martin invited members to consider the progress reported on the programme and welcomed any comments on proposed actions.

Following discussion, the members noted the report on progress.

12. Securing World Class Audit

(a) Ethical Standards – Further Discussion

Russell Frith, Assistant Auditor General, introduced the discussion paper on Ethical Standards, a copy of which has been previously circulated.

Russell invited members to discuss the application of the principles of the ethical standards to the role of Board members and to agree Audit Scotland's position on the matter.

There was a detailed discussion during which members agreed on the primary importance of independence to the work of the Auditor General, the Accounts Commission and Audit Scotland, and in respect of the board, members benefitted from having a breadth of public sector expertise to draw from. The Board agreed that the question of independence and the application of ethical standards involves consideration of perceptions as well as arrangements to address any actual conflicts.

Following discussion it was agreed that the Board supported the report and that in line with practice in introducing revised ethical standards in the private sector, transitional arrangements should be put in place to allow existing commitments on audit committees to continue until those appointments expired.

It was noted that Heather Logan would therefore write to the Scottish Public Sector Ombudsman to advise that she would not be seeking re-appointment to her role on the Audit and Advisory Committee and to set out how the perception of any conflict with her role on the board would be handled until her existing appointment expired.

It was agreed that all Board members would consider whether any transitional arrangements needed to be made for any of their commitments.

Following discussion, the Board approved the draft statement at Appendix 4

“The Auditor General and the Accounts Commission are solely responsible for securing the audit of public bodies in Scotland. They, the auditors appointed by them and the Controller of Audit are responsible for all audit judgements. Audit Scotland's role is to provide services to the Auditor General and the Accounts Commission.

The Audit Scotland Board's role is to provide oversight and challenge to Audit Scotland's use of resources and rigour to the decision making processes. It is responsible for the preparation of the Corporate Plan, annual budget submitted to the Scottish Parliament, the annual report and accounts and for the setting of audit charges.

The Board has two committees, an audit committee which has oversight of internal control, the appointment and work of internal audit and recommending approval of the annual report and accounts to the Board and; a remuneration and human resources committee which has oversight of significant human resource policies and sets the remuneration of senior staff.

Audit Scotland Board members, acting in that role, do not undertake audit work and the Board has no role in making or approving audit judgements, opinions or reports. Board members do not seek to influence auditors, the Auditor General, the Accounts Commission or the Controller of Audit in the conduct or reporting of any audit work. If any conflicts do arise as a result of holding governance roles at audited bodies then these are handled in accordance with the Code of Conduct for Board members.”

Actions:

- **Heather Logan to write to the SPSO advising of the to resign at the end of her current appointment and outlining the transitional arrangements to be put in place to manage the perception of conflict. (January 2016)**
- **Board members to consider whether any transitional arrangements need to be put in place for existing appointments. (January 2016)**
- **The statement on handling conflicts of interest adopted by the Board to be added to the Audit Scotland website corporate governance section. (December 2015)**

13. Making A Difference – Annual Review and Refresh of the Corporate Plan

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the Annual Review and Refresh of the Corporate Plan which has been previously circulated.

Martin invited the Board to note and comment on the proposed approach to refresh the plan and corresponding timetable.

Following discussion, members approved the approach outlined in the report.

14. Board Openness and Transparency

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the report on Board Openness and Transparency, a copy of which had been previously circulated and invited members to consider the options for, and practical implications of, changes to the arrangements for increased openness and transparency around the conduct of Board business.

The Chair advised that Russel Griggs requested that the item be deferred to the next meeting of the Board so that he could take part in the discussion.

The Board agreed to defer the item to the next meeting.

Action:

- **The Board Openness and Transparency report to be deferred to the next meeting of the Board. (February 2016)**

15. Property Update – 102 West Port, Edinburgh

Diane McGiffen, Chief Operating Officer, provided a verbal on the recent move to new office premises at 102 West Port, Edinburgh.

The Board welcomed the update and thanked staff from across Audit Scotland for enabling a smooth and successful move.

16. AOB

There was no further business.

17. Date of Next Meeting

It was noted that the next Audit Scotland Board meeting had been scheduled for **Thursday 18 February 2015** in the offices of Audit Scotland, 102 West Port, Edinburgh, but that an alternative date was being sought for February.