

Minutes of Meeting of **Audit Scotland** held on 26
February 2016 in the offices of Audit Scotland at
102 West Port, Edinburgh

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

APOLOGIES: None

IN ATTENDANCE: D McGiffen, Chief Operating Officer
R Frith, Assistant Auditor General
M Walker, Assistant Director, Corporate Performance and Risk
S Boyle, Assistant Director, Audit Services Group

<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 3 December 2015
7.	Review of the Actions Tracker
8.	SCPA Report on Audit Scotland's 2016/17 Budget
9.	Q3 Financial Performance Report
10.	Q3 Corporate Performance Report
11.	Q3 Becoming World Class Improvement Programme Report
12.	Securing World Class Audit (a) Audit Procurement Update (b) Funding and Fees – 2016 Issues and Work Plan (c) Public Sector Risk Monitoring
13.	Openness and Transparency of Board Business
14.	AOB
15.	Date of next meeting

1. **Apologies**

There were no apologies.

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 that he had held meetings with Diane McGiffen and Russell Frith to discuss Board matters and the progress of work on fees and funding following the Scottish Commission for Public Audit's report on Audit Scotland's 2016/17 budget. The Chair congratulated Caroline Gardner on her inclusion in the recently published Public Finance list of Top 50 Trailblazers.

4. **Accountable Officer's Report**

Caroline Gardner provided an update on her activity since the previous board meeting, including her involvement on the panel for the Audit Procurement Interviews and early thoughts on the implications of *The agreement between the Scottish Government and the United Kingdom Government on the Scottish Government's fiscal framework*. She advised that there would be an update report to the Board on initial issues and approaches once colleagues had considered and discussed the agreement in detail. She recognised that the framework's emphasis on comprehensive, reliable and transparent reporting was welcomed and provided a good base from which to design Audit Scotland's approach.

Caroline provided an update on the work of the Public Audit Committee and advised the Board that there was only one meeting left before the parliamentary recess for the elections. She also advised that she and Fraser McKinlay, Director of Best Value and Performance Audit and Controller of Audit, would be meeting with the Assistant Chief Executive of the Scottish Parliament to discuss plans for the orientation of new MSPs and how Audit Scotland could support the Parliament in that work.

Caroline commented on the SCPA meeting and report on Audit Scotland's budget proposal for 2016-17, which appeared later on the agenda, and welcomed the approval of the budget proposal.

Finally, Caroline reminded the Board that a reception to mark the opening of Audit Scotland's new office at West Port was planned for 24 March 2016 and that the Presiding Officer of the Scottish Parliament had confirmed her attendance.

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. He advised that the Commission had recently published its third best value report on the City of Edinburgh Council and that the report demonstrated the benefit of follow up reports. He advised that Commission members would be meeting with Argyll and Bute council to discuss the findings of the recent best value review of that council and that the Commission had recently been discussing the issues facing integrated joint boards.

6. Minutes of the meeting dated 3 December 2015

The Board considered the note of the meeting of Board members on 3 December 2015, which had been previously circulated. 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 3 December 2015 had been inquorate, but having considered the note adopted and ratified it.

The Chair advised that, as previously raised, a discussion on the question of the quorum would be considered in conjunction with item 13.

7. Review of the Actions Tracker

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

Martin Walker, Assistant Director, Corporate Performance and Risk sought the agreement of the Board to a revised date for the approval of the Audit Scotland corporate plan by the Board. Following an explanation of the reasons for the request, which included allowing time to reflect on the outcomes of the Accounts Commission's strategy seminar in March, the Board agreed to consider a draft of the Corporate Plan at its May 2016 meeting.

Action:

- **The Action tracker to be revised to include a deadline of May 2016 for the approval of the Corporate Plan. (May 2016)**

8. SCPA Report on Audit Scotland's 2016/17 Budget

The Board noted the SCPA Report on Audit Scotland's 2016/17 Budget and its recommendations, which had been previously circulated. The Chair advised that it was important that Audit Scotland meet the timetable set out in the report.

9. Q3 Financial Performance Report

The Board noted the Q3 Financial Performance report, which had been previously circulated and had been considered earlier at the meeting of the Audit Committee.

10. Q3 Corporate Performance Report

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the report on Q3 Corporate Performance, which had been previously circulated.

Martin invited members to note the level of activity reported with 100% of reports being delivered on schedule in the period and the extent of the coverage these had received together with the activity by the Public Audit Committee.

Heather Logan invited Russell Frith, Assistant Auditor General, to consider how to incorporate a measure of the quality of reviews of firms following the discussion at the earlier Audit Committee meeting on the recent report from the Financial Reporting

Council. Russell advised that his team had been piloting the use of balanced scorecards on the performance of auditors, and that those may provide a useful basis for reporting.

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

Action:

- **Russell Frith, Assistant Auditor General, to consider whether performance reports could include more information on audit quality. (April 2016)**

11. Q3 Becoming World Class Improvement Programme Report

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the third 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. He advised that it was a comprehensive programme of performance improvement and that in the past quarter a number of significant milestones had been reached.

Following discussion, the members noted the report on progress and next steps.

12. Securing World Class Audit

(a) Audit Procurement Update

Russell Frith, Assistant Auditor General, introduced the update report on Audit Procurement, a copy of which had been previously circulated.

Russell invited members to note the current position, results to date and analysis of the 2016 tender exercise for the procurement of private firms together with the proposed next steps.

Members noted that the procurement process was now at the ten day stand-still stage during which unsuccessful bidders could challenge the outcome, so the final results could not be confirmed or communicated until 29 February 2016.

Caroline Gardner advised that the involvement of Procurement Scotland and an independent external adviser working alongside Russell and his team had ensured a robust process, with the right balance of quality over cost.

Following discussion, the members welcomed the update and noted that consideration was now being given to the costs and funding of the quality regime required to provide assurance on the performance of auditors to stakeholders, including the Auditor General for Scotland and the Accounts Commission for Scotland.

The Chair thanked Russell and his team and panel members Caroline Gardner, Heather Logan, Graham Sharp and Fiona Daley for their time and commitment to the procurement process.

(b) Funding and Fees – 2016 Issues and Work Plan

Russell Frith, Assistant Auditor General, introduced the report on Fees and Funding, 2016 Issues and Work Plan, a copy of which had been previously circulated.

The Chair advised that he had met with Russell Frith and Diane McGiffen earlier in the week to discuss the report in detail and that this was the first in a series of papers that would be provided to the Board over the course of the year to meet the commitments made to the SCPA to have a more transparent and simpler fee system in place for the 2016-17 audits.

Russell invited members to note the proposed revised approach to setting fees in order to provide greater transparency, detail of the remaining funding policy issues and the remaining work to be undertaken on policies, sector level issues and individual audit level fees. In addition, Russell invited members to consider the consultation process, results to date and analysis of the 2016 tender exercise for the procurement of private firms together with the proposed next steps.

There was a detailed discussion during which members requested clarifications on the section dealing with integrated joint boards.

Caroline Gardner commented that the report had been helpful in clarifying for members why and how the fee system currently operates and that because a detailed and complex system is being managed, the transition from a formulae driven model to something else had to be modelled robustly. She also advised that external support and challenge would be brought in to the work to ensure that we think through the options and impacts carefully.

Following discussion, the Board:

- noted the progress of the review so far
- agreed to the development of the overall approach
- agreed the proposed way forward on funding issues:
 - to seek funding by the Scottish Consolidated Fund for NHS performance audits
 - to seek funding by the Scottish Consolidated Fund for police and fire performance audit and best value work
- agreed that integrated Joint Board best value work be funded through existing performance audit/best value routes in the short term, but kept under review
- the Board approved the timetable set out in section 9, which would be incorporated into the Board action tracker.

Action:

- **The action tracker to be updated to include the items in section 9 of the report. (March 2016)**

(c) Public Sector Risk Monitoring

Stephen Boyle, Assistant Director, Audit Services Group, joined the meeting.

Stephen Boyle shared with members a presentation on Public Sector Risk Monitoring which provided an overview of our public sector audit risk and assurance framework.

Stephen invited the Board to note the risk management processes which draws on audit intelligence from the shared risk assessments of local authorities, sector wide team risk assessment meetings, hotlist of emerging audit risks and support to sharing intelligence from sectors across the audit teams.

Following discussion, the members welcomed the briefing on Audit Scotland's monitoring of public sector audit risks.

Stephen Boyle, Assistant Director, Audit Services Group, left the meeting.

13. Openness and Transparency of Board Business

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the report on Board Openness and Transparency, a copy of which had been previously circulated. Martin 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.

During detailed discussion, members considered a range of options. Although there was a general consensus on moving to more openness and transparency, Board members also raised concerns about operational arrangements for dealing with the timing of publication of minutes and reports, particularly when changes or corrections had been requested by the Board to the reports presented.

It was agreed that the Board would publish Board papers and minutes after the meeting, and that the Assistant Director, Corporate Performance and Risk would develop further operational guidance to sit alongside the general principles. It was further agreed that the Chief Operating Officer would discuss the operation of the new approach with Management Team and advise the Board in March of a proposed launch date for the new system.

Discussion of the quorum for Board meetings, which had been referenced under item 6, was continued until the next meeting.

Actions:

- **The Chief Operating Officer to advise the Board of a start date for the new approach to publishing board papers. (March 2016)**
- **The Assistant Director, Corporate Performance and Risk to develop operational guidance to sit alongside the principles presented in the report for the Board to consider. (March 2016)**
- **The quorum for Board meetings to be discussed at the next meeting. (March 2016)**

14. AOB

The Chief Operating Officer provided an update on the arrangements for the formal opening of the West Port office.

15. Date of Next Meeting

It was noted that the next Audit Scotland Board meeting had been scheduled for **Thursday 24 March 2016** in the offices of Audit Scotland, 102 West Port, Edinburgh.