

Agenda

Friday 31 March 2017, 10.00am

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

1. Private meeting
 2. Welcome and apologies
 3. Declarations of interest
-

Standing items

4. Chair's report – verbal update
 5. Accountable Officer's report – verbal update
 6. Accounts Commission report – verbal update
 7. Review of minutes:
 - Board meeting, 22 February 2017 For approval
 8. Review of actions tracker For information
 9. Review of Standing Orders Verbal update
-

Governance and business management

10. Audit Scotland Budget 2017/18 For approval
 11. Audit Scotland Annual Report and Accounts For approval
 12. Equality Outcomes: Reflecting back and looking forward For approval
 13. Q3 Financial Performance Report 2016/17 For information
 14. Q3 Performance Report 2016/17 For information
 15. Q3 Becoming World Class Improvement Programme Report 2016/17 For information
-

Strategy and planning

16. Securing World Class Audit: Review of Audit Quality For discussion
 17. Making a Difference: Corporate Plan Update 2017/18 For discussion
 18. Making a Difference: Public Engagement Work with Young Scot For information
-

Conclusion

19. Publication of reports
-

20. Any other business
21. Review of meeting
22. Date of next meeting

Friday 31 March 2017, 10.00am

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

Present:

I Leitch (Chair)
C Gardner
H Logan
R Griggs
R Hinds

Apologies:

None

In attendance:

D McGiffen, Chief Operating Officer
R Frith, Assistant Auditor General
M Walker, Assistant Director, Corporate Performance and Risk
J Webber, Senior Executive Assistant
D Hanlon, Corporate Finance Manager
J Gillies, Communications Manager
G Woolman, Chair of Diversity and Equality Group, Assistant Director, Audit Services
E Boyd, Assistant Director, Quality
F McKinlay, Director of Performance Audit and Best Value
T Meldrum, Senior Manager, Performance Audit and Best Value

1. Private meeting

A private meeting was held by the Chair and Board members, prior to the start of the Board meeting. There were no matters raised in addition to those items on the agenda, which had been previously circulated.

2. Welcome and apologies

The Chair welcomed Ronnie Hinds, Acting Chair of the Accounts Commission, to his first meeting of the Board.

There were no apologies.

3. Declarations of interest

There were no declarations of interest.

4. Chair's report

Ian Leitch advised that since the previous Board meeting he had held regular meetings with Caroline Gardner, Auditor General for Scotland and Diane McGiffen, Chief Operating Officer to discuss various business matters of interest. The Chair advised he and Diane McGiffen had met with the legal advisers from BTO on Wednesday 29 March who would seek to finalise their legal advice on board quorum, substitutes and proxies. The Chair advised that this would be discussed at the next Board meeting on 5 May 2017.

The members welcomed the update.

5. Accountable Officer's report

Caroline Gardner provided a verbal update on her activity since the previous meeting. She advised of the weekly meetings of the Public Audit and Post Legislative Scrutiny Committee and invited members to note that an interim convener would be appointed shortly to cover the current convener's maternity leave until October 2017.

Caroline advised that the Police i6 report had been considered by the Justice Sub-Committee on Policing on 30 March 2017.

The Board noted Caroline's continued involvement with the Budget Process Review Group and that the Finance Committee had received briefings in March.

She also advised the Board of forthcoming publications and possible section 22 reports and provided clarification around the statutory process for submitting reports and accounts to the Scottish Government for laying them in the Scottish Parliament.

Caroline invited the Board to note that following pay negotiations, the PCS union were recommending the Audit Scotland reward package to their members and expressed her thanks to Diane McGiffen and the team as well as the PCS representatives for their input.

The Board welcomed the update.

6. Accounts Commission report

Ronnie Hinds, the Acting Chair of the Accounts Commission, thanked Board members for their warm welcome.

Ronnie advised the Board of his first activity as Acting Chair of the Accounts Commission had been at the Commission's Strategy Seminar on 28 and 29 March. He advised of the benefits of hearing from speakers from the Scottish local government, the NAO and the Auditor General for Scotland. Key themes from the seminar included the degree of variation across local government in delivery of service, performance and funding issues; working with other scrutiny bodies; and the need for greater transparency and accountability.

The Board welcomed the update.

7. Review of minutes

Board meeting, 22 February 2017

The Board considered the note of the meeting on 22 February 2017, which had been previously circulated, and confirmed that these were an accurate record of the meeting.

Action: Joy Webber, Senior Executive Assistant, to publish the approved minute of the meeting of 22 February 2017. (April 2017)

8. Review of actions tracker

The Board noted the updates provided.

9. Review of Standing Orders

As referenced in the Chair's report, it was noted that this would be discussed at the next meeting of the Board on 5 May 2017.

Action: The legal advice to be circulated and a discussion scheduled at the next Board meeting on 5 May 2017. (May 2017)

10. Audit Scotland Budget 2017/18

David Hanlon, Corporate Finance Manager, joined the meeting.

David Hanlon, Corporate Finance Manager, introduced the Audit Scotland Budget 2017/18 report, which had been previously circulated.

David invited the Board to note the proposed operational budget for 2017/18 and approve Audit Scotland's revised Budget for 2017/18.

During detailed discussion, Heather Logan sought clarification on the costs associated with the proposed refurbishment of the Glasgow office. David Hanlon advised that the proposed refurbishment would provide increased capacity in the office and offer more flexible working solutions for staff. Diane McGiffen advised that this need had arisen given the geographical impact of the new audit appointments and would be a cost effective way to provide an additional 20 workspaces.

Heather sought clarification on the VERA provision contained within the budget. David also advised that the cost of VERA would be noted as a charge in the accounts.

Ronnie Hinds welcomed the report and sought assurance on the affordability of the new pay proposals model in future years as he had not been involved in previous discussions on the matter. David Hanlon advised the budget model included an assumed increase year on year but that he was confident the model was robust. Diane McGiffen offered to provide further briefings or background reports to Ronnie on the new pay proposals.

Following discussion, the Board approved Audit Scotland's revised Budget for 2017/18.

David Hanlon, Corporate Finance Manager, left the meeting.

11. Audit Scotland Annual Report and Accounts

James Gillies, Communications Manager, joined the meeting.

James updated the Board on plans for the 2016/17 annual report and accounts and invited comments and proposals for this year's content.

James invited the Board to note the feedback received on last year's report from the NAO and the revisions being proposed to include more information on strategic risks and objectives and how these are managed. Heather Logan advised that she would like to review a draft of that section of the report.

Following discussion, the Board welcomed the report, noting the final version was scheduled for approval at the Board meeting on 6 June 2017.

Action: Martin Walker to share the strategic risks and objectives section of the Annual Report and Accounts with Heather Logan. (April 2017)

James Gillies, Communications Manager, left the meeting.

12. Equality Outcomes: Reflecting Back and Looking Forward

Gillian Woolman, Assistant Director LG and Health, joined the meeting.

Gillian introduced the Board to the report Equalities Outcomes: Reflecting back and looking forward, which had been previously circulated.

Gillian invited the Board to consider and approve the Equality outcomes and mainstreaming progress report for 2016/17 and the Equality outcome measures report April 2017.

During discussion, the Board welcomed the reports and acknowledged the work of the Diversity and Equality Steering Group. The Chair reflected that while the reports were proposed as a joint publication for Audit Scotland and the Accounts Commission, there could be a clearer explanation of the respective areas of responsibility. Ronnie Hinds agreed, also noting that the Accounts Commission was fairly represented in the reports which were due to be considered at its meeting in April 2017.

The Board discussed the ability of audit firms to promote diversity and equality, and Russell Frith advised that this formed part of the appointment and could be developed, further noting that each organisation has a duty to employees while recognising the need to consider how equalities features within the audit work under the Code of Audit Practice.

Ronnie Hinds asked about the split of leavers by gender and how this compared to previous years. Gillian Woolman confirmed this was a reversal from the previous year and invited the Board to note that there was an improving trend in individuals disclosing monitoring information.

Following discussion, the Board expressed their thanks to the team and approved both reports subject to the amendments discussed.

Action: Gillian Woolman to update the reports for consideration by the Accounts Commission. (April 2017)

Gillian Woolman, Assistant Director, Audit Services, left the meeting

13. Q3 Financial Performance Report 2016/17

David Hanlon, Corporate Finance Manager, joined the meeting.

David Hanlon introduced the Q3 Financial Performance Report 2016/17, which had been previously circulated.

David invited the Board to note the financial results for the nine months to December 2016.

The Board discussed the end of year projection and noted this was dependent on the level of fee income assessed to 31 March 2017 and the impact of pension provision that would be known by May 2017.

Heather Logan sought clarification on the level of agency costs incurred. David Hanlon advised this related to peak audit work for Audit Services Group and was a reducing cost year on year.

Following discussion, the Board welcomed the report.

David Hanlon, Corporate Finance Manager, left the meeting.

14. Q3 Performance Report 2016/17

Martin introduced the Q3 Performance Report 2016/17 report, a copy of which had been previously circulated.

Martin invited the Board to review the key performance areas and consider whether any additional management attention was required.

The Board welcomed the additional information and data contained in support of the changed status of objective 2.3 *To identify risks and make clear any relevant recommendations for improvement and follow these up*, and more generally the members agreed more clarification around the degree of progress reported for objectives would be helpful.

Turning to objective 3.5 *We empower and support our people to be engaged, highly skilled and perform well*, the Board noted the amber rating for the KPI relating to 360 degree feedback. Diane McGiffen advised this indicator reflected an earlier objective to introduce 360 degree feedback for all colleagues, which had been overtaken with a focus on targeted use of 360

degree feedback and the development of a feedback process. The KPI had been retained for the purpose of openness and transparency but would be revised or deleted at the next review.

The Board noted that the indicator on communication and collaboration across the organisation was amber and Martin advised that feedback from the Best Companies survey suggested this was moving in the right direction and that the amber rating also reflected the 'high bar' which Audit Scotland set. Diane also advised that there were now more opportunities than ever to engage and collaborate with colleagues across the organisation including the Annual Audit Conference, knowledge cafes and roundtable discussions and that there would be continual focus on further shared working.

Following discussion, the Board acknowledged that high stretch targets are set for objectives, that some indicators are more important than others and that a clear process underpins the red/amber/green assessments.

The Board welcomed the discussion on improving the clarity of narrative to support the status of reported objectives.

Action: Martin Walker, Assistant Director, Corporate Performance and Risk, to consider how best to focus the narrative on objectives and performance in future reports. (June 2017)

15. Q3 Becoming World Class Improvement Programme Report 2016/17

Martin Walker introduced the Q3 Becoming World Class Improvement Programme Report 2016/17, which had been previously circulated and invited the Board to consider the sustained progress reported across the three workstreams and the next steps.

The Board welcomed the continued progress and noted that it reflected a clear commitment to continuous improvement. The Board also noted the importance of leadership development and welcomed the new project on leading a better organisation which Fraser McKinlay will steer.

Following discussion, the Board welcomed the report.

16. Securing World Class Audit: Review of Audit Quality

Elaine Boyd, Assistant Director for Quality joined the meeting.

Elaine Boyd introduced the report on the Review of Audit Quality, which had been previously circulated.

Elaine invited the Board to note the update on recent activity in reviewing quality arrangements across all audit work.

The Board discussed the assurance provided from the global comparison of quality arrangements with other international audit organisations and the input received from audited bodies on handover arrangements as well as their view of the value external audit work. It was noted that this would inform the Transparency and Quality report 2016/17. Elaine also outlined the work to consider how to maximise learning and development opportunities in the context of the new appointments and the wider audit scope.

Elaine shared the proposed project timeline which included regular engagement with the Board and Accounts Commission prior to implementation of the revised Quality Framework.

The Board welcomed the report and Heather Logan advised the Audit Committee would welcome a discussion on the Quality Framework at its meeting on 17 May 2017.

Action: Martin Walker to schedule an item for consideration by the Audit Committee meeting on 17 May 2017. (May 2017)

Elaine Boyd, Assistant Director for Quality, left the meeting.

17. Making a Difference: Corporate Plan Update 2017/18

Martin Walker introduced the Corporate Plan Update 2017/18 report, which had been previously circulated.

Martin invited the Board to review the first draft of the Corporate Plan which covered the operating environment, audit and improvement priorities for 2017/18, progress on key priorities and objectives in 2016/17, resources and governance arrangements.

The Board welcomed the refreshed Corporate Plan setting out high level objectives. Martin advised that a report on Audit Scotland's strategic planning was also scheduled for discussion at the Accounts Commission meeting in April 2017.

The Board noted that an updated version of the Corporate Plan 2017/18 was scheduled to come to the meeting of the Board on 5 May 2017 for approval.

18. Making a Difference: Public Engagement Work with Young Scot

Fraser McKinlay, Director of Performance Audit and Best Value, and Tricia Meldrum, Senior Manager, Performance Audit and Best Value, joined the meeting.

Tricia Meldrum introduced the report on Engagement Work with Young Scot, a copy of which had been previously circulated.

Tricia delivered a presentation on the CheckSee project, which was undertaken in partnership with Young Scot. The focus of the project was to capture what matters to young people about education, skills and employability, to identify how Audit Scotland could better engage with young people and other groups as part of the wider public engagement programme to better inform the scope of audit work.

The Board welcomed the presentation and agreed that they would like a further update next year on the impact of how the project, and the commitments made, had progressed.

Action: Diane McGiffen, Chief Operating Officer, to schedule an update report in March 2018. (March 2018)

Fraser McKinlay, Director of Performance Audit and Best Value, and Tricia Meldrum, Senior Manager, Performance Audit and Best Value, left the meeting.

19. Publication of Reports

The Board approved all reports for publication with the following exceptions

- Item 12 Equality Outcomes: Reflecting back and looking forward (future publication).
- Item 17 Corporate Plan Update 2017/18 (effective conduct of business (future publication).

Action: Joy Webber, Senior Executive Assistant, to arrange to publish the reports on the Audit Scotland website alongside the approved minute. (April 2017)

20. Any Other Business

There was no further business.

21. Review of Meeting

The members took the opportunity to reflect on the meeting, welcoming the discussions on performance reporting and the review of audit quality and hearing more about the opportunities being identified for increasing engagement with the public.

22. Date of next meeting

It was noted that the next Audit Scotland Board meeting was scheduled for 5 May 2017 in the offices of Audit Scotland, 102 West Port, Edinburgh.

Ref	FORUM	Agenda Item No	Item Title	Action Description	Meeting Date	Due Date	Responsible	Assigned to	Complete/Ongoing	Reported Yes/No	Progress Notes
	Board	8	Spring Budget Revision	Scottish Commission for Public Audit for a £1,716k Spring	20/11/2014	30/11/2014	Diane McGiffen	David Hanlon	Complete		Complete
	Board	13	Openness and Transparency: Publication of Board Papers	The Chief Operating Officer to schedule a future agenda item to review the arrangements.	24/03/2016	01/12/2016	Diane McGiffen	Diane McGiffen	Complete	No	This item was considered at the Board meeting on 20/01/2017, with a report scheduled for the Audit Committee at its meeting on 17 May 2017.
AS813	Board	10	Q1 Corporate Performance Report	The Assistant Auditor General to prepare a report for a future Board meeting on the levels of reporting and roles on fraud.	18/08/2016	01/12/2016	Russell Frith	Russell Frith	Complete	Yes	This report was considered at Item 12 of the Board meeting 20/01/17. The report has been updated, published on ishare and shared with the firms on all 06/02/2017.
AS816	Board	15	Corporate Governance Policies and Code of Conduct Review	The Corporate Governance Manager to review the Financial Regulations, Scheme of Delegation and staff Code of Conduct annually and report to the Board.	18/08/2016	23/08/2017	Alex Devlin	Alex Devlin	Ongoing		Standing Orders reviewed 27/10/16. The next review will be scheduled for Board meeting on 23 August 2017.
AS818	Board	16	Proposed Board Meeting Dates 2017	The Chief Operating Officer to propose meeting dates for discussion by members at the September meeting of the Board.	18/08/2016	15/09/2016	Diane McGiffen	Joy Webber	Complete	Yes	The proposed meeting dates for 2017 were considered at item 20 of the Board agenda 20/01/2017.
AS820	Board	10	Securing World Class Audit - Audit Procurement Post Tender Review	The Assistant Director, Audit Strategy, to bring a report to the Board on the quality review work.	15/09/2016	09/12/2016	Russell Frith	Elaine Boyd	Complete	Yes	A report was considered by the Board at its meeting on 20/01/2017.
AS823	Board	6	Review of minutes	The Assistant Auditor General to provide more detail around recovery of monies through NFI and how this will be monitored in future.	27/10/2016	20/01/2017	Russell Frith	Russell Frith	Complete	Yes	Russell Frith reported on NFI Item 12 on the agenda of the Board meeting 20/01/2017.
AS824	Board	9	Securing World Class Audit - Developments in Audit	The Chief Operating Officer to schedule an update report on the Becoming World Class and world class audit.	27/10/2016	20/01/2017	Diane McGiffen	Russell Frith	Ongoing		The Assistant Auditor General will report on this to the Board at its meeting in May 2017 as part of the Quality Framework.
AS825	Board	12	UK & Ireland Supreme Audit Institutions meeting, 4 November 2016	The Chief Operating Officer to report on the meeting of the UK & Ireland Supreme Audit Institutions meeting.	27/10/2016	20/01/2017	Diane McGiffen	Diane McGiffen	Complete	Yes	Diane McGiffen provided a verbal update to the Board on 22 February 2017.
AS826	Board	14	Publication of reports	The Chief Operating Officer to arrange to publish the reports on the Audit Scotland website alongside the approved minute.	27/10/2016	27/01/2017	Diane McGiffen	Joy Webber	Complete	Yes	The reports and approved minute of the Board meeting on 27/10/2016 has been published on Audit Scotland's website.
AS827	Board	15	Any other business	The Director of Performance Audit and Best Value to report on how the engagement with young people on the forward work programme had developed to the Board in January 2017.	27/10/2016	20/01/2017	Fraser McKinlay	Fraser McKinlay	Complete	No	The Board will consider a report at Item 18 of today's agenda.
AS828	Board	7	Review of minutes - Remco meeting, 15 September 2016 and Board meeting, 27 October 2016	Joy Webber, Senior Executive Assistant, to make the necessary amendments to the Remco minute and publish the Board minute of 27 October 2016.	20/01/2017	22/02/2017	Joy Webber	Joy Webber	Complete	Yes	The Board minutes of 27/10/2016 have been published and the minutes of Remco have been amended.
AS829	Board	9	Review of standing orders	Diane McGiffen, Chief Operating Officer, to schedule a report for the Board meeting in February 2017.	20/01/2017	22/02/2017	Diane McGiffen	Diane McGiffen	Ongoing		A verbal update will be provided to the Board under item 8 of today's agenda.
AS830	Board	10	Making a Difference: Digital Audit	Diane McGiffen, Chief Operating Officer, to schedule a report for a Board meeting later in the year.	20/01/2017	05/05/2017	Diane McGiffen	Martin Walker	Ongoing		An update to the Board has been scheduled for its meeting on 05/05/2017.
AS831	Board	11	Securing World Class Audit: Review of Quality Arrangements	Diane McGiffen, Chief Operating Officer, to schedule a report for a Board meeting later in the year.	20/01/2017	31/03/2017	Russell Frith	Elaine Boyd	Ongoing		The Board will consider a report at Item 16 of today's agenda.
AS832	Board	12	Securing World Class Audit: Fraud Arrangements	Russell Frith, Assistant Auditor General, to make the suggested amendments to the report in terms of responsibilities of reporting fraud.	20/01/2017	22/02/2017	Russell Frith	Anne Cairns	Complete	Yes	The report on Counter Fraud Arrangements was updated and issued to colleagues on 06/02/2017.
AS833	Board	13	Making a Difference: Demonstrating Value for Money Update	Fiona Kordiak, Director of Audit Services, to liaise with Heather Logan and take on board comments from members before issuing a further draft for their consideration by correspondence.	20/01/2017	22/02/2017	Fiona Kordiak	Fiona Kordiak	Ongoing		The report has been re-drafted to take on board comments received to date.
AS834	Board	14	Making a Difference: Update on Parliamentary Engagement	Kirsty Gibbins, Communications Adviser, Corporate Services, to confirm the terms of the contract and survey arrangements.	20/01/2017	22/02/2017	Kirsty Gibbins	Kirsty Gibbins	Complete	Yes	A verbal update will be provided to the Board under item 8 of today's agenda.
AS835	Board	17	Q2 Corporate Performance Report 2016/17	Martin Walker, Assistant Director, Corporate Performance and Risk to consider with the Communications Team the options to measure corporate objective 2.2.	20/01/2017	31/03/2017	Martin Walker	Martin Walker	Complete	No	The Q3 report scheduled for 31/03/2017 will reflect any new measures to assess the effectiveness of corporate objective 2.2.
AS836	Board	17	Q2 Corporate Performance Report 2016/17	Diane McGiffen, Chief Operating Officer, to send a copy of the latest quarterly correspondence report considered by Management Team on 17 January 2017.	20/01/2017	22/02/2017	Diane McGiffen	Joy Webber	Complete	Yes	A copy of the Q3 Correspondence Performance Report dated 17/01/2017 has been circulated to Board members for information.
AS837	Board	18	Q2 Becoming World Class Improvement Programme Report 2016/17	Russell Frith, Assistant Auditor General, to schedule a report to the Board on established international benchmarks for world class quality, people and reporting.	20/01/2017	05/05/2017	Russell Frith	Russell Frith	Ongoing		The Assistant Auditor General will report on this to the Board at its meeting on 05/05/2017 as part of the quality framework.
AS838	Board	20	Proposed Board Meeting Dates 2017	Joy Webber, Senior Executive Assistant, to liaise with members regarding their availability.	20/01/2017	22/02/2017	Joy Webber	Joy Webber	Complete	Yes	Joy Webber has liaised with and confirmed alternative meeting dates for May and June. Meeting dates have now been confirmed for 5 May and 6 June 2017.

AS839	Board	21	Review of Openness and Transparency	Diane McGiffen, Chief Operating Office, to schedule a discussion on next steps in publishing committee papers with the Board at its meeting in February 2017.	20/01/2017	22/02/2017	Diane McGiffen	Diane McGiffen	Complete	Yes	The Board received a verbal update at its meeting on 22/02/2017.
AS840	Board	22	Publication of reports	Diane McGiffen, Chief Operating Office, to arrange to publish the reports on the Audit Scotland website alongside the approved minute.	20/01/2017	22/02/2017	Diane McGiffen	Joy Webber	Complete	Yes	The approved minute and reports have been published on the Audit Scotland website.
AS841	Board	7	Review of minutes	Joy Webber, Senior Executive Assistant, to make a correction to the minutes of the Board meeting 20 January 2017 and publish the approved minute.	22/02/2017	28/02/2017	Joy Webber	Joy Webber	Complete	No	The Board minutes of 20/01/2017 have been published and the minutes of Remco have been amended.
AS842	Board	9	Public Audit and Post Legislative Scrutiny Committee Review of NFI.	Russel Frith, Assistant Auditor General, to circulate to Board members by correspondence a draft response to the Public Audit and Post Legislative Scrutiny Committee on NFI	22/02/2017	31/01/2017	Russell Frith	Russell Frith	Complete	No	Draft response was issued by correspondence to members on 23/03/2017.

AUDIT SCOTLAND BOARD

31 MARCH 2017

REPORT BY THE CHIEF OPERATING OFFICER

AUDIT SCOTLAND BUDGET 2017/18

1. Purpose of Report

- 1.1 This report presents Audit Scotland's proposed operational budget for 2017/18 to the Board for approval.
- 1.2 No changes are proposed to the total budget resource approved by the Scottish Commission for Public Audit (SCPA). However a number of offsetting changes are proposed as follows:
 - an increase in salary budgets of £154k is proposed principally to meet the implementation costs of our new reward arrangements
 - a number of reductions are proposed to property costs, travel and subsistence expenditure, training and development costs and recruitment expenditure to part fund the implementation costs of our new reward arrangements. These proposals will in total reduce budget costs by £102k
 - it is proposed that £52k be allocated from the Management Contingency fund to meet the balance of the implementation costs of our new reward arrangements.

The Board are advised that the current reward offer is awaiting formal approval by PCS nationally, which may involve a ballot of their members.

2. Background

- 2.1 The proposed 2017/18 budget is based on that approved by the SCPA on 16 January 2017 and included in the 2017/18 Scottish Budget Bill which was approved by Parliament on 23 February 2017.
- 2.2 The detail of the original budget was discussed and approved at the Audit Scotland Board meeting held on 15 September 2016. At that time the Board noted that the date for the submission of our proposals to the SCPA was not known due to the scheduling of the UK and Scottish budget process. Our submission was made on 7 December 2016 following final Board approval by correspondence in early December 2016.
- 2.3 The budget was prepared following detailed discussions with budget holders and by reference to expenditure trends over the financial years 2014/15 and 2015/16. Additionally, the budget proposals were the subject of scrutiny by Audit Scotland's Management Team.
- 2.4 This paper proposes a number of changes to the SCPA approved budget for 2016/17 to reflect revised assumptions in respect of pay uplifts at 1 April 2017, staffing establishments and to include a number of changes to expenditure budgets. The changes were agreed by Management Team on 14 March 2017.

2.5 In total, revenue funding provided by the Scottish Parliament remains at £6.3m and capital funding at £0.2m.

3. Main Budgetary Assumptions

3.1 The main budget assumptions used in preparing the 2017/18 SCPA approved budget have been reviewed. No changes are proposed to the assumptions underpinning the operational budget with the exception of the approved amendments to our new staff reward system effective from April 2017. Further details on the main assumptions are noted in paragraphs 3.2 to 3.5 below.

3.2 Revised payroll assumptions are as follows:

- The operational budget assumes that a new pay spine grading structure is introduced that incorporates increases to the current grade maximums of 3%. Our plans include proposals to assimilate staff to the new arrangements, subject to pay grade caps, through the placing of staff on the first pay spine point above their current rate of pay. Pay scale points at April 2017 will also be increased by 1% to reflect a cost of living adjustment. Additionally staff who are not at the top of their scale will move up one spine at April 2017. For budget purposes these proposals apply to all staff including leadership group.
- Employer NI contributions - 13.8% (2016/17 13.8%)
- Apprentice levy – 0.5% above £3m per annum (2017/18 - £42k, 2016/17 - nil)
- Vacancy assumption - 2% where applied (2016/17 - 3%)

3.3 Employer pension Contributions

Lothian Pension Fund

Current service as % of pay	17.2%	(17.2% in 2016/17)
Past service lump sum	£77k	(£77k in 2016/17)

Principal Civil Service Pension Scheme

Current service as % of pay	20.9% – 24.3%	(20.9% - 24.3% in 2016/17)
-----------------------------	---------------	----------------------------

3.4 Fee income proposed for the 2017/18 operational budget remains the same as included in the 2017/18 SCPA approved budget and reflects the revised fee and funding arrangements introduced for the 2016/17 audit year.

As a result of the review of our fee and funding arrangements, the impact of the audit procurement exercise and other efficiencies included in the 2017/18 budget, audit fees for 2016/17 audits are on average 6.7% lower than the 2015/16 levels. The changes are variable across sector and by individual audit in each sector. In real terms this represents an average reduction of 8.6%. For budget purposes we have assumed that average fee levels for 2017/18 will increase by 0.5% from the 2016/17 levels. In real terms this represents an average reduction of 1.5%.

Parliamentary Funding

Under our revised Fee Strategy the funding of all NHS performance audit work is now provided from the Scottish Consolidated Fund (SCF) bringing the funding of this work into line with the other areas of the Auditor General's remit.

The inclusion of the full costs of NHS performance audit in the revenue support sought from the Scottish Consolidated Fund added £495k to the funding required in 2017/18. Excluding this additional cost from 2017/18 and the cost of the biennial National Fraud

Initiative (NFI) funded in 2016/17, the revenue support sought from the SCF in 2017/18, on a comparable basis, has been reduced by 5.4%. In real terms (2016/17 prices) this represents a 7.0% reduction.

- 3.5 The budget assumes payments to appointed auditors (firms) for 2016/17 audits will be in line with the new contracts awarded as part of the procurement appointment exercise. Payments to appointed auditors (firms) for 2017/18 audits are assumed to increase by 1% from the 2016/17 levels.

4. 2017/18 Establishment Numbers

- 4.1 During February, Management Team members reviewed their establishments and workforce plans for 2017/18 and as a result a number of changes to the 2017/18 establishment were discussed and agreed at the Management Team meeting held on 14 March 2017.
- 4.2 The establishment (excluding Commission and Board members) included in the SCPA approved budget for 2017/18 was 270.2 w.t.e. The revised proposals are 4.7 w.t.e. higher at 274.9 w.t.e. Details of the staffing establishments are provided in appendix 1.
- 4.3 The table below summarises the proposed changes and further details are noted in paragraphs 4.4 to 4.8 below.

	<u>Total</u>	<u>AD</u>	<u>E</u>	<u>D</u>	<u>B</u>
Management Team	-	-	-	-	-
Audit Strategy	+1.0	+1.0	-	-	-
ASG	-	-	-	-	-
PABV	-	-	-	-	-
CSG	+0.2	-	-1.0	+1.2	-
BSS	+3.5	-	-	-	+3.5
Total	+4.7	+1.0	-1.0	+1.2	+3.5

- 4.4 No changes are proposed to the establishments of the Management Team, ASG and PABV.
- 4.5 In Audit Strategy the establishment has been increased by 1 w.t.e. for one year being the new Assistant Director post that is leading our quality review work. The post which is costed at £86k will be funded from the £100k payroll provision included in our 2017/18 budget to develop an enhanced quality regime.
- 4.6 Although no changes are proposed in PABV, discussions are ongoing to determine backfill arrangements for the 1 w.t.e. grade F member of staff seconded to support planning work on the audit implications of New Financial Powers (NFP). Any agreed backfill will be funded from the £100k payroll provision included in our 2017/18 budget for this work.
- 4.7 Within CSG the proposed total establishment numbers are 0.2 w.t.e. higher than the levels included in the SCPA approved budget. The increase is a result of a minor restructure of the HR department – one grade E post has been deleted, a new grade post established at Grade D and an existing part-time Grade D post increased from

0.6 w.t.e. to 0.8 w.t.e. The changes are cost neutral.

4.8

Following the restructure within Business Support Services (BSS), 3.5 w.t.e. are now allocated to the Secondary Support Team. The budgeted cost for these staff is estimated at £110k which is £10k greater than the £100k payroll provision that was included in our 2017/18 budget to support the implementation of the restructure.

5. 2017/18 Staff Costs

5.1 The SCPA approved 2017/18 staff cost budget has been re-worked to reflect the proposed establishment revisions noted in section 4 above. The budget model has also been updated to reflect the actual staff in post at the end of February 2017 and to include the costs of the revised reward arrangements for pay uplifts and pay progression at April 2017.

5.2 The impact of these changes will increase the staff cost budget for 2017/18 by £154k. Details of the changes are provided in the table below with explanations provided in paragraphs 5.3 to 5.8.

	Staff £k	Provision £k	Total £k
2017/18 SCPA approved budget - staff	14,843	-	14,843
New Financial Powers (NFP)	-	100	100
Business restructuring provision	-	100	100
Enhanced quality regime provision	-	100	100
2017/18 SCPA approved budget - total	14,843	300	15,143
Assimilation costs of new reward system	+154	-	+154
Increased pay progression cost	+21	-	+21
AD quality cost	+86	-86	-
BSS secondary team	+110	-100	+10
Staff in post – scale point change	-31	-	-31
Total adjustments	+340	-186	+154
Adjusted Operational staff cost budget	15,183	114	15,297

5.3 The revised reward arrangements involve a move from a contribution based pay model to a fixed pay scale spine point system. Staff will assimilate to the new arrangements subject to pay grade caps through the placing of staff on the first pay spine point above their current rate of pay. These proposals will add £154k (an average of 1.1%) to the pay bill on 1 April 2017.

5.4 Our SCPA approved budget for 2017/18 assumed pay growth of 2% (cost of living +1%, and contribution based pay of +1%). Under the proposed new reward model pay growth is estimated at 2.15% (again 1% for cost of living plus 1.15% for scale point progression) and will increase pay costs by £21k.

5.5 The cost of the new AD quality review post will increase payroll costs by an additional £86k. This cost will be funded from the provision held for this work.

5.6 Following the restructure of the Business Support Services, 6 staff (5.4 w.t.e.) were

displaced and allocated to the Secondary Team. Subsequently, two members of staff (1.9 w.t.e.) accepted voluntary redundancy terms to leave the organisation – one left at Christmas 2016 and the second person will leave in May 2017. As a result 3.5 w.t.e. remain in the secondary team at an annual staff cost of £110k – these costs will be part funded from the £100k reserve included within our budget to facilitate the BSS restructure.

- 5.7 Salary budgets have been revised to reflect staff currently in post. The impact of this results in a reduction in salary cost budgets of £31k. Benefits have accrued in most areas of the business through staff turnover.
- 5.8 The impact of the above changes, net of those items funded from specific payroll provisions, will add £154k to the staff pay budget. Options to fund these additional costs are discussed in section 6 below.

6. 2017/18 Operational Budget - other revenue expenditure budgets

- 6.1 A high level review has been made of other revenue expenditure categories and a number of changes are proposed to reflect changed circumstances but also to provide funding for the additional payroll costs arising from the implementation of the new reward arrangements.
- 6.2 Changes are proposed in respect of property costs (mainly rates), travel and subsistence, training and development and recruitment costs.
- 6.3 The impact of the revised non domestic property revaluations scheduled for 1 April 2017 are positive for Audit Scotland with the rateable values for our offices at 102 West Port Edinburgh and Nelson Mandela Place Glasgow both reducing. Although there is an increase for our Inverness property the overall position is a net reduction in rates costs of £40k (20%) from that provided in the original 2017/18 budget. It is proposed that part of this saving is used to support increased service charge budgets £5k (mainly at 102 West Port) and to meet the additional costs of the Scottish Living Wage included within our cleaning contract, £5k, with £30k vired to the Management Contingency Fund.
- 6.4 Expenditure on travel and subsistence (excluding cars) has been falling in recent years and in the current year 2016/17 it is expected that costs will be up to £140k less than budget. The forecast level (based on spend to January 2017) for 2016/17 at £440k is £92k less than the available 2017/18 budget and although the new audit appointment round will no doubt increase the need for travel in the coming year the flexibility offered to staff in how they work under our Time Place Travel provisions may partly offset this. Information on actual and forecast expenditure is provided below – 80% of expenditure relates to ASG and 10% to PABV.

2014/15 actual expenditure	£472k
2015/16 actual expenditure	£480k
2016/17 forecast expenditure	£440k
2017/18 budget provision	£532k

Based on the above it is proposed that the 2017/18 operational budget for travel and subsistence be reduced by £32k to £500k.

- 6.5 Our 2017/18 budget includes £270k for training and development activity which averages at £1k per w.t.e. This sum excludes the costs of our professional training

scheme £177k and an allowance for staff to attend conferences £53k. In the past two years expenditure per w.t.e. has been £907 and £936 per w.t.e. and in 2016/17 based on expenditure to January 2017 the year end position is not expected to be more than £900 per w.t.e.. Based on these trends and experiences it is proposed that the training and expenditure budgets for 2017/18 be reduced by £20k to £250k which would provide an average budget of £900 per w.t.e.

- 6.6 The revised reward arrangements and in particular the new 'gate' system of progression is expected to reduce recruitment costs. The impact will be felt at grades B/C, C/D and E/F and with the agreement of the HR and OD Manager it is proposed that a £20k reduction be made to the recruitment budget reducing it from £125k to £105k in 2017/18.
- 6.7 The SCPA approved budget for 2017/18 included a £150k budget contingency that is under the control of the Management Team. Part of the contingency fund will be required to fund the increased costs of implementing the revised reward arrangements. The sums required can be offset by the proposed budget cost reductions discussed in paragraphs 6.2 to 6.6 above. The following funding movements are proposed to maintain the revenue budget within the total sums approved by the SCPA.

	£k	£k
Original contingency fund		150
Additional sources:		
Reduced property cost - rates	30	
Reduced travel and subsistence	32	
Reduced training and development	20	
Reduced recruitment	20	
		<u>102</u>
		252
Allocated to meet additional pay costs		<u>-154</u>
Operational budget – contingency fund		<u>98</u>

- 6.8 A further £114k in respect of payroll reserves will also be available within the operational budget. £100k being the provision to plan for additional work arising from NFP and impact of the EU referendum with £14k being the balance of the quality review provision.
- 6.9 The proposed non-staff expenditure is budgeted at £8.2m and a full analysis of this sum is provided in appendix 2. This appendix also provides details of actual expenditure recorded in 2014/15 and 2015/16, information on the operational budget for the current year 2016/17 and the SCPA approved budget for 2017/18.

7. Budget Summary & comparison with prior years

- 7.1 As noted above total revenue funding provided by the Scottish Parliament remains at £6.3m. The table below summarises the overall changes in income and expenditure

over the four years to March 2018.

	Actual 2014-15 £m	Actual 2015-16 £m	Budget 2016-17 £m	Budget 2017-18 £m
Fee Income	18.1	18.4	18.2	17.2
Net Expenditure	25.2	26.1	24.6	23.5
Net Operating (Cost)	(7.1)	(7.7)	(6.4)	(6.3)

8. Capital Expenditure

- 8.1 The capital expenditure budget for 2017/18 remains at £200k and is unchanged from the SCPA bid.
- 8.2 The table below provides information on the planned areas of investment as presented to the SCPA in December 2016.

	£k
Laptop / Tablets	25
Virtual desktop environment upgrade	30
Software	75
Hardware replacement	70
TOTAL	200

The final programme of capital investment will be dependent on the need for capital funds to refresh and provide increased capacity at our Glasgow office. Tender responses are due on 24 March 2017 and a verbal update will be provided at the Board meeting on 31 March.

9. Recommendation

- 9.1 The Board is invited to note the contents of this paper and approve Audit Scotland's revised Budget for 2017/18.

2017/18 BUDGET - ESTABLISHMENT SUMMARY

		2016 Four Year Plan				
		EST. 2016/17 w.t.e.	In Post 28/02/2017 w.t.e.	Feb-17 2017/18 w.t.e.	SCPA 2017/18 w.t.e.	Change 2017/18 w.t.e.
AGS		1.0	1.0	1.0	1.0	0.0
Directors		4.0	4.0	4.0	4.0	0.0
Assistant Directors		13.0	13.0	14.0	13.0	1.0
Grade	G	37.9	35.4	35.9	35.9	0.0
Grade	F	31.5	28.4	29.5	29.5	0.0
Grade	E	76.8	70.6	71.9	72.9	-1.0
Grade	D	54.1	48.2	56.1	54.9	1.2
Grade	C	13.0	14.0	14.0	14.0	0.0
Grade	B	12.8	13.1	12.5	9.0	3.5
Grade	A	0.0	0.0	1.0	1.0	0.0
Grade	T	34.0	44.0	35.0	35.0	0.0
		278.1	271.6	274.9	270.2	+4.7
Commission		12.0	12.0	12.0	12.0	0.0
Board		4.0	3.0	3.0	3.0	0.0
		294.1	286.6	289.9	285.2	+4.7
AGS		1.0	1.0	1.0	1.0	0.0
Commission Secretary		1.0	1.0	1.0	1.0	0.0
Management Team		4.0	4.0	4.0	4.0	0.0
Strategy		9.0	8.9	8.0	7.0	1.0
ASG		148.2	145.0	145.1	145.1	0.0
PABV		63.8	58.0	61.8	61.8	0.0
CSG		31.6	31.8	31.8	31.6	0.2
Facilities & BSS		19.5	21.8	22.2	18.7	3.5
		278.1	271.6	274.9	270.2	+4.7
Commission		12.0	12.0	12.0	12.0	0.0
Board		4.0	3.0	3.0	3.0	0.0
		294.1	286.6	289.9	285.2	+4.7

AUDIT SCOTLAND BUDGET: 2017/18

<i>£(000)'s</i>	Actual 2014-15	Actual 2015-16	Operational Budget 2016-17	SCPA Budget 2017-18	Proposed Budget 2017-18
Basic Salaries	10,727	10,966	11,295	11,178	11,442
Employer's On costs	2,908	2,966	3,327	3,333	3,409
Agency Staff / secondments	458	332	85	60	60
Payroll provisions	-	-	40	300	114
VERA provision	1	346	-	-	-
Former AGS pension	23	23	23	23	23
Pension Adjustments	722	979	90	90	90
Accounts Commission Members	148	160	161	159	159
	14,987	15,772	15,021	15,143	15,297
Approved Auditors	5,128	5,051	5,012	3,952	3,952
Rent & rates	733	950	535	550	510
Accommodation costs	535	348	400	410	420
Travel & subsistence	878	844	975	946	914
Legal & professional fees	597	557	608	448	448
Stationery & printing	146	209	172	165	165
Training	464	440	537	548	528
Staff recruitment	127	121	125	125	105
Communications (telephone, postage)	59	44	54	46	46
Insurance	87	84	78	75	75
Information technology	335	461	367	436	436
Internal Audit	19	27	30	30	30
External Audit	29	29	30	30	30
Other	62	71	73	68	68
Depreciation	304	271	412	397	397
Management Team Contingency	0	0	150	150	98
	9,503	9,507	9,558	8,376	8,222
GROSS ADMINISTRATIVE COSTS	24,490	25,279	24,579	23,519	23,519
Corporation Tax	8	8	5	5	5
Bank Interest	(41)	(41)	(25)	(25)	(25)
Other / Secondment Income	(60)	(34)	0	0	0
IAS 19 Income	847	937	0	0	0
OTHER INCOME	746	862	(25)	(25)	(25)
NET EXPENDITURE	25,244	26,149	24,559	23,499	23,499
FEES & CHARGES INCOME	(18,143)	(18,454)	(18,177)	(17,168)	(17,168)
NET OPERATING COST	7,101	7,695	6,382	6,331	6,331

AUDIT SCOTLAND BOARD

31 MARCH 2017

REPORT BY THE COMMUNICATIONS MANAGER

AUDIT SCOTLAND ANNUAL REPORT AND ACCOUNTS

1. Purpose

To update the Board on plans for the 2016/17 Audit Scotland annual report and accounts and to seek comments on proposals for this year's content.

2. Background

Last year, for the 2015/16 annual report and accounts, the board agreed the development of a new style for the report, including taking into account aspects of the FReM compliance which had significantly changed.

Feedback on the report has been positive and we are proposing to follow a similar structure and style for the 2016/17 report.

As before, we want to strike a good balance between compliance with FReM requirements and clarity/brevity. As a reminder, recommended characteristics of annual reporting should include:

- plain language
- good use of infographics
- rich in cross-references between different parts of the report and signposting/ links to other documents.

We intend to retain a single document covering performance, governance and the financial statements. The structure will be in three main parts:

- performance report
- accountability report
- financial statements.

The report will be published online and a small number of copies will be printed. A special web page will be created featuring some of the highlights from the report.

3. Report content

Performance report

The annual report working group is proposing highlighting particular aspects of our work under the following headings:

- **Engagement** (including parliamentary, targeted public groups, e.g. Young Scot)
- **New Financial Powers** (our work in this area)
- **New audit appointments** (including auditor/client case studies)

- **High impact performance audit reports that focus on services to the public** (e.g. police, health & social care, roads)
- **Development of the new Best Value Assurance Reports.**

Accountability report & financial statements

These sections will follow the format of the previous year.

4. Timetable

As in previous years, board members will receive draft text of the report for any comment in early May.

The full Annual Report & Accounts will be reviewed by the Audit Committee and the Board on Tues 6 June; the signing of the accounts by the Accountable Officer on Tues 13 June; and publication of the Annual Report and Accounts on Wed 14 June.

5. Recommendation

The Board is invited to make any comments on the proposal.

AUDIT SCOTLAND BOARD

31 MARCH 2017

REPORT BY THE CORPORATE FINANCE MANAGER

Q3 FINANCIAL PERFORMANCE REPORT 2016/17

1. Purpose

This report presents the financial results for the nine months to December 2016 which was considered by the Audit Committee at its meeting on 1 February 2017.

2. Background

The finance report for the nine months to December 2016 is attached to this paper. The report was reviewed by Management Team during week commencing 23 January 2017.

The paper comprises the following sections.

- Schedule 1 Headline Results and commentary
- Schedule 2 Results Summary
- Schedule 3 Balance Sheet
- Schedule 4 Cash Flow Statement
- Schedule 5 Capital Expenditure and Funding Report
- Schedule 6a ASG Finance Report
- Schedule 6b PABV Finance Report
- Schedule 6c CSG Finance Report
- Schedule 6d BSS & FM Finance Report
- Schedule 7 WTE Staff in Post Summary 2016/17
- Schedule 8a Work in Progress 2015/16 Audit Year
- Schedule 8b Work in Progress 2016/17 Audit Year
- Schedule 9 2016/17 Financial year – fee income analysis

Information on agency and secondment w.t.e. is now included in schedule 7.

3. Discussion

In the nine months to December 2016, Audit Scotland's Net Operating costs were £3,803k which was £366k less than budget.

The results now include income and costs for concluding the 2015/16 financial audits and commencing the 2016/17 audits.

Fee income earned for audits carried out by our in-house teams was £241k higher than budget and was the main contributor to the Net Operating Cost favourable variance.

Income earned for the conclusion of 2015/16 in-house audits was £160k greater than budget with the agreement of fees at levels above the indicative levels held in the budget contributing £139k towards the variance. A further £72k was due to the fact that audit progress at the start of 2016/17 audits was on average 1% more than was assumed in the phased budget. An additional £9k of income relates to additional fees agreed for 2014/15 Local Government charity audits.

Central charges income was £121k higher than budget. Central charges for 2016/17 audits have increased by £0.7m from the 2015/16 fee levels as a result of higher pooled costs and in particular the pooling of the external firm's discounts. As all auditor remuneration has been set to apply the minimum level of discounts offered by firms, the element that relates to audits carried out in house is recovered through increased central charges. As the 2016/17 financial year budget was prepared on the assumption that the new contract values would be at a level equal to the previous values, income for the 2016/17 audit year for central charges will be higher than assumed in the 2016/17 financial year budget.

Although fee income earned for audit carried out by external firms was £528k greater than budget this has had little impact (£22k) on the overall variance as fees and expenses payable to the external firms were £506k higher than budget. This recognises the additional audit work carried out by the firms to generate the higher income earned.

Further detailed information on the financial results is provided in the attached report.

A year-end forecast has been prepared and was initially discussed with Management Team on 29 November 2016. The year-end forecast indicates a potential underspend of £0.5m. A sensitivity analysis of the year-end forecast indicates an underspend in the range £0.3m to £1.1m. A VERA scheme has been launched and the cost of any approved departures will be funded from and will reduce the forecast underspend.

There are no matters of concern requiring discussion with the Board.

4. Virement

There were no instances of budget virement in excess of £20k in the nine months to December 2016.

5. Action

The Board is invited to note the financial results for the nine months to December 2016.

FINANCE REPORT

Nine Months to 31 December 2016

1.1 Headline Results

1. In the nine months to December 2016 Audit Scotland's Net Operating Cost at £3,803k was £366k less than budget. The main reasons for the favourable variance were:
- Total income recorded in the nine months to December 2016 was £990k higher than the phased budget. Fee income including central charges contributed £890k.
 - Expenditure levels were £624k higher than budget. Adverse variances were recorded in respect of fees and expenses paid to external audit firms £506k, own staff costs £56k, agency and secondment expenditure £209k and legal, professional and consultancy costs £62k. These adverse variances were partly offset by lower travel and subsistence expenditure £87k, training and recruitment costs £59k, and depreciation charges £44k. Further details are provide in section 2 below and schedules 6 & 7.
 - The year-end forecast indicates a forecast underspend within the range £0.3m to £1.1m.

1.2 The summary financial information to December 2016 :

£000	Annual Budget	Actual	Budget	Var.	% Var.	Prior Year
Fee Income - In House	7,664	6,175	5,934	241	-4.1%	6,067
Fee Income - Audit Firms	5,795	4,877	4,349	528	-12.1%	4,603
Central Charges	4,718	3,660	3,539	121	-3.4%	3,509
Interest	25	28	19	9	-47.4%	29
Other Income	0	91	0	91	-	26
IAS 19 Income	0	0	0	0	-	0
TOTAL INCOME	18,202	14,831	13,841	990	7.2%	14,234
Approved auditors	5,011	4,301	3,795	(506)	13.3%	4,138
Staff salaries and oncosts	14,833	11,174	11,118	(56)	0.5%	10,576
Severance provision	40	0	0	0	-	0
Agency and secondment costs	123	329	120	(209)	174.2%	279
IAS 19 Pension costs	90	0	0	0	-	0
Property costs	935	672	675	3	-0.4%	1,245
Travel and subsistence	986	615	702	87	-12.4%	624
Legal, professional and consultancy	695	302	240	(62)	25.8%	380
Training and recruitment	662	414	473	59	-12.5%	427
Printing and office costs	291	191	211	20	-9.5%	270
Information technology	368	289	274	(15)	5.5%	314
Audit	60	39	45	6	-13.3%	43
Depreciation	412	265	309	44	-14.2%	153
Other costs	78	43	48	5	-10.4%	41
EXPENDITURE	24,584	18,634	18,010	(624)	3.5%	18,490
NET OPERATING (COST)	(6,382)	(3,803)	(4,169)	366	-8.8%	(4,256)

2. Income and Expenditure Summary (See Headline Table, above, and Sch. 2)

a) Income

In the nine months to December 2016 fee income including central charges was £890k higher than budget. In-house fee income was £241k higher than budget, income earned in respect of audits carried out by external audit firms was £528k more than budget and central charges income £121k greater than budget.

In-house fee income is derived from work in progress (WIP) completion percentages compiled through access to ASG's Management Information System (MIS) which captures audit day inputs from the Time Recording System and MKI.

The phased budgets for fee income have been profiled, mainly, on the basis of actual income levels recorded during the 2015/16 financial year. As the budgets have been based on indicative audit fees, variances will arise as a result of volume and price differences. Volume variances will occur when the WIP percentage reported is either above or below the percentage anticipated in the budget. Price variances will reflect the degree to which the fees have been agreed above, or below, indicative.

Fee income now includes income for both the 2015/16 and 2016/17 audit years.

All in-house 2015/16 audits excluding the European Agricultural Fund Audit (EAFA) have been reported as complete. In the nine months to December 2016 in-house fee income (excluding credits for non-chargeable work) for 2015/16 audits was £160k more than budget. Favourable variances were recorded for Local Government +£92k, Central Government +£61k and Further Education +£10k audits. Income recorded for Health audits was £3k below budget.

Cumulatively WIP levels for chargeable 2015/16 audits are on average 1.70% less than budget but 0.20% higher than the phased budget included in the 2016/17 financial year recognising that WIP levels at March 2016 were on average 1.90% less than budget. As a result chargeable in-house income levels for the nine months to December 2016 were £21k more than budget. The agreement of fees at levels above the indicative amounts included in the budget has increased the overall favourable variance by £139k.

Although in-year WIP is 0.20% higher than budget this will increase as the 2015/16 EAFA audit is completed and audit volumes move to a level 1.90% higher than the budget included in the 2016/17 financial year. As a result income will be £155k higher. The agreement of fees at levels above the indicative levels included in the budget will also generate £144k of additional income.

The table below provides an analysis of the in-house fee income variance by sector for 2015/16 audits at December 2016. Information on the expected out-turn position once all the audits are completed is also provided.

2015/16	Volume			Price	Total
	Cumulative WIP %	In-year WIP %	£k	£k	£k
Local Government	0.00	+1.37	+65	+27	+92
Health	0.00	+0.38	+6	-9	-3
FE	0.00	+13.49	+6	+4	+10
Central Government	-7.96	-3.37	-56	+117	+61
Total – December 2016	-1.70	+0.20	+21	+139	+160
Expected out-turn	-	+1.90	+155	+144	+299

FINANCE REPORT

Nine Months to 31 December 2016

Income earned for the start of in-house 2016/17 audits was £72k more than phased budget. Favourable variances were recorded for the Local Government, +£29k, FE, +£10k and Central Government audits, +£43k which were partly offset by a -£10k adverse variance recorded for Health audits. Audit progress at the start of the new 2016/17 audits was on average was 1.00% higher than the budget expectation. The variance reported is all volume related as the client bodies have only received their fee letters and negotiations on fees have yet to be concluded.

The table shows the analysis by sector at December for the 2016/17 audits:

2016/17	Volume		Price	Total
	Cumulative WIP %	£k	£k	£k
Local Government	+0.69	+29	0	+29
Health	-0.64	-10	0	-10
FE	+22.67	+10	0	+10
Central Government	+2.51	+43	0	+43
Total – December 2016	+1.00	+72	0	+72

A further £9k of in-house income was recorded in the nine months to December for additional fees agreed in respect of Local Government charity audits for the 2014/15 audit year.

Audit progress information is collected from firms on a quarterly basis and the December results reflect the returns made at the end of December 2016 and relate to the completion of the 2015/16 audits and the start of 2016/17 audits.

Income earned in the nine months to December 2016 in respect of 2015/16 audits carried out by external firms was £675k greater than budget. All these audits are now declared as 100% complete. The high income levels recorded in-year are in part due to an acceleration in audit WIP completion levels from the low levels recorded at March 2016. At March 2016, WIP levels reported by external audit firms for 2015/16 audits were, on average across all sectors, 7.31% lower than budget generating an adverse income volume variance of £410k.

At December 2016 cumulative WIP completion percentages were on average 1.57% ahead of budget and audit progress in the nine months to December 2016 was 8.88% higher than the phased budget included in the 2016/17 financial year. As a result chargeable income levels for the nine months to December 2016 were £497k more than budget. The agreement of fees at levels above the indicative amounts included in the budget has increased the overall favourable variance by £178k.

Although in-year WIP is 8.63% higher than the phased budget at December 2016 this will reduce as final budgets are released for 2015/16 audits and audit volumes move to a level 7.31% higher than the budget included in the 2016/17 financial year. As a result income will be £410k higher than budget. The agreement of fees at levels above the indicative levels included in the budget will also generate £178k of additional income once all audits are complete.

The table below provides an analysis of the audit firm fee income variance by sector for 2015/16 audits carried out by external firms.

2015/16	Volume			Price £k	Total £k
	Cumulative WIP %	In year WIP %	£k		
Local Government	+0.88	+9.43	+287	+7	+294
Health	+0.00	+4.03	+50	+53	+103
Water	+0.00	+10.34	+18	+13	+31
FE	+13.48	+22.86	+95	+45	+140
Central Government	+0.62	+6.68	+47	+60	+107
Total	+1.57	+8.88	+497	+178	+675
Expected out-turn	-	+7.31	+410	+178	+588

This quarter we have received the first reports on WIP from the external auditors for their 2016/17 portfolios. In total income recorded was £158k less than budget.

With the exception of FE audits all sectors are showing adverse variances, Local Government - £74k, -1.31%, Health -£48k, -1.57%, Water -£9k, -0.81% and chargeable Central Government - £27k,-0.53%. In the FE sector a small favourable variance of 1k (+0.23%) was reported.

Average WIP levels for the start of 2016/17 audits was 7.44% which was 1.2% below budget expectations and reduced income by £51k.

The success of the procurement process to appoint firms for the next five years at fee levels below the previous contract values has a direct impact on the income that will be earned for 2016/17 audits carried out by firms. As the 2016/17 financial year budget was prepared on the assumption that the new contract values would be at a level equal to the previous values, income for the 2016/17 audit year will be lower than assumed in the budget. The impact of this adverse variance has been identified and is shown separately in the variance analysis below. At the end of December 2016 the impact amounted to £107k.

The table, below, shows the analysis of the income by sector:

2016/17	Volume			Procurement Effect £k	Price £k	Total £k
	Cumulative WIP %	In year WIP %	£k			
Local Government	-1.31	-1.31	-34	-40	0	-74
Health	-1.57	-1.57	-15	-33	0	-48
Water	-0.81	-0.81	-1	-8	0	-9
FE	+0.23	+0.23	+1	0	0	+1
Central Government	-0.53	-0.53	-2	-26	0	-28
Total	-1.20	-1.20	-51	-107	0	-158

A further £11k of income was recorded for additional audit fees agreed for 2014/15 audits carried out by external firms (Health £8k, FE £3k).

Central charges income was £121k higher than budget. Central charges for 2016/17 audits have increased by £0.7m from the 2015/16 fee levels as a result of higher pooled costs and in particular the pooling of the external firm's discounts. As all auditor remuneration has been set to apply the minimum level of discounts offered by firms the element that relates to audits carried out in house is recovered through increased central charges. As the 2016/17 financial year

budget was prepared on the assumption that the new contract values would be at a level equal to the previous values, income for the 2016/17 audit year for central charges will be higher than assumed in the 2016/17 financial year budget.

Schedule 8a details the cumulative WIP completion percentages for 2015/16 audits in each sector at December 2016. Information is also provided in terms of the budget for 2015/16 audits and a comparator with the position reported at December 2015 (2014/15 audit year). Schedule 8b details the cumulative position for the 2016/17 audits. Schedule 9 provides an analysis of total fee income by sector, audit year and by provider (in-house and external firms).

Other income was £91k above budget for the year to date, mainly as a result of costs recovered for staff seconded to other public sector organisations. Interest received, at £28k, was £9k more than budget.

b) Expenditure

Total expenditure for the nine months to December 2016 at £18,634k was £624k more than budget.

The most significant variance related to fees and expenses payable to external audit firms where expenditure was £506k more than budget. Own staff costs were £56k more than budget, agency and secondment expenditure £209k greater than budget and legal, professional and consultancy costs £62k higher. These adverse variances were partly offset by lower travel and subsistence expenditure £87k, training and recruitment costs £59k, and depreciation charges £44k.

Fees and expenses payable to external audit firms were £506k more than budget. Fees paid to external firms were £469k greater than budget, expenses £6k more than budget and VAT recoveries on Local Government work £31k less than budget. Excluding payments made to firms for non-chargeable audits which were £19k less than budget, fees paid to external firms for chargeable audits were £488k more than budget. The increase in audit fee income reported by the audit firms has a 'knock on' effect on the amount of the fees payable to the firms that is recognised in the accounts for the period. As income earned for chargeable audits carried out by external firms was £528k more than budget the fees and expenses associated with the work were also higher than budget.

Staff costs in the nine months to December 2016 were £56k higher than budget. The average number of staff employed in the nine months to December 2016 at 277.7 w.t.e. was 0.4 w.t.e. lower than the establishment figure of 278.1 w.t.e. The staff budget for 2016/17 assumed a 3% vacancy factor and therefore the average number of staff employed in the period was 7.7 w.t.e. more than the numbers funded in the budget. The additional cost of employing these staff was partly offset by lower than budgeted average actual salary costs per employee.

In the nine months to 31 December 2016, agency and secondment costs were £209k more than budget. The secondment of three staff from other public sector bodies (West Lothian Council, Office for National Statistics, and Scotland's Rural College) to PABV increased costs by £170k and agency expenditure in Corporate Services and BSS was £43k more than budget due to the backfill of staff on maternity/paternity leave. Agency spend in ASG was £3k less than budget.

Total staff costs to 31 December 2016 including agency and secondment expenditure and net of secondment income was £177k more than budget.

Legal, professional and consultancy expenditure in the nine months to December 2016 was £62k greater than phased budget. Increase expenditure was recorded in respect of legal fees and property search fees for the new Inverness office £10k, legal fees in support of FOI work and VERA £5k, animation fees for our Health and Social care report £9k, the post occupancy review of West Port £9k, design costs associated with the review of our Glasgow office £5k, procurement support £10k, agency recruitment fees £9k and copyright licensing fees £5k.

FINANCE REPORT**Nine Months to 31 December 2016**

Travel and subsistence expenditure was £87k lower than budget. The underspend was mainly attributable to lower expenditure in ASG £71 and PABV £15k. Expenditure on the leased car fleet matched budget.

Training and recruitment costs were £59k below budget. Favourable variances were recorded for training expenditure £42k, attendance at conferences and seminars £14k, recruitment £7k and professional subscriptions, £17k (this variance is timing related as many staff expense claims for 2017 fees were not received until January 2017). These favourable variances were partly offset by higher expenditure on the professional training scheme -£21k (timing differences in respect of ICAS fees when compared to phased budget).

Depreciation charges were £44k less than budget reflecting lower than budgeted capital expenditure in previous years and timing differences in respect of capital investment profiles in the current year.

The 2016/17 budget included a contingency fund of £150k which is controlled by the Management Team. To date £75k has been committed and spent, £27k for project management, £38k for additional secretarial support to develop services for Assistant Directors and £10k for property management in Business Support. A further £40k remains uncommitted from a budget provision held to provide resources to plan for the audit implications of the new financial powers coming to the Scottish Parliament.

3. Balance Sheet (See Sch. 3)

At 31 December 2016, net liabilities of £14,845k were recorded in the Balance Sheet. This represented a decrease in net liabilities of £1,198k from the audited position at 31 March 2016.

Non-current assets have decreased by £205k as result of depreciation charges on our assets being greater than new capital investment in the nine months to December 2016.

Current assets have increased by £4,618k. Cash balances were in line with the 31 March 2016 figure. Trade and other receivables were boosted by invoicing the first instalment of the 2016/17 audits together with invoices issued to Integrated Joint Boards (IJB's) for health and social care for their 15/16 audits and to the National Audit Office for EAFA work.

Trade and other payables increased by £3,231k primarily due to increased deferred income following the issue of fee invoices for the first instalments for 2016/17 audits.

Deferred liabilities increased by £214k due to movements in the rent free provision for the new Edinburgh office. This provision is being built up over the first 39 months of the lease. The provision for early retirement has reduced by £230k following departures under the latest VERA scheme and monthly payments made for early retirements of former Accounts Commission and Local Government Ombudsmen staff.

4. Cash Flow Statement (See Sch. 4)

In the nine months to December 2016 cash balances have matched the position at 31 March 2016 at £1,743k compared to £1,744k at the year end. The position includes receipts from fee invoicing and £5,000k drawn down from the Scottish Consolidated Fund. This cash was in excess of our expenditure in the nine months to December 2016.

5. Capital Expenditure and Funding Report (See Sch. 5)

Capital investment in the nine months to December 2016 totalled £60k. £43k of the expenditure related to IT due to the purchase of new mobile phones £36k and the new card entry system at our Glasgow office, £6k. £11k was spent on furniture and £6k for fit-out work for the new office in Inverness.

FINANCE REPORT

Nine Months to 31 December 2016

6. Business Group Summaries (See Sch. 6 a~d)

- 6.1 In the nine months to December 2016 **Audit Services Group** generated a net operating contribution to overheads of £1,347k which was £113k higher than budget.
- Fee income (including credits for non-chargeable work) was £45k higher than budget and now includes income for the start of the 2016/17 audits.
 - All in-house 2015/16 audits with the exception of the EAFA have been reported as complete. Fee income (including credits for non-chargeable work) for 2015/16 audits was £18k more than budget. Favourable variances for chargeable audits of £163k (Local Government +£92k, Central Government +£60k, and FE +£11k) were offset by adverse variances for Health -£3k and non-chargeable Central Government audits, -£142k.
 - Local Government 2015/16 audits are now reported as complete and income was £92k greater than budget. This favourable income position reflects in part the recovery of WIP completion levels from the lower levels recorded at March 2016. As a result audit work was 1.36% more than budget in the year to date which has increased income by £65k. The impact of agreeing 2015/16 fees at levels above that included in the budget added a further £27k of income.
 - As audit work on non-chargeable 2015/16 audits was 7.81% ahead of phased budget at March 2016 the amount of audit work carried out in this financial year was correspondingly reduced with a resulting reduction in the level of audit credits recorded - £142k.
 - Income (including credits for non-chargeable work) for the commencement of 2016/17 audits was £18k greater than budget. Favourable variances were recorded for Local Government, +£29k, FE, +£10k and Central Government, +£43k. Adverse variances for Non-chargeable Central Government audits -£54k and Health -£10k partly offset the favourable variances. The reported figures for the new audits and audit progress were on average 0.21% higher than the budget expectation.
 - An additional £9k of income was recorded for additional fees agreed in respect of Local Government charity audits for the 2014/15 audit year.
 - Income earned from secondments was £26k above budget and relates to a member of staff seconded to the Care Inspectorate.
 - Further details on income are provided in section 2 above and schedules 8 and 9.
 - Gross expenditure at £6,289k was £42k less than budget.
 - Own staff costs were £45k more than budget. The average number of staff employed in the nine months to December at 148.9 w.t.e. was 0.7 w.t.e. above establishment. The adverse cost variance was driven by the increased number of staff in post and the 3% vacancy factor assumed in the budget though this was partly offset by lower than budgeted average actual staff costs per employee. Agency costs were £3k less than budget. Total staff costs including agency and net of secondment income were £16k more than budget.
 - Expenditure levels in other categories were in total £84k less than budget with the main contributor being lower travel and subsistence expenditure £71k. A favourable variance of £10k for professional subscriptions included within the training and recruitment cost category is a timing difference. The balance of the underspend comprised a number of small variances over a range of cost categories.
- 6.2 Net expenditure in **PABV** for the nine months to December 2016 was £2,862k, £60k higher than budget.
- Total staff costs inclusive of secondment expenditure were £128k more than budget.
-

FINANCE REPORT**Nine Months to 31 December 2016**

Three staff seconded into PABV from the Office for National Statistics, West Lothian Council and Scotland's Rural College increased expenditure by £170k. This expenditure was partly offset by lower own staff costs which were £42k less than budget (average staffing to date at 61.4 w.t.e. compared to an establishment of 63.8 w.t.e.) and £62k of income received for a member of staff seconded to Healthcare Improvement Scotland.

- Other expenditure in the nine months to December 2016 was very close to budget +£3k.

6.3 **Corporate Services** net expenditure in the nine months to December 2016 at £2,443k was £25k less than budget. The main contributors to the variance are noted below.

- Own staff costs were £21k higher than budget for the period. CSG staffing at 31.9 w.t.e. was 0.3 w.t.e. above establishment with the adverse cost variance driven by increased staff in post and the 3% vacancy factor. Agency staff spend as a result of backfilling staff on maternity/paternity leave was £36k more than budget.
- Other expenditure for Corporate Services was £72k less than budget. The main contributors to this variance were training and recruitment expenditure which was £33k less than budget and depreciation charges which were £44k lower.

6.4 **Business Support and Facilities Management**, net expenditure to December 2016 at £1,297k was £49k more than budget.

- Staff costs, including agency charges, were £28k higher than budget. The average number of staff employed in the year was 20.5 w.t.e., 1.0 w.t.e. above establishment.
- Other expenditure at £743k was £21k higher than budget mainly as a result of legal and professional fees being £23k higher than budget following the post occupancy review of West Port undertaken by haa design, new work related to the proposed alterations in our Glasgow office, and legal and search fees associated with the Inverness move.

David Hanlon
Corporate Finance Manager
23 January 2017

AUDIT SCOTLAND

FINANCE REPORT

RESULTS SUMMARY: 31 December 2016

Schedule 2

£(000)'s	Annual	Actual			Actual		
		Actual	Period	Variance	Actual	Budget	Variance
INCOME							
Fee Income - In House	7,664	368	303	65	6,175	5,934	241
Fee Income - Audit Firms	5,795	781	910	(129)	4,877	4,349	528
Central Charges	4,718	514	393	121	3,660	3,539	121
Rebate	0	0	0	0	0	0	0
Bank interest	25	3	2	1	28	19	9
Other Income	0	10	0	10	91	0	91
TOTAL INCOME	18,202	1,676	1,608	68	14,831	13,841	990
EXPENDITURE							
Commission	177	16	16	0	128	129	1
Board	34	2	2	0	23	26	3
Auditor General	233	19	19	0	165	171	6
Accounts Commission Secretary	93	7	7	0	67	70	3
Management Team	615	49	52	3	448	457	9
Audit Strategy	864	61	56	(5)	510	494	(16)
Approved Auditors	5,012	640	737	97	4,301	3,795	(506)
Audit Services Group	8,474	694	716	22	6,289	6,331	42
Performance Audit and Best Value	3,821	316	309	(7)	2,927	2,802	(125)
Corporate Services	3,350	360	340	(20)	2,472	2,487	15
Business Support & Facilities	1,659	141	139	(2)	1,297	1,248	(49)
Reserves & Provisions	177	4	0	(4)	7	0	(7)
Contingency & EYF	75	0	0	0	0	0	0
TOTAL EXPENDITURE	24,584	2,309	2,393	84	18,634	18,010	(624)
NET OPERATING (COST)	(6,382)	(633)	(785)	152	(3,803)	(4,169)	366
SCPA agreed Budget	(6,382)						
Budget Revision - AME pension adjustment	(6,382)						

AUDIT SCOTLAND

FINANCE REPORT

Balance Sheet As at 31 December 2016

Schedule 3

	31 March 2016 (Audited) £ (000)'s	31 Dec 2016 £(000)'s
Non-Current Assets		
Property, Plant and Equipment	1,767	1,575
Intangible Assets	33	20
Total non-current assets	1,800	1,595
Current Assets		
Trade and other receivables	2,661	7,280
Cash and cash equivalents	1,744	1,743
Total current assets	4,405	9,023
Total assets	6,205	10,618
<u>Less: Current Liabilities</u>		
Trade and other payables < 1 year	3,896	7,127
Provision for early retirement < 1 year	444	444
Other provisions < 1 year	33	33
Total current liabilities	4,373	7,604
Non-current assets plus/net current assets/liabilities	1,832	3,014
Non-current liabilities		
Deferred liabilities	(258)	(472)
Provision for Early Retirement	(1,698)	(1,468)
Other provisions	(81)	(81)
Net Funded Pension Liabilities	(15,838)	(15,838)
Total non-current liabilities	(17,875)	(17,859)
ASSETS LESS LIABILITIES	(16,043)	(14,845)
<u>Represented by:</u>		
Taxpayers' Equity		
Net funded pension liabilities	15,838	15,838
General Fund	205	(993)
	16,043	14,845

AUDIT SCOTLAND

FINANCE REPORT

Cash Flow Statement to 30 November 2016

Schedule 4

£(000)'s

Cashflows from operating activities

Net Operating cost	(3,803)
<i>Adjustment for non cash items:</i>	
- Depreciation	265
- Pension scheme - net revenue (debit)	
(Increase)/Decrease in trade and other receivables	(4,619)
(Decrease)/Increase in trade/other payables/deferred liabilities	3,445
(Decrease)/Increase in provisions for early retirement	(230)
(Decrease)/Increase in other provisions	0
Adjustment for cash balance due to the Consolidated Fund	(1,743)

Net cashflow from operating activities

(6,685)

Cashflows from investing activities

Purchase of property, plant and equipment	(60)
Purchase of intangible assets	0
Less / (add) movement in accrued expenditure	
	(60)

Cashflows from financing activities

Opening cash balance payable to the Consolidated Fund	1,744
From Consolidated Fund (supply)	5,000
	6,744

Net increase / (decrease) in cash and cash equivalents in the period

(1)

Cash and cash equivalents at the beginning of the period **1,744**

Cash and cash equivalents at the end of the period **1,743**

Net cash requirement

Cashflows from financing activities	6,744
(Increase)/ decrease in cash	1
	6,745

AUDIT SCOTLAND
FINANCE REPORT

Capital Expenditure and Funding Report
As at 31 December 2016

Schedule 5

	Leasehold Buildings £(000)'s	Furniture & Fittings £(000)'s	Computer Hardware £(000)'s	Computer Software £(000)'s	TOTAL £(000)'s
ASSETS					
Cost					
At 1 April 2016	1,270	251	869	725	3,115
Reclassified in year	0	0	0	0	0
Additions for year	6	11	43	0	60
Disposals for year	0	0	0	0	0
As at 31 December 2016	1,276	262	912	725	3,175
Depreciation					
At 1 April 2016	128	34	461	692	1,315
Reclassified in year	0	0	0	0	0
Charge for Year	101	37	114	13	265
Disposals for year	0	0	0	0	0
As at 31 December 2016	229	71	575	705	1,580
Net Book Value					
As at 31 December 2016	1,047	191	337	20	1,595
Analysis of Asset Financing					
Owned	1,047	191	337	20	1,595

AUDIT SCOTLAND

FINANCE REPORT

ASG FINANCE REPORT: to 31 December 2016

Schedule 6a

£(000)'s	Annual Budget	Period	Period Budget	Variance	YTD	Budget YTD	Variance YTD
INCOME							
LG Audits	4,588	188	146	42	3,633	3,503	130
Health Audits	1,530	37	64	(27)	1,239	1,252	(13)
CG Audits	1,509	122	88	34	1,250	1,146	104
CG Audits (non-chargeable)	1,963	(17)	52	(69)	1,435	1,631	(196)
FE Audits	38	21	5	16	53	33	20
Fees for Additional Audits	0	0	0	0	0	0	0
TOTAL FEE INCOME	9,628	351	355	(4)	7,610	7,565	45
Secondments Income	0	3	0	3	26	0	26
Other Income	0	0	0	0	0	0	0
OTHER INCOME	0	3	0	3	26	0	26
TOTAL INCOME	9,628	354	355	(1)	7,636	7,565	71
DIRECT COSTS							
Salaries	5,772	484	481	(3)	4,382	4,329	(53)
National Insurance	630	52	53	1	474	473	(1)
Superannuation	1,002	82	84	2	742	751	9
Superannuation Lump Sum	40	3	3	0	30	30	0
Class 1A NI	40	3	3	0	30	30	0
Agency Costs and Secondments	75	0	0	0	72	75	3
TOTAL DIRECT COSTS	7,559	624	624	0	5,730	5,688	(42)
EXPENDITURE							
Training & Recruitment	41	13	20	7	20	30	10
Cars	352	36	29	(7)	268	264	(4)
Travel & Subsistence/Relocation	465	18	39	21	241	312	71
Accommodation	0	0	0	0	0	0	0
Other Accommodation Costs	5	1	0	(1)	7	4	(3)
Printing	5	0	0	0	2	3	1
Communications	0	0	0	0	0	0	0
Stationery & Consumables	7	0	1	1	3	5	2
Postage & Distribution	3	0	0	0	2	2	0
ICT	17	0	0	0	9	9	0
Consultancy	6	0	0	0	0	4	4
Legal/Professional Fees	0	0	0	0	0	0	0
Insurance	0	0	0	0	0	0	0
Corporate Costs	8	1	2	1	4	6	2
Depreciation	0	0	0	0	0	0	0
Miscellaneous	6	1	1	0	3	4	1
TOTAL EXPENDITURE	915	70	92	22	559	643	84
GROSS EXPENDITURE	8,474	694	716	22	6,289	6,331	42
NET OPERATING CONTRIBUTION TO OVERHEADS	1,154	(340)	(361)	21	1,347	1,234	113

AUDIT SCOTLAND

FINANCE REPORT

PABV FINANCE REPORT: to 31 December 2016

Schedule 6b

£(000)'s	Annual Budget	Period	Period Budget	Variance	YTD	Budget YTD	Variance YTD
INCOME							
Bank Interest	0	0	0	0	0	0	0
Secondments Income	0	7	0	7	62	0	62
Other Income	0	0	0	0	3	0	3
Pension Fund Finance Income	0	0	0	0	0	0	0
OTHER INCOME	0	7	0	7	65	0	65
TOTAL INCOME	0	7	0	7	65	0	65
DIRECT COSTS							
Salaries	2,687	215	224	9	1,977	2,015	38
National Insurance	299	24	25	1	218	225	7
Superannuation	465	39	39	0	350	348	(2)
Superannuation Lump Sum	19	2	2	0	14	14	0
Class 1A NI	3	0	0	0	4	3	(1)
Agency Costs and Secondments	0	18	0	(18)	170	0	(170)
TOTAL DIRECT COSTS	3,473	298	290	(8)	2,733	2,605	(128)
EXPENDITURE							
Training & Recruitment	5	0	3	3	2	3	1
Cars	32	2	3	1	23	24	1
Travel & Subsistence/Relocation	79	6	5	(1)	43	58	15
Accommodation	0	0	0	0	0	0	0
Other Accommodation Costs	4	1	0	(1)	2	3	1
Printing	0	0	0	0	0	0	0
Communications	0	0	0	0	0	0	0
Stationery & Consumables	3	0	0	0	0	2	2
Postage & Distribution	0	0	0	0	0	0	0
ICT	5	0	0	0	2	2	0
Consultancy	210	7	6	(1)	100	97	(3)
Legal/Professional Fees	0	0	0	0	9	0	(9)
Insurance	0	0	0	0	0	0	0
Corporate Costs	10	2	2	0	13	8	(5)
Depreciation	0	0	0	0	0	0	0
Miscellaneous	0	0	0	0	0	0	0
TOTAL EXPENDITURE	348	18	19	1	194	197	3
GROSS EXPENDITURE	3,821	316	309	(7)	2,927	2,802	(125)
NET OPERATING (COST)	(3,821)	(309)	(309)	0	(2,862)	(2,802)	(60)

AUDIT SCOTLAND

FINANCE REPORT

CSG FINANCE REPORT: to 31 December 2016

Schedule 6c

£(000)'s	Annual Budget	Period	Period Budget	Variance	YTD	Budget YTD	Variance YTD
INCOME							
Bank Interest	25	3	2	1	28	19	9
Secondments Income	0	0	0	0	0	0	0
Other Income	0	0	0	0	1	0	1
Pension Fund Finance Income	0	0	0	0	0	0	0
OTHER INCOME	25	3	2	1	29	19	10
TOTAL INCOME	25	3	2	1	29	19	10
DIRECT COSTS							
Salaries	1,229	103	103	0	936	920	(16)
National Insurance	131	11	11	0	100	98	(2)
Superannuation	211	18	18	0	161	158	(3)
Superannuation Lump Sum	8	1	1	0	6	6	0
Class 1A NI	0	0	0	0	0	0	0
Agency Costs and Secondments	8	6	0	(6)	42	6	(36)
Severance Costs	0	0	0	0	0	0	0
Untaken Holidays Accrual	0	0	0	0	0	0	0
Adj to Early Retirement Provision	0	0	0	0	0	0	0
TOTAL DIRECT COSTS	1,587	139	133	(6)	1,245	1,188	(57)
EXPENDITURE							
Training & Recruitment	554	121	108	(13)	362	395	33
Cars	0	0	0	0	0	0	0
Travel & Subsistence/Relocation	25	1	2	1	13	18	5
Accommodation	0	0	0	0	0	0	0
Other Accommodation Costs	17	3	1	(2)	9	10	1
Printing	8	0	1	1	6	6	0
Communications	80	7	7	0	60	61	1
Stationery & Consumables	1	0	0	0	0	1	1
Postage & Distribution	5	(1)	0	1	2	5	3
ICT	376	38	31	(7)	289	280	(9)
Consultancy	60	7	0	(7)	68	54	(14)
Legal/Professional Fees	100	9	8	(1)	85	74	(11)
Insurance	71	6	6	0	52	53	1
Corporate Costs	11	1	3	2	3	8	5
Depreciation	412	29	34	5	265	309	44
Miscellaneous	43	0	6	6	13	25	12
TOTAL EXPENDITURE	1,763	221	207	(14)	1,227	1,299	72
GROSS EXPENDITURE	3,350	360	340	(20)	2,472	2,487	15
NET OPERATING (COST)	(3,325)	(357)	(338)	(19)	(2,443)	(2,468)	25

AUDIT SCOTLAND

FINANCE REPORT

BSS & FM FINANCE REPORT: to 31 December 2016

Schedule 6d

£(000)'s	Annual Budget	Period	Period Budget	Variance	YTD	Budget YTD	Variance YTD
INCOME							
Bank Interest	0	0	0	0	0	0	0
Secondments Income	0	0	0	0	0	0	0
Other Income	0	0	0	0	0	0	0
Pension Fund Finance Income	0	0	0	0	0	0	0
OTHER INCOME	0	0	0	0	0	0	0
TOTAL INCOME	0	0	0	0	0	0	0
DIRECT COSTS							
Salaries	518	53	43	(10)	414	391	(23)
National Insurance	48	5	4	(1)	39	36	(3)
Superannuation	88	7	7	0	60	66	6
Superannuation Lump Sum	3	0	0	0	3	3	0
Class 1A NI	0	0	0	0	0	0	0
Agency Costs and Secondments	40	0	0	0	47	39	(8)
Severance Costs	0	0	0	0	0	0	0
Untaken Holidays Accrual	0	0	0	0	0	0	0
Adj to Early Retirement Provision	0	0	0	0	0	0	0
TOTAL DIRECT COSTS	697	65	54	(11)	563	535	(28)
EXPENDITURE							
Training & Recruitment	0	0	0	0	2	0	(2)
Cars	4	0	0	0	0	3	3
Travel & Subsistence/Relocation	6	1	1	0	7	5	(2)
Accommodation	837	69	75	6	627	628	1
Other Accommodation Costs	32	0	2	2	22	24	2
Printing	23	2	2	0	18	17	(1)
Communications	0	0	0	0	0	0	0
Stationery & Consumables	30	3	3	0	21	23	2
Postage & Distribution	11	1	1	0	6	8	2
ICT	1	0	0	0	0	0	0
Consultancy	10	0	0	0	0	0	0
Legal/Professional Fees	0	0	0	0	23	0	(23)
Insurance	7	0	1	1	3	5	2
Corporate Costs	1	0	0	0	5	0	(5)
Depreciation	0	0	0	0	0	0	0
Miscellaneous	0	0	0	0	0	0	0
TOTAL EXPENDITURE	962	76	85	9	734	713	(21)
GROSS EXPENDITURE	1,659	141	139	(2)	1,297	1,248	(49)
NET OPERATING (COST)	(1,659)	(141)	(139)	(2)	(1,297)	(1,248)	(49)

AUDIT SCOTLAND
FINANCE REPORT

WTE Staff in Post Summary: 2016/17

Schedule 7

	Establishment	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	March	Average
Auditor General	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0				1.0
Accounts Commission Secretary	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0				1.0
Management Team	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0				4.0
Audit Strategy	9.0	8.8	8.8	8.8	8.8	8.8	8.8	8.8	9.8	9.8				9.0
Audit Services Group	148.2	149.0	147.0	149.0	152.0	152.0	146.0	150.2	146.7	148.2				148.9
Performance Audit and Best Value	63.8	60.3	60.3	63.3	63.1	62.7	62.9	60.9	60.0	59.0				61.4
Corporate Resource Group	4.6	3.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6				4.5
Human Resources	5.2	5.2	5.4	5.4	5.4	5.2	5.4	5.4	5.4	5.4				5.4
IT Services Group	9.0	9.0	9.0	9.0	8.0	8.0	8.0	9.0	9.0	9.0				8.7
Communications	9.8	9.8	9.8	9.8	9.8	9.8	9.8	9.8	9.8	9.8				9.8
Corporate Planning & Projects	3.0	3.0	3.0	4.0	4.0	4.0	4.0	4.0	3.0	3.0				3.6
Corporate Services	31.6	30.6	31.8	32.8	31.8	31.6	31.8	32.8	31.8	31.8	0.0	0.0	0.0	31.9
Business Support & Facilities	19.5	19.9	19.9	19.9	19.7	19.7	20.7	21.7	21.7	21.7				20.5
TOTAL AUDIT SCOTLAND (Exc Commission)	278.1	274.6	273.8	279.8	281.4	280.8	276.2	280.4	276.0	276.5	0.0	0.0	0.0	277.7
%age of Establishment	100.0%	98.7%	98.4%	100.6%	101.2%	100.9%	99.3%	100.8%	99.2%	99.4%				99.8%
Board	4.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0				3.0
Commission	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0				12.0
TOTAL	294.1	289.6	288.8	294.8	296.4	295.8	291.2	295.4	291.0	291.5	0.0	0.0	0.0	292.7
Agency and Secondments (w.t.e.)														
Agency estimate		1.3	1.9	4.3	10.6	12.7	5.9	1.7	1.5	1.5				4.6
Secondments to Audit Scotland		3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0				3.0
Secondments from Audit Scotland		-1.0	-1.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0				-1.8
		3.3	3.9	5.3	11.6	13.7	6.9	2.7	2.5	2.5	0.0	0.0	0.0	5.8

AUDIT SCOTLAND

FINANCE REPORT

WORK IN PROGRESS 2015/16 AUDIT YEAR

SCHEDULE 8a

AUDIT COMPLETION PERCENTAGES

	2015/16 AUDIT YEAR					
	14/15 AY ACTUAL December 2015 %	Cumulative				In year variance December 2016 %
		ACTUALS March 2015 %	December 2016 %	BUDGET December 2016 %	VARIANCE December 2016 %	
In House Teams						
Local Government	100.00	34.92	100.00	100.00	0.00	1.37
Health	100.00	36.26	100.00	100.00	0.00	0.38
FE colleges	87.55	16.16	100.00	100.00	0.00	13.49
Central Government	95.40	32.44	92.04	100.00	-7.96	-3.37
Total Chargeable	98.98	34.57	98.30	100.00	-1.70	0.20
Non Chargeable	99.88	31.83	100.00	100.00	0.00	-7.81
Total In House	99.15	34.02	98.63	100.00	-1.37	-1.36
Approved Auditors *						
Local Government	100.00	21.91	100.00	99.12	0.88	9.43
Health	100.00	27.24	100.00	100.00	0.00	4.03
Water	100.00	20.00	100.00	100.00	0.00	10.34
FE colleges	90.91	3.36	100.00	86.52	13.48	22.86
Central Government	99.50	23.38	100.00	99.38	0.62	6.68
Total Chargeable	99.21	21.88	100.00	98.43	1.57	8.88
Non Chargeable	100.00	7.04	100.00	100.00	0.00	38.01
Total Approved Auditors	99.23	21.58	100.00	98.46	1.54	9.49
* To be reported quarterly						

AUDIT SCOTLAND

FINANCE REPORT

WORK IN PROGRESS 2016/17 AUDIT YEAR

SCHEDULE 8b

AUDIT COMPLETION PERCENTAGES

	15/16 AY ACTUAL December 2015 %	2016/17 Audit Year		
		ACTUAL December 2016 %	BUDGET December 2016 %	VARIANCE December 2016 %
In House Teams				
Local Government	10.59	11.56	10.87	0.69
Health	16.73	16.50	17.14	-0.64
FE colleges	0.00	22.67	0.00	22.67
Central Government	15.29	9.77	7.26	2.51
Total Chargeable	12.69	12.15	11.15	1.00
Non Chargeable	9.80	6.11	9.97	-3.86
Total In House	12.12	11.17	10.96	0.21
Approved Auditors *				
Local Government	5.71	7.13	8.44	-1.31
Health	8.77	9.69	11.26	-1.57
Water	14.00	20.00	20.81	-0.81
FE colleges	0.14	0.46	0.23	0.23
Central Government	5.77	6.49	7.02	-0.53
Total Chargeable	6.24	7.44	8.64	-1.20
Non Chargeable	2.36	6.33	10.24	-3.91
Total Approved Auditors	6.16	7.38	8.67	-1.29
* To be reported quarterly				

AUDIT SCOTLAND

FINANCE REPORT

2016/17 FINANCIAL YEAR - FEE INCOME ANALYSIS £000

SCHEDULE 9

As at 31 December 2016

	Prior year adjustments			2015/16 Audit Year			2016/17 Audit Year			2016/17 Financial Year to Date			Variance analysis		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Volume	Price *	Total
In-house Teams															
Local Government	9	0	9	3,146	3,054	92	478	449	29	3,633	3,503	130	94	36	130
Health	0	0	0	1,010	1,013	(3)	229	239	(10)	1,239	1,252	(13)	(4)	(9)	(13)
FE colleges	0	0	0	43	33	10	10	0	10	53	33	20	16	4	20
Central Government	0	0	0	1,083	1,022	61	167	124	43	1,250	1,146	104	(13)	117	104
Total In-house teams	9	0	9	5,282	5,122	160	884	812	72	6,175	5,934	241	93	148	241
Approved Auditors															
Local Government	0	0	0	2,388	2,094	294	186	260	(74)	2,574	2,354	220	253	(33)	220
Health	8	0	8	956	853	103	93	141	(48)	1,057	994	63	35	28	63
Water	0	0	0	150	119	31	27	36	(9)	177	155	22	17	5	22
FE colleges	3	0	3	447	307	140	2	1	1	452	308	144	97	47	144
Central Government	0	0	0	594	487	107	23	51	(28)	617	538	79	45	34	79
Total Approved Auditors	11	0	11	4,535	3,860	675	331	489	(158)	4,877	4,349	528	447	81	528
Total															
Local Government	9	0	9	5,534	5,148	386	664	709	(45)	6,207	5,857	350	347	3	350
Health	8	0	8	1,966	1,866	100	322	380	(58)	2,296	2,246	50	31	19	50
Water	0	0	0	150	119	31	27	36	(9)	177	155	22	17	5	22
FE colleges	3	0	3	490	340	150	12	1	11	505	341	164	113	51	164
Central Government	0	0	0	1,677	1,509	168	190	175	15	1,867	1,684	183	32	151	183
Total Fees	20	0	20	9,817	8,982	835	1,215	1,301	(86)	11,052	10,283	769	540	229	769
Central Charges	0	0	0	2,771	2,771	0	889	768	121	3,660	3,539	121	0	121	121
TOTAL	20	0	20	12,588	11,753	835	2,104	2,069	35	14,712	13,822	890	540	350	890

* Price variance includes the reduction in income to be earned as a result of procurement savings on work carried out by external firms

AUDIT SCOTLAND BOARD

31 MARCH 2017

REPORT BY THE ASSISTANT DIRECTOR CORPORATE PERFORMANCE AND RISK

Q3 PERFORMANCE REPORT 2016/17

1. Purpose of Report

This report provides the Board with an overview of Audit Scotland's performance during quarter three of 2016/17.

2. Background

The report seeks to provide both an 'at a glance' overview of performance and more detailed data and analysis. We monitor and report on performance using nine corporate objectives. Our assessments on the objectives are informed by 20 key performance questions (KPQs), which in turn are informed by 44 Key performance indicators (KPIs).

The report seeks to provide assurance about progress against our objectives and to identify any areas which require particular attention.

- Appendix 1 provides a summary of our performance on the nine corporate objectives and the supporting KPQs and KPIs over time
- Appendix 2 provides detailed information on each of the objectives, KPQs and KPIs, including narrative on current performance and a forward look on future issues and risks.

We use a red, amber green (RAG) 'traffic light' assessment for each of the objectives, KPQs and KPIs where:

- **Red** = Not progressing/significant additional management action required.
- **Amber** = Progressing and additional management action planned.
- **Green** = On target/no need for additional management action.

3. Performance headlines Q3

The Q3 indicators present a positive picture overall and this is consistent with the previous quarterly reports. We continue to deliver high quality audits substantially on time and within our overall revenue budget. The headlines include:

Outputs and outcomes

- 31 audit reports delivered in Q3.
- Reports published in Q3 included
 - NHS in Scotland 2016 which gained significant attention and media coverage
 - The local government financial overview report, three Best Value audit reports and a How Councils Work report on roles and relationships
 - Three statutory section 22 reports on SPA, NHS24 and NHS Tayside.

Processes

- All audits scheduled for publication in Q3 reported in the quarter
- Two audits rescheduled from Q2 were published in Q3.
- Expenditure on audits varied slightly across the business groups but overall was delivered within 1% of the budget.

Resourcing

- In the nine months to December 2016 Audit Scotland's Net Operating cost at 3,803k was £366k less than budget.
- 'One to watch' status was retained in the Best Companies survey, though the overall score was down slightly from last year
- Sickness absence levels remain low at an average of 1.27 days per person.

The overall positive assessment of our performance is consistent with the messages in the suite of 2015/16 annual performance reports published in June 2016.

4. Performance review Q3

Six of the nine corporate objectives are assessed as 'green':

- 2.1 We conduct relevant and timely audits of the way the public sector manages and spends money.
- 2.2 We report our findings and conclusions in public
- 2.3 To identify risks and make clear and relevant recommendations for improvement and follow these up.
- 3.1 We systematically improve the quality and impact of our work.
- 3.3 We develop new and improved products to maximise the impact of audit.
- 3.6 We work together to deliver excellent audits.

The assessment for 2.3, on making clear and relevant recommendations for improvement and following these up, has moved from amber to green. A revised approach to gathering information on, the response to, and the outcome of recommendations has led to more evidence being available on the positive impact of the audit work at national and local level. This is illustrated on pages 11 and 12.

Three objectives are assessed as 'amber':

- 3.2 We seek out and manage information and intelligence to deliver excellent audits.
- 3.4 We maximise our efficiency and effectively manage our resources to reduce the costs of audit.
- 3.5 We empower and support our people to be engaged, highly skilled and perform well.

None of the objectives are assessed as 'red'.

5. Areas requiring attention

Developments in the areas requiring attention are being managed through the Becoming World Class (BWC) improvement programme. The Q3 Becoming World Class progress report is on today's agenda as item **X**.

We anticipate that developments planned in a number of areas will impact on the performance assessments.

6. Conclusion and Recommendations

The Board is invited to review the performance report and consider whether any additional management attention is required.

Performance Management Framework: Overview

Appendix 1

Objective	2015-16				2016-17				KPI	2015-16				2016-17												
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4									
2.1 To conduct relevant and timely audits of the way the public sector manages and spends money.	G	G	G	G	G	G	G	G	2.1.1 To what extent are audits delivered on time?	G	G	G	G	G	G	G	G	2.1.1.1 Audit progress vs. schedule	G	G	G	G	G	G	G	G
									2.1.2 To what extent are audits delivered on budget?	G	G	G	G	G	G	G	G	2.1.2.1 Audit costs vs. budget	G	G	G	G	G	G	G	G
									2.1.3 To what extent are relevant audits being delivered?	G	G	G	G	G	G	G	G	2.1.3.1 Manager's assessment	G	G	G	G	G	G	G	G
									2.1.4 To what extent are audits world class?	A	A	A	A	A	A	A	A	2.1.4.1 Quality assessment world class	A	A	A	A	A	A	A	A
									2.1.4.2 Feedback	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	
2.2 To report findings and conclusions in public.	G	G	G	G	G	G	G	G	2.2.1 To what extent are reports published on schedule?	G	G	G	G	G	G	G	G	2.2.1.1 Number of reports produced vs. schedule	A	A	A	A	G	G	G	G
									2.2.2 How well are messages out?	G	G	G	G	G	G	G	2.2.2.1 Media coverage	G	G	G	G	G	G	G	G	
																	2.2.2.2 Web analytics	G	G	G	G	G	G	G	G	
																	2.2.2.3 Manager's assessment Compliance with plain language	G	G	G	G	G	G	G	G	
CHANGED ASSESSMENT 2.3 To identify risks and make clear and relevant recommendations for improvement and follow these up.	G	A	A	A	A	A	A	G	2.3.1 To what extent are there practical, clear and relevant recommendations in everything published?	G	G	G	G	G	G	G	G	2.3.1.1 Manager's assessment that recommendations are clear, SMART, linked to findings, practical and have checklists where appropriate.	G	G	G	G	G	G	G	G
																		2.3.1.2 % of recommendations accepted	G	G	G	G	G	G	G	G
									2.3.2 To what extent have recommendations led to improvements?	A	A	A	A	A	A	A	G	2.3.2.1 Manager's assessment (have recommendations been acted upon/have they gone to the governing body of the audited organisation?)	A	A	A	A	A	A	A	G
																		2.3.2.2 Findings from impact reports	A	A	A	A	A	A	A	A
3.1 To systematically improve the quality and impact of audit work	G	G	G	G	G	G	G	G	3.1.1 To what extent are we improving the way we are working?	G	G	G	G	G	G	G	G	3.1.1.1 Internal quality review findings	G	G	G	G	G	G	G	G
																		3.1.1.3 Manager's assessment of improvement activities	G	G	G	G	G	G	G	G
3.2 To seek out and manage information and intelligence to deliver excellent audits.	A	A	A	A	A	A	A	A	3.2.1 To what extent is the knowledge people need, gathered, organised and accessible?	A	A	A	A	A	A	A	A	3.2.1.1 Staff survey/focus group feedback	A	A	A	A	A	A	A	A
																		3.2.2 To what extent are appropriate knowledge resources built?	A	A	A	A	A	A	A	A

3.3 To develop new and improved products to maximise the impact of audit.	A A A A G G G	3.3.1 To what extent are new products and services developed?	A A A A G G G	3.3.1.1 Manager's assessment (review of recent innovations)	A A A A G G G
		3.3.2 How well are products and study programmes suitable and appropriate for emerging issues?	A A A A A A A	3.3.2.1 Manager's assessment	A A A A A A A
3.4 To maximise efficiency and effectively manage resources to reduce the costs of audit.	A A A A A A A	3.4.1 To what extent is efficiency improving?	A A A A A A A	3.4.1.1 Costs vs. shrinking budget	G G G G G G G
				3.4.1.2 Cost per audit (against benchmark)	Y Y Y Y Y Y Y
				3.4.1.3 Workforce costs	G G G G G G G
				3.4.1.4 Estate costs	G G G G G G G
				3.4.1.5 Costs of travel	G G G G G G G
				3.4.1.6 Carbon footprint	G G G G G G G
				3.4.1.7 Benchmarking data on finance, IT, HR, Communications and estate	Y Y Y Y Y Y Y
				3.4.1.8 IT network downtime	G G G G G G G
				3.4.1.9 Internal audit feedback	A A A A A A A
				3.4.1.10 % productive/chargeable time vs. targets by grade	G G G G G G G
3.5 To empower and support people to be engaged, highly skilled and perform well.	A A A A A A A	3.5.1 To what extent have we got empowered and engaged people?	A A A A A A A	3.5.1.1 Best Company survey results	G G G G G G G
		3.5.2 To what extent are people remaining to be highly skilled?	G G G G G G G	3.5.2.1 % completion of personal development plans	G G G G G G G
				3.5.2.2 % pass rates for trainees	G G G G G G G
		3.5.3 To what extent are people performing well?	G G G G G G G	3.5.3.1 Performance feedback ranks (PAD Score/evaluation)	G G G G Y Y Y
				3.5.3.2 360 degree feedback	A A A A A A A
				3.5.3.3 Attendance levels	G G G G G G G
		3.5.3.4 Staff Turnover	G G G G G G G		
3.5.4 We will understand and support diversity within the workforce	G G G G G G G	3.5.4.1 Equalities	G G G G G G G		
3.6 To work together to deliver excellent audits.	G G G G G G G	3.6.1 To what extent is there communicating and collaborating across organisational departments?	G G A A A A A	3.6.1.1 Best Company survey results	G G A A A A A
		3.6.2 To what extent are career paths offered across the organisation?	G G G G G G G	3.6.2.1 Manager's assessment	G G G G G G G
				3.6.2.2 % promotions per year	G G G G G G G
				3.6.2.3 % side-ways moves per year	G G G G G G G
				3.6.2.4 No. internal/external secondments	G G G G G G G

Corporate objective – 2.1 We conduct relevant and timely audits of the way the public sector manages and spends money

Key Performance Questions:	Q1 RA G	Q2 RAG	Q3 RAG	Q4 RAG	PERFORMANCE HEADLINE:
To what extent are audits delivered on time?	G	G	G		In Q3 we published 31 audits (185 in the year to date). Audits are currently being delivered within 1 percent of the budget.
To what extent are audits delivered on budget?	G	G	G		
To what extent are relevant audits being delivered?	G	G	G		
To what extent are audits world class?	A	A	A		

On time:

31 audits/reports were delivered in Q3 with a total of 185 year to date. Details of the reports published are available in the table on page 9.

All of the scheduled work was completed in the quarter. Two reports rescheduled from Q2 (How Councils work – Roles and working relationships and the Angus Best Value report) were also published in Q3.

The Angus Council Best Value report originally due to be published in August, was considered by the Accounts Commission at its August meeting. At that meeting further information was requested from the audit team, with the final report approved in September and published on 4 October (Q3).

Relevant:

The How Councils Work - roles and working relationships follow up report was published in November. Alongside the main report are a number of resources for councils and elected members, including a summary of the report key headlines, a good practice checklist and summaries of round table discussions that informed the final report. The Improvement Service has indicated that it may use some of the resources from this work within its elected member induction material for new councillors elected in May 2017.

The Housing Benefit audit work moved to ASG in October 2016 but was monitored in Audit Strategy in Q3. Three HB risk assessments and one thematic study were delivered as planned with and within budget in Q3.

On budget:

Business group's expenditure on audits varied slightly across the business groups but overall was delivered 0.8% over budget.

Business Group	2016/17				Average cost per audit day by business group
	Budget	Actual	£ Variance	% Variance	
ASG	6,331,000	6,289,000	42,000	-0.7	<p>Average Cost per Audit Day</p> <ul style="list-style-type: none"> 2012/13 2013/14 2014/15 2015/16 2016/17
AST	160,627	156,913	3,714	-2.3	
PABV	1,490,073	1,598,484	108,411	+7.3	
Total	7,981,700	8,044,397	62,697	+0.8	

PABV audits have been delivered 7.3% over agreed budget, this is down from 10.2% in the previous quarter. The overspend for the year to date can be largely be attributed to overspends on the Colleges Overview, Higher Education and Supporting Scotland's Economic Growth reports. The scope and requirements of these audits were more complex than originally envisaged, requiring audit plans to be revised. In one audit there was also a change of manager mid audit, resulting in additional costs.

The Supporting Scotland's Economic Growth audit chose to incorporate members of the local audit teams at the enterprise agencies into the audit team. This improved the audit and was a positive example of one organisation working but also resulted in the final audit cost being higher than originally planned.

Forward look:

- The moratorium for the local government election has been confirmed as starting on 13 March 2017. This starts earlier and covers a longer period than is normally the case. We are considering the implications of this for our publication plan, particularly reports due to publish between March and May 2017.
- The Accounts Commission and Auditor General are consulting externally on the proposals set out within the rolling work programme refresh. The programme is due to be formally approved in March.
- Going forward into the 2016/17 audit year, ASG has 139 audit client bodies which require a statutory audit opinion.

Key risks / Issues:

- The draft accounts and supporting working papers for the 2016 EAFA audit were submitted to Audit Scotland in late January, well after the agreed date of November 2016. There have also been the well documented and serious problems with the CAP Futures IT system which have impacted upon the audit process. As a result the EAFA audit team will not be able to meet the 15 February target for the submission of the accounts to Brussels. The European Commission has granted the Paying Agency an extension until 1 March 2017 and the audit team is making every effort to meet that date. However any problems encountered during the audit could potentially have a further impact on the completion date.
- Audit Scotland is currently rolling out a revised approach to the audit of best value in local authorities. As we have many new audit client bodies being audited by new audit teams there is a potential risk that planned outputs may be delivered behind schedule.

Performance details: Audit products planned for the year 2016/17:

The business group activity is shown below. For ASG this includes the annual certifications but does not include other products such as annual audit plans, controls and governance reports and annual audit reports, other reports / returns required by the annual planning guidance. Including these, ASG's total external-facing outputs currently are in excess of 1,000. For Audit Strategy - housing benefit work including risk assessments and follow ups, thematic studies and welfare reform updates; for PABV performance, Best Value, CPP, overview, how councils work and statutory reports.

Business Group	Planned	Completed (YTD)	
ASG (15/16 audits)	150	149	99%
AST*	17	14	82%
PABV	18	14	78%
Other	15	8	53%

Feedback received:

Teams have recorded many examples on where we have had a positive impact. Some examples include:

- A new central government body was not as prepared as they might have been for either the accounts preparation or audit process. The body appreciated the professionalism of the auditors in developing good lines of communications with the client officers whilst still maintaining their audit independence. This has given auditors a good foundation for future audit work.
- Feedback on the HB performance audit has been received from two councils this quarter. Comments have been positive e.g. "The level of expertise exhibited by the benefits auditor provided a rigorous but fair challenge to the service."

Key Performance Questions:	Q1 RAG	Q2 RAG	Q3 RAG	Q4 RAG	PERFORMANCE HEADLINE:
To what extent are reports published on schedule?	G	G	G		In Q3 we published 31 reports including three statutory reports. Reports gained significant parliamentary interest and media coverage.
How well are messages getting out?	G	G	G		

Reporting on schedule

During Q3 59 reports were scheduled and 31 were published. This is due to a number of the Central Government audits being completed ahead of schedule in Q1 and Q2. In the year to date ASG have published 175 audits on or ahead of schedule time and are due to publish the final audit in Q4. All HB reports were issued as planned. Two reports (Angus BV and HCW – role & responsibilities) that were due to be published in Q2 were published in Q3.

Previous quarterly reports highlighted the Equal Pay and Ferry Services in Scotland performance audits as provisional Q4 16/17 or early 17/18 publications. Scoping and planning work refined the timescales for both audits which are now under way. The Equal Pay audit is scheduled for late Spring and the Ferry Service audit for late Summer.

Getting our message out

Media coverage for the *NHS in Scotland overview report* received unprecedented coverage across UK print and digital media channels. On publication the report was trending higher on Twitter than several well known UK wide television programmes. The nature of the reports findings and the high profile coverage afforded to them saw the Cabinet Secretary for Health and Sport issue a ministerial statement.

As well as media coverage in Q3 there were a number of other events to support getting the messages out including:

- Supporting the *Accounts Commission's* engagement activity for the new approach to the audit of Best Value. This included roadshows events for councils and a session with COSLA.
- TSU had a session at the *CIPFA technical event* to LA practitioners on the findings from 2015/16 audit and look ahead to 2016/17.
- The Audit Manager for the *Higher Education performance audit* was invited to present the audit findings and recommendations to: the Scottish Universities Secretaries Group, Aberdeen University Senior Management Group, Dundee University Finance and Risk Committee, Stirling University Court and a KPMG HE Sector event. The Higher Education report findings were also discussed at HE Sector group meetings of Directors of Finance and Chairs of Court.
- The Audit Manager for the *Changing Models of Health and Social Care audit* delivered a presentation on the reports findings to a Holyrood conference. The Audit Manager also presented key issues to the West Dunbartonshire Health and Social Care Partnership audit committee. As part of our promotion of the health and social care webpage we put out a post about the case studies supplement to the report. This prompted lots of shares and positive comments, one user tweeted us to say they were going to use it as part of educating mental health nursing students.
- The *NFI report* was presented to the Public Audit and Post Legislative Scrutiny Committee (PAPLS) this quarter.

The press coverage for Q3 saw 577 Audit Scotland and 108 Accounts Commission mentions. The majority of coverage in Q3 was for the NHS in Scotland 2016 report.

There also coverage of the Scottish Government accounts and other previous reports that gained coverage in Q3 were on; our Common Agricultural Futures Update, Prestwick Airport, NHS in Scotland 2015, Social Work in Scotland, Scotland's Colleges 2016, and Sheriff Courts Efficiency.

Online activity**Downloads**

Comparison with previous years downloads shows an increase.

Total downloads	2016/17	2015/16
Q1	177,392	122,266
Q2	183,206	153,840
Q3	182,163	150,044
Q4		179,851
Total		606,001

Social Media

The number of 'engagements' with our Social media activity increased from 1,848 in the previous quarter and the number of re tweets remained consistent with last year's levels.

Month	2016/17		2015/16	
	Engagements*	Re tweets	Engagements	Retweets
Q1	2,104	260	727	262
Q2	3,935	566	388	65
Q3	4,909	689	989	262
Q4			1848	207
Total			3952	796

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

Correspondence in 2015/16.

Audit Scotland handles a wide range of correspondence from members of the public, elected representatives and organisations. Although we have no statutory duty to investigate issues of concern or respond to correspondence, we do so under our Code of Audit Practice. The Q3 performance is shown in the table below:

Correspondence cases	Q1	Q2	Q3	Q4	2016/17 YTD	2015/16	2014/15
Number of cases	37	55	27		92	340	273
Acknowledgement within five working days	100%	98%	96%		99%	90%	61%
Final response within 30 working days	97%	75%	89%		86%	87%	58%

Forward look:

- The moratorium for the local government election has been confirmed as starting on 13 March 2017. This starts earlier and covers a longer period than is normally the case. We are considering the implications of this for our publication plan, particularly reports due to publish between March and May 2017.
- ASG will review HB work programme in light of a member of staff retiring in Q3.

Key risks / Issues:

Corporate risk register: – failure of impact and influence, failure of capacity.

Publication schedule

In 2016/17, there are plans to publish 198 audits/reports. Variation in the schedule is shown as ✓ = delivered, (QX) = rescheduled to /from quarter identified in the brackets. Statutory reports arising during the year are included in the 'Other' row.				
	Q1	Q2	Q3	Q4
Performance Audit (9)	✓Common Agricultural Policy Futures programme: an update	✓Higher Education ✓Supporting Scotland's economic growth ✓Roads Maintenance ✓Broadband update ✓Social Work		Managing new financial powers Ferries tendering (Q2 2017/18) Equal Pay (Q1 2017/18)
Best Value (4)	✓South Ayrshire	XAngus (Q3)	✓Falkirk ✓East Dunbartonshire ✓Angus (Q2)	
How Councils Work (1)		XRoles and relationships outputs (later in 2016/17)	✓Roles and relationships outputs (Q2)	
Overview (4)		✓Scotland's Colleges	✓NHS in Scotland ✓Local Government in Scotland – financial overview	Local Government in Scotland – performance and challenges overview
HB Risk Assessment (6)	✓South Ayrshire Council ✓Inverclyde Council	✓East Ayrshire Council ✓East Renfrewshire Council	✓Aberdeenshire Council ✓Dundee City Council ✓South Lanarkshire Council	Fife Stirling East Dunbartonshire
HB Follow up (4)	✓East Dunbartonshire Council ✓North Ayrshire Council	✓Clackmannanshire Council ✓East Dunbartonshire Council		
HB Annual Report (1)	✓ HB annual report			
Thematic study (1)	✓HB good practice guide		✓Review of fraud & error liaison arrangements	
ASG Planned audit statutory deadline (150)	✓9 NHS ✓11 CG	✓84 LG (inc IJBs) ✓27 CG	✓16 CG ✓2 FE	1 CG
Other (15)	✓National Fraud Initiative ✓Position report on S106 charity accounts ✓Good practice note - Improving the quality of NHS annual report and accounts – governance statements.	✓ S22 Scottish Government Consolidated Accounts ✓Scotland's new financial powers Sept 16	✓ S22 The 2015/16 audit of the Scottish Police Authority ✓ NHS 24: Update on management of an IT contract ✓ NHS Tayside: Financial sustainability	NHS workforce statistics - new National Scrutiny Plan 2 x local government s102 <i>tbc</i> 3 x College s22 <i>tbc</i>
Total scheduled (200)	27	98	59	14
Total delivered	31	123	31	

Corporate objective – 2.3 We identify risks and make clear and relevant recommendations for improvement and follow these up

Key Performance Questions:	Q1 RAG	Q2 RAG	Q3 RAG	Q4 RAG	PERFORMANCE HEADLINE:
To what extent are there practical, clear and relevant recommendations in everything published?	G	G	G		Changes to the arrangements for capturing improvements offer good evidence of improvements arising from national and local work.
To what extent have recommendations led to improvements?	A	A	G		

Narrative:

Identifying risks:

Following extensive portfolio monitoring and risk assessment work the Accounts Commission and the Auditor general approved the rolling five year work programme in December 2016, subject to external consultation with key stakeholders.

A large part of our audit work is focussed on identifying the risks faced by the audited bodies. All annual audit plans contain an appendix which highlights the risks faced by our audit clients. These risks are then followed up and the action taken to mitigate against the risk are reported upon with the annual audit reports. We ensure that the responses given by client officers to address the risks are adequate to address the concerns and that our reports and hence the risks are considered at the appropriate level.

Practical, clear and relevant recommendations and percentage of recommendations not accepted:

In a ministerial statement in response to the NHS in Scotland overview report, the Cabinet Secretary for Health and Sport called our report a 'balanced view' and accepted our recommendations 'in full'. We are not aware of any recommendations being rejected.

Recommendations have been acted upon:

We ensure that the recommendations made in our annual audit reports are acted upon by carrying out follow-up audits. Examples include:

- In one NHS audit the audit team raised matters in relation to the appropriateness of accruals throughout the 5 year audit appointment, a number resulted in adjustment. In the first year of the appointment the accruals reduced by £11.7m due to our challenging of whether there was a constructive obligation or not. By year five the reduction in accruals (due to lack of evidence) was £0.3m (although there were other types of errors as well). This area was given a lot of attention by auditors and was highlighted to staff at the audited body, especially management accountants, and included a presentation and Q&A session. We believe that our audit work has improved the robustness of financial reporting.
- During a 2014/15 annual audit the team reviewed governance arrangements and made 24 recommendations. The team reported that there was a need to implement a more formal governance structure in terms of processes and support systems. The Chief Executive initiated a review. The 2015/16 audit concluded that the body now had effective overarching governance arrangements which provide an appropriate framework for organisational decision making
- All HB recommendation accepted this quarter. With, 17/19 (89%) of previously identified risks found to have been addressed.

Forward look:

- The first year of a new five year cycle gives us the opportunity to focus on gaining an understanding of the most significant risks faced by the audit clients that we have not recently audited. The changing of and audit teams to continuing clients ensure that we maintain our objectivity when it comes to considering the risks faced by our audit clients.

Key risks / Issues:

- Audited bodies do not always implement recommendations according to the agreed timetable, which can result in repeat recommendations.
- Insufficient progress with measuring the impact of our audits could undermine our credibility with a wide range of stakeholders.
- Corporate risk register - failure of legitimacy and relevance, failure of impact and influence, failure to deliver the vision.

Performance details:

Examples where our work has had a positive impact

Financial management

Central Government (CG) audit of SPA and Police Scotland – the 2014/15 audit resulted in a modified opinion and reported on weaknesses in financial management. This resulted in an s22 report being issued by the AGS. A further S22 was issued in December 2016. Finance structures and roles have been reviewed, interim CFOs have been appointed and reporting lines have been amended.

Local Government (LG) audit - the team highlighted concerns about budget setting and service delivery, particularly the recurring underspends on the HRA where the 2013/14 annual audit report stated 'budget setting for the HRA is fundamentally unsound'. A new Head of Service undertook a fundamental review of the budget and the outturn for 2014/15 indicated a promising direction of travel. The 2015/16 outturn confirmed this, with a more realistic budget as well as improved service delivery around repairs performance and void re-letting.

CG audit - the audit identified that the lease arrangements for SETS (the system used to administer the devolved taxes) had not transferred from Scottish Ministers to Revenue Scotland. Revenue Scotland took action to regularise the position. The audit team also provided advice on the proper accounting treatment of the lease which was accepted by Revenue Scotland.

CG audit – the audit team provided additional support for a new body in 2015/16. The audit team provided considerable advice and support to the agency's accountant. The accountant appreciated the advice of the auditor and was able to produce a set of accounts that were consistent with accounting standards. Consequently, a clean audit opinion was issued. The agency's management acknowledged the good advice provided by the audit team which was crucial.

CG audit – the audit team had reported in the past, and during 2015/16, on the need to complete reconciliations between the income received and the bank statements. Processes were changed during 2015/16 which resulted in this reconciliation being completed for the first time as part of the financial statements audit. A small difference remained at the year end and further development of the process and procedures will take place.

CG audit - from routine testing and from investigation of correspondence the audit team identified areas for improvement to grant award and monitoring arrangements. The improvements recommended by the audit team have been accepted by management.

We hosted a session at CIPFA technical event to Local Authority practitioners on findings from 2015/16 audit and look ahead to 2016/17 to help improve financial reporting. We also delivered training on financial reporting for auditors new to a sector.

Financial sustainability

The Cabinet Secretary for Health & Sport published a letter on recruitment and retention within the health and social care sector. It states: the need for this (workforce) Plan stems from the Programme for Government commitments in relation to health and social care; and from Audit Scotland recommendation on workforce planning in relation to its recent findings on the public sector workforce, the NHS in 2016 and on health and social care integration'.

The Roads Maintenance report found that that the current levels of expenditure were insufficient to maintain the proportion of trunk roads in an acceptable condition. The Scottish Government has allocated an additional £15 million from its Economic Stimulus Fund to facilitate accelerated capital spending on trunk road maintenance, the expenditure is to be made by the end of 2016/17.

Governance and transparency

The Broadband update report was published on 18 August 2016. Since then there have been 45 PQ's on broadband since publication. In addition Scottish Labour released a press statement using the report to highlight the lack of progress in rural areas and Rhona Grant MSP asked eight PQ's that mentioned our report. Audit Scotland has also received nine separate items of correspondence from individuals concerned about lack of service in their area or experts with strong views on the telecoms industry.

In December 2016 Audit Scotland was invited to give a private briefing to the Scottish Parliament's Education and Skills Committee on the School Education Report, published in June 2014. The briefing session focussed on how councils are implementing the recommendations in the report and the extent to which some of the issues highlighted in 2014 are still being addressed. Members advised that the session very informative and will help inform the committee's future work programme.

LG audit - as part of the group audit the audit team met with the external auditor of one of a council's subsidiaries. This highlighted further investigations by the Scottish Government into European Funding. This highlighted the need to disclose the potential for further funding claw back in the council's Annual Governance Statement. The disclosure improved transparency on an important issue.

CG audit - the audit team offered advice on the preparation of better quality financial statements and working papers. This led to higher quality financial statements and the audit concluded in August rather than in October as had previously been the case.

CG audit - the audit team made recommendations to strengthen governance arrangements including the need to improve - system controls; the effectiveness of the Audit & Risk Committee; transparency of committee and board papers and activity; effectiveness of internal audit and arrangements for the participation in NFI. Much of this has been taken on board and continues as 'works in progress.

CG audit - the audit team made recommendations to strengthen the control environment in connection with the segregation of duties and user access; payroll starter and leaver details; integrity of HR system; payroll checks; exception reporting; ledger reconciliations; supplier detail checks; payment controls; invoice authorisation; debt write-off; bank reconciliations; treasury & cash management and stock valuation. Follow-up audit work confirmed these were largely implemented. The team also made recommendations to improve governance in connection with the effectiveness of the Audit & Risk Committee; transparency of committee and Board papers and activity; effectiveness of Internal Audit; arrangements for participation in NFI; registers of interest. Much of this has been taken on board, and continues as 'works in progress.

Value for money

NHS audit - the audit team completed a review of agency staff, nurse bank staff and sickness absence, with a focus on acute services as part of the 2015/16 audit. The audit established that, contrary to board policy, medical agency locums were being used to provide long term cover and that this may not be representing value for money and placing a strain on resources. The report included a number of recommendations to improve controls around the use of agency staff in particular, recommending a review of procedures and controls for booking medical agency locums together with the invoice checking process. The Board has taken forward the recommendations by setting up an Agency Locum Steering Group, involving senior management. The issues raised regarding controls for the booking and payment of agency staff have been discussed with external agency suppliers, with the view to potentially implementing a new software system to improve the process.

LG audit - Following discussions with officers in the early years of the audit engagement the council members agreed to a scheme of amalgamation for a number of trusts (including eight of the nine registered charities) into a single charitable trust. This was subsequently agreed by OSCR, the charities regulator in 2015/16. The council's stated intent is to ensure that funds, £0.530 million, are made available to local communities.

LG audit - historically the council had a poor record in delivering its capital programmes and this resulted in relatively low levels of capital expenditure (both in absolute terms and against budget). The lack of investment in its asset base was compounded by a poor asset management strategy. This was highlighted in the early annual audit reports. In August 2014 the council approved the restructuring of the Property and Risk Service, an increased complement of professional architects and quantity surveyors and the establishment of Capital Asset Management Group to oversee the development and delivery of the council's capital programmes. This has resulted in improved performance with the delivery of a significantly enhanced capital programme.

CG audit – the CG team developing a revised system for assessing procurement performance within public bodies requested Audit Scotland support. This included briefings on recent audit work and recommendations for improvement. Feedback from the CG Team is that this input has been very beneficial for the project. On 9 November, the Scottish Government published The Public Procurement Reform Programme 2006-2016 Achievements and Impacts and Audit Scotland is referenced.

Corporate objective – 3.1 We systematically improve the quality and impact of our work

Key Performance Questions:	Q1 RAG	Q2 RAG	Q3 RAG	Q4 RAG	PERFORMANCE HEADLINE:
To what extent are we improving the way we are working?	G	G	G		The new appointments and the new code of audit practice took effect in Q3. This includes the new approach to auditing best value. Good progress is being made on the quality review and quality assurance.

Examples of quality and improvement work in Q3 include:

- Publication of 2016/17 the audit planning guidance, supplementary guidance on the code on audit dimensions and guidance on auditing 2016/17 LG annual accounts
- An Assistant Director was appointed in October 2016 to lead the review of quality arrangements across all audit work (including the firms). This will include developing a new quality framework, new reporting arrangements and a revised quality and transparency report.
- The arrangements in support of the new approach to the audit of Best Value are now in place. The arrangements will be subject to further refinement and review particularly as the year one Best Value Assurance work progresses.
- ASG has further streamlined its audit approach, this focuses on key controls, leaving more time to carry out wider dimension audit work.
- BIU developed a new audit plan template which is consistent with our corporate reporting style.
- The Professional Standards and Quality Improvement (PSQI) group are undertaking a programme of post sign off quality reviews (cold reviews) of 2015/16 annual audits. The results will be used in Q4 to identify training or practice improvements required in individual teams or across ASG more widely.
- ICAS quality reviews in 2014/15 reported on the need for more consistency with the completion of A03 spreadsheet (used to assess audit risks). Training was carried out across ASG prior to the start of the audit planning for the new round of audits.
- Updating of the Audit Guide to reflect the changes to further streamlining of B (controls) files.
- An ASG impact log has been set up i-share and audit teams are populating this with examples where audit work has made an impact.
- Collaborative working with other UK audit agencies to prepare practice note 10 on applying ISAs to the public sector.
- PABV audit management framework was revised to incorporate a series of equalities prompts and checklists to support programme development and individual audits

Impact
During Q3 we received the results and feedback from our MSP Survey. This highlighted very high levels of awareness of our work amongst MSPs and positive assessments on the work. We also received positive feedback in response to the early work in delivering our Parliamentary Engagement Strategy.

Forward look:

- The quality review project arrangements were presented to the Board and to the Annual Audit Conference in January 2017.
- The outcomes of quality reviews will be formally reported to the engagement leads in Q4. These will set out work done well, areas of for improvement and examples of good practice for sharing more widely.
- Audit Scotland’s Annual Audit Conference focused on ‘making a difference’ and was attended by over 200 colleagues from across all business groups.
- A new interim report template is being developed for rollout to audit teams in Q4.
- Work is in progress in developing a new annual audit report template. BIU are working with colleagues to progress this work so that they are available to audit teams well in advance of the financial statements audit to reduce the pressure on teams during the busy period of financial statements audit.
- BIU are revising final accounts audit programmes for use on financial statements audit and template for reporting the outcomes of quality reviews to include areas of good practice.

Key risks / Issues:

- Corporate risk register – failure of quality, failure of impact and influence, failure of innovation

Corporate objective – 3. 2 We seek out and manage information and intelligence to deliver excellent audits

Key Performance Questions:	Q1 RA G	Q2 RAG	Q3 RAG	Q4 RAG	PERFORMANCE HEADLINE:
To what extent is the knowledge people need, gathered, organised and accessible?	A	A	A		New Local Government extranet launched in Q3 and introductory training on data analytics was delivered ASG.
To what extent are appropriate knowledge resources built?	A	A	A		

Knowledge management and intelligence activity in Q3 included:

- The Launch of the Local Government Extranet for use by audit teams and firms as a means of sharing audit intelligence systematically.
- ASG and PABV colleagues are now using MKI exclusively for Best Value work, ensuring better sharing of, and a consistent approach to managing audit intelligence and evidence.
- A meeting involving management team and colleagues from across the business groups to inform the development of a digital strategy.
- Introductory training on data analytics for ASG colleagues held in Glasgow, Edinburgh, Inverness and Aberdeen. The sessions focussed on audit quality (treating data analytics as a special form of analytical review) and excel analytical tools.
- Knowledge café on Audit Intelligence phase 1.
- Discussions with senior managers with policy portfolios to inform the data collection and analysis as part of phase 2 of the Audit Intelligence project.
- Establishing a private corporate social network to collaborate with colleagues across business groups and with the NAO, WAO and NIAO.
- Intelligence gathering for the Local Government Shared Risk Assessment process with other scrutiny partners.
- PABV colleagues participating in Team Risk Assessment Meetings (TRAM) held by ASG audit teams.

Forward look:

- Development of a Digital Strategy.
- Presentations to the Audit Scotland Board and the Accounts Commission’s Performance Audit Committee.
- Training sessions on IDEA (an IT audit tool for extracting and analysing data) is taking place in February 2017. The aim is to hold regular events for ASG staff, delivered both in the form of half-day workshops, and as super-team training / updates.
- ASG are piloting the use of data analytics at a number of audits including; NHS Fife, Fife Council, CNES and the Moray Council
- Further knowledge cafes on Audit Intelligence.

Key risks / Issues:

- Failure to gather and share information may lead to issues being missed.
- Tools to gather and share information are not fully utilised.
- Failure to use data analytics to improve efficiency and effectiveness.
- Corporate risk register – failure to deliver our vision, failure of legitimacy and relevance, failure of impact and influence, failure of innovation.

Corporate objective – 3. 3 We develop new and improved products to maximise the impact of audit

Key Performance Questions:	Q1 RA G	Q2 RAG	Q3 RAG	Q4 RAG	PERFORMANCE HEADLINE: We continue to develop new products to maximise the impact of the audit work.
To what extent are new products and services developed?	G	G	G		
How well are products and study programmes suitable and appropriate for emerging issues?	G	G	G		

New and improved products in Q3 included:

- The first of our new financial local government overview reports was published in Q3. This represents a new approach where the financial aspect of the overview is reported separately to the forward looking aspect of this work. Tableau was used to visually illustrate complex financial information in an engaging and accessible format.
- Transforming health and social care information hub on the website. This brings together a wide range of material on this area and includes reports, supplements, checklists, infographics, case studies, an animation and blogs.
- An on-line survey to inform the audit on self directed support.
- A new audit planning template for audit teams. This has been used on health audits and some initial feedback from audited bodies has been positive.
- Extensive work through the strategic approach to parliamentary engagement including a wide range of meetings, briefings, awareness sessions with MSPs, committees, committee clerking teams and SPICe.
- Supported the Accounts Commission in the engagement on, and development of, the new approach to Best Value and developed the framework, guidance and information resources.
- The Auditor General and the Accounts Commission approved the refreshed five year rolling work programme 2017/18 – 2021/22 in December 2016. A key objective of our new approach to programme development has been becoming more externally focused and engaging with a wider and more diverse range of stakeholders and interest groups.
- We continue to engage in a range of forums and present at conferences and to audited bodies to share our audit messages, examples are shown on page seven.

Forward look:

- Audit Intelligence phase 2 will continue to be developed.
- A new interim audit report has been developed and rolled out to audit teams for use in reporting their findings.
- Annual Audit Report templates are being developed for use in the local government, health and central government sectors as well as templates for IJBs, colleges and pension funds. The new templates are designed to have more of an impact with greater use of info graphics.
- Pension fund audit programmes are being reviewed to ensure that audit work is more relevant to the bodies we audit.

Key risks / Issues:

- Corporate risk register – failure of impact and influence, failure of innovation.

Corporate objective – 3. 4 We maximise our efficiency and effectively manage our resources to reduce the costs of audit

Key Performance Questions:	Q1 RAG	Q2 RAG	Q3 RAG	Q4 RAG	PERFORMANCE HEADLINE:
To what extent is efficiency improving?	A	A	A		In the nine months to December 2016 Audit Scotland's Net Operating Cost at £3,803k was £366k less than budget.

Summary:

In the nine months to December 2016 Audit Scotland's Net Operating Cost at £3,803k was £366k less than budget. The main reasons for the favourable variance were:

- Total income recorded in the nine months to December 2016 was £990k higher than the phased budget. Fee income including central charges contributed £890k.
- Expenditure levels were £624k higher than budget. Adverse variances were recorded in respect of fees and expenses paid to external audit firms £506k, own staff costs £56k, agency and secondment expenditure £209k and legal, professional and consultancy costs £62k. These adverse variances were partly offset by lower travel and subsistence expenditure £87k, training and recruitment costs £59k, and depreciation charges £44k. Further details are provide in section 2 below and schedules 6 & 7.
- The year-end forecast indicates a forecast underspend within the range £0.3m to £1.1m

A risk interrogation on value for money was considered by the Audit Committee at its meeting on 9 December 2016.

Efficiency achievements and objectives for the future we included in the budget submission considered by the SCPA at its meeting on 21 December 2016.

Forward look:

- Best Value of Audit Service Group report to Audit Scotland Board 20 January 2017.
- Development of an efficiency review programme to support the new financial strategy.
- Refined resource allocation arrangements to support the new audit appointments.

Key risks / Issues:

- Corporate risk register: – failure to achieve value for money

Performance details:

Cost vs. budget:

Net operating (cost) to December 2016

In the nine months to December 2016 Audit Scotland's Net Operating Cost at £3,803k was £366k less than budget.

£000	Q1	Q2	Q3	Q4
Actual	(986)	(1,705)	(3,803)	
Budget	(1,267)	(1,925)	(4,169)	
Variance	281	220	366	

Business group Net operating (cost)/contribution to overheads summary 9 months to December 2016 (£'k)

The table below shows net operating cost/surplus for each business group.

	ASG	AST	PABV	CSG
Actual	1,347	(510)	(2,862)	(3,740)
Budget	1,234	(494)	(2,802)	(3,716)
Variance	+113	(-16)	(-60)	-(24)
+ = favourable, - = unfavourable				

Capital expenditure:

Capital investment in the nine months to December 2016 totalled £60k. £43k related to IT for the purchase of new mobile phones and the new card entry system at our Glasgow office. £11k was spent on furniture and £6k for fit-out work for the new office in Inverness.

Staff:

Staff costs in the nine months to December 2016 were £56k higher than budget. The average number of staff employed in the nine months to December 2016 at 277.7 w.t.e. was 0.4 w.t.e. lower than the establishment figure of 278.1 w.t.e. The staff budget for 2016/17 assumed a 3% vacancy factor and therefore the average number of staff employed in the period was 7.7 w.t.e. more than the numbers funded in the budget. The additional cost of employing these staff was partly offset by lower than budgeted average actual salary costs per employee.

	Q1	Q2	Q3	Q4
2016/17 establishment w.t.e:	278.1	278.1	278.1	
Average number of staff employed in 2016/17 w.t.e:	276	277.7	277.7	
No. of staff at end of quarter w.t.e:	279.8	276.2	276.5	

Estate:

Property costs in the year to December 2016 were £3k less than budget.

£000	YTD- Q1	YTD- Q2	YTD- Q3	YTD- Q4
Actual spend	206	442	672	
Budget	224	450	675	
Prior year spend	389	805	1,245	1,297

Costs of travel:

Travel and subsistence expenditure was £87k lower than budget. The underspend was mainly attributable to lower expenditure in ASG and PABV. Expenditure on the leased car fleet matched budget.

£000	YTD- Q1	YTD- Q2	YTD- Q3	YTD- Q4
Actual spend	198	417	615	
Budget	209	456	702	
Prior year spend	217	448	624	858

IT network up time Q3:

IT uptime was 100% compared to 99.9% in the previous quarter.

	IT uptime	Working hours lost	Average time lost per person
Q1	99.9	22	7 minutes
Q2	99.9	7	2
Q3	100	0	0
Q4			

IT Incident management summary

- 99% (800/808) of incidents were accepted within the response time SLA.
- 98.5% (796/808) of requests were closed by an Analyst within the fix time SLA
- An average of 2.75 incidents were logged per user (Number of staff 293).

Internal Audit recommendations:

There were seven internal audits completed year to date with six rated as substantial for both design and operational effectiveness and one rated reasonable. There are a total of 21 recommendations.

Year	Total no. of Audits	Total number of recommendations	High	Medium	Low
2016/17 (YTD)	7	21	0	6	15
2015/16	7	15	0	3	12

Business group productivity:

Business group productivity, within each business group, remains broadly consistent with productivity/ planning assumptions. There is a historic pattern of a decline in ASG productivity in Q3 as the majority of their audits are completed at the end of Q2. This year eight new professional trainees started in Q3; their time is not charged as productive for the first three months from when they join Audit Scotland. The Beginning of the new audit rotation and the drive to improve audit quality included a number of learning and development events in Q3. In particular there was mandatory training for all ASG managers and senior auditors on the use of the A03 spreadsheet (used to plan financial audits).

	2016/17			2015/16		
	ASG	AST	PABV	ASG	AST	PABV
Q1	60%	93%	68%	73%	88%	65%
Q2	78%	93%	69%	75.9%	91.5%	72.6%
Q3	51%	96.5	65%	54%	89%	66%
Q4				69%	91	67%

Corporate objective – 3.5 We empower and support our people to be engaged, highly skilled and perform well

Key Performance Questions:	Q1 RA G	Q2 RAG	Q3 RAG	Q4 RAG	PERFORMANCE HEADLINE:
To what extent have we got empowered and engaged people?	A	A	A		'Ones to watch' status retained in Best Companies survey results, though some reductions in engagement scores. Extensive colleague engagement through BaBO activity.
To what extent are people remaining to be highly skilled?	G	G	G		
To what extent are people performing well?	Y	Y	Y		
We will understand and support diversity within the workforce	G	G	G		

Best Companies:

The 2016/17 Best Companies survey was launched in October and results were released in December. We retained 'Ones to Watch' status for 2016. The response rate of 74% was down compared to the 83% for last year. Performance across each of the eight Best Companies themes showed an increase in one area (wellbeing) remained level in two (fair deal and giving something back) and a dropped in five. The survey results have been shared with colleagues through the Best Companies [ishare page](#) and in a special BABO edition of [abacus](#).

Organisation wide results were considered by Management Team in December 2016 and Leadership Group and the Board in January 2017. Analysis of and meetings on the results at business group level are taking place in Q4 along with Knowledge Cafes.

BABO:

- BaBO reward road shows took place in Q3 and the BaBO programme board are working with colleagues and the HR&OD team to further develop answers to the important questions such as how the 'development gates' will work, fine tuning the role profiles and making sure the April 2017 implementation is a good experience for all.
- Time Place Travel (TPT) has been introduced and an initial survey on people's thoughts on how it will impact on how they work has been completed. Results are being analysed. The Autumn PABV team meeting included a session on TPT and the practical implications of this for our people and work.

Wellbeing:

- We are currently going through the procurement process for appointing our new occupational health and wellness checks provider, with a view to securing a new contract by February 2017.
- Within the context of work on becoming 'Carers Positive' accredited, the Audit Scotland peer group have met. The group have engaged with other accredited employers to learn how we can raise awareness of carer's in the workplace, and collate relevant and useful information that can support our carers. It is hoped that the principles of Time, Place, Travel will also complement this, giving both team members and managers scope to work more flexibly.

L&D:

- In advance of the new audit appointments, a total of 13 'Client Relationship Management' workshops were delivered (approx. 160 people). Feedback was positive, particularly around the area of developing a 'world class mind-set'. The most positive feedback came from the Professional Trainee group. It has been agreed that this training is relevant and appropriate for all new starters with Audit Scotland, including future Trainee cohorts too.
- Work on the self-directed learning pilot in PABV continues and a number of those involved (16) have begun their development. The deadline for completion was extended from December 2016 to March 2017 to allow further time for development (and tie in with spend before end of financial year). One example of how this learning has already been shared is participants attending a Creative Writing workshop and then delivering training to other colleagues. Each participant is considering the potential for colleagues across the wider organisation to benefit from their development activity.

Forward look:**BaBO:**

- Reward workshops have been completed, the proposed option was well received and is now being progressed.
- Work is underway on revising the Role Profiles and designing the Career Development Gates process.
- Phased implementation of reward and pay package to start in April 2017.
- Permanent qualified Auditor roles recruitment campaign is scheduled to launch in Q4 (January).

L&D:

- As well as continuing to deliver on the core corporate and technical L&D offering for the balance of 2016/17, the next main piece of work continues to be developing content and speakers for some of the core BABO Personal Development themes for Team Members, Managers and Leaders.

Best Companies:

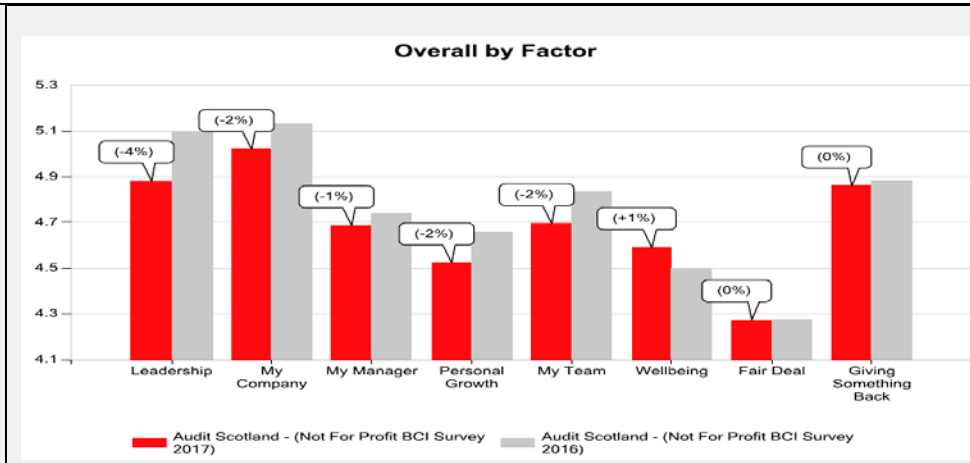
- The more detailed results from the Best Companies survey shared with the Leadership Group on 25 January 2017.
- Two knowledge cafés are in the diary for 30 January (Edinburgh) and 2 February (Glasgow), which are an opportunity for colleagues to come along and discuss any aspect of the Best Companies results.
- Following the outcome of both the Leadership Group meeting and the two knowledge cafés, some priority areas to develop will be agreed and progressed.

Key risks / Issues:

- We do not carefully manage staff communications / expectations around BaBO – how we work together e.g. We do not adequately keep communication channels open in the spirit of asking staff to help us create future ways of working (co-creation).
- We do not adequately plan for the achievement of the Healthy Working Lives Silver award.
- Corporate risk register: failure of capacity, failure to operate as one organisation.

Performance details:**Best Companies:**

Audit Scotland received the results of the 2016/17 Best Companies survey late in Q3 and staff and business groups have been considering the results in Q4. Overall the survey shows that Audit Scotland remains in the 'one to watch' category. In the eight categories all of the summary scores are above four (indicating more positive than negative responses). Compared to last year the score increased by 1% in one category, there was no change in two categories and a drop in five categories of between 1% and 4%.



Learning and development opportunities in Q3: The table below table lists the types of L&D events as well as the number of delegate places.

	No. of Events	No. of Attendees
Health & Safety	1	6
Knowledge Cafes	1	43
Learning & Development	11	127
Management Development	0	0
Organisational Development	14	239
Technical Training	7	107
	34	522

Exam results

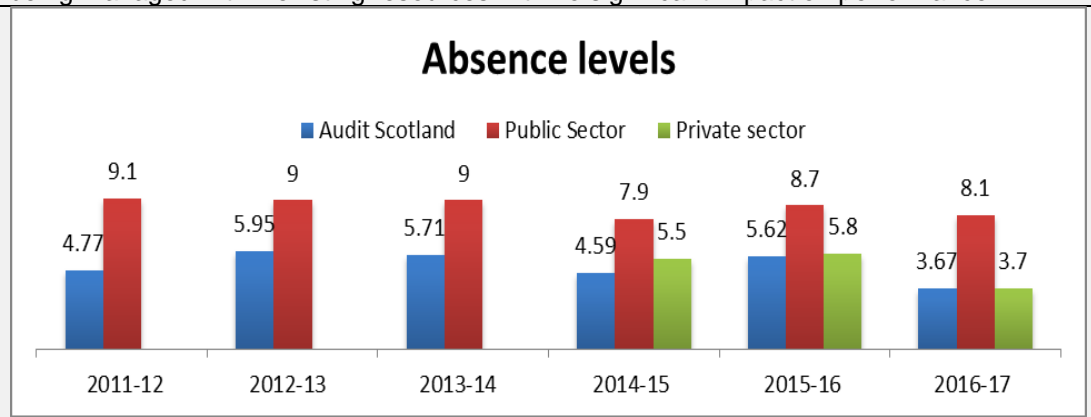
In Q3, nine Trainees sat their final Test of Professional Expertise examinations for the ICAS qualification. The eight who passed and are now exam qualified and eligible to apply for permanent qualified Auditor roles with Audit Scotland and a recruitment campaign is scheduled to launch in Q4 (January).

	Exams taken	Exams passed	% pass rate
Q1	15	15	100
Q2	26	24	92.3
Q3	9	8	88.8
Q4			

Absence levels:

Absence levels remain low at an average of 1.27 days per person. This has slightly decreased from 1.37 in Q2 and remains slightly below the rate of absence for the equivalent quarter last year (2015/16). Business groups report that absence is being managed within existing resources with no significant impact on performance.

	Q1 days	Q2 days	Q3 days	Q4 days	ytd days	15/16 total
ASG	1.16	1.69	1.13		3.98	6.11
Audit Strategy	0	2.60	2.0		4.6	2
CSG	1.11	0.48	0.64		2.23	4.74
PABV	0.81	1.26	2.11		4.18	3.42
Audit Scotland16/17	1.03	1.37	1.27		3.67	
Audit Scotland15/16	0.89	0.98	1.49	2.05	5.62	
Audit Scotland14/15	1.12	0.87	0.99	1.31	4.59	
Audit Scotland13/14	1.6	1.14	1.57	1.40	5.99	



Staff turnover:

Across Audit Scotland, all leavers for Q3 equates to 6.87% and is consistent with last year's levels. All leavers include VERA, and end of fixed-term contractors, i.e. Student placements. Audit Scotland regularly accommodates student placement every summer and 2016 was no different with placements spread across ASG/PABV. The placements ended in Q3 contributed to the turnover figure. Staff turnover remains below the 2015 CIPD benchmark.

2016/17	Q1	Q2	Q3	Q4	YTD	2015/16	CIPD benchmark
Resignations %	1.03	0.68	1.39		3.1	5.37	5.5
All Leavers %	1.37	3.41	2.09		6.87	8.24	13.6

Equalities

An external equalities and diversity consultant reviewed and evaluated our Reward work, assessing us against our public sector equality duties. They concluded our Reward proposals should help eliminate discrimination and advance equality.

Corporate objective – 3. 6 We work together to deliver excellent audits

Key Performance Questions:	Q1 RAG	Q2 RAG	Q3 RAG	Q4 RAG	PERFORMANCE HEADLINE:
To what extent is there communicating and collaborating across organisational departments?	A	A	A		The new approach to auditing Best Value is now in place. This will support a step change in one organisational working.
To what extent are career paths offered across the organisation?	G	G	G		

Narrative:
 One organisation working continues with the opportunity to communicate and collaborate across Audit Scotland and examples in Q3 include:

- The new audit appointments came into effect in October 2016.
- Recruitment of 8 new trainees in October 2016. Shared across ASG and PABV.

The new approach to the audit of Best Value is now in place, with colleagues from across ASG and PABV working closely as part of integrated teams. Audit plans are being developed for all councils, with a particular emphasis on those councils subject to a year one Best Value Assurance Report (BVAR). Teams from across the two audit business groups are currently working together to undertake the work required to deliver the six BVARs.

We continue to develop one organisation resourcing, both for financial audit and the delivery of the overall rolling work programme. We are also developing a core ‘team’ of digital specialists from across the organisation, including our Information Services team within Corporate Services. They will focus on both the audit of digital but also the use of digital approaches to auditing.

Career paths and secondments
 Seven members of staff benefited from a new career opportunity this quarter, through a permanent promotion or fixed-term acting up opportunity and there were 10 external appointments. Two new secondments were recorded this quarter and six existing secondments remain in place. 126 (46%) members of staff now have flexible contracts.

All filled vacancies

2016/17 YTD	2015/16	2014/15	2013/14
47	67	52	50

Forward look:

- BaBO work shops will continue throughout the year to engage with staff in a number of initiatives including role profiles

Key risks / Issues:
 Corporate risk register - failure to operate as one organisation

AUDIT SCOTLAND BOARD

31 MARCH 2017

REPORT BY THE ASSISTANT DIRECTOR, CORPORATE PERFORMANCE AND RISK

Q3 BECOMING WORLD CLASS IMPROVEMENT PROGRAMME REPORT 2016/17

1. Purpose of Report

To invite the Board to consider the progress made to date on the Becoming World Class (BWC) improvement programme and the planned actions.

2. Background

The BWC strategic improvement programme is a key enabler for achieving our vision to be a world class audit organisation.

The quarter 2 BWC update report was considered by the Board on 20 January 2017.

3. Progress on the BWC improvement programme

We continue to make good progress on the programme, particularly in the context of a full programme of audit work. Progress headlines since the last report include:

- *Securing World Class Audit* – where the:
 - audit appointments using the revised Code of Audit Practice are under-way
 - SCPA recommended to the Finance and Constitution Committee that the 2017/18 budget be approved and the Parliament passed the Budget (Scotland) Bill at Stage 3 on 23 February 2017.
 - review of quality is under-way and progressing well.
- *Building a Better Organisation (BaBO)* – where:
 - Following negotiations with PCS, the proposed BaBO Reward and pay award package was presented to the Remuneration & Human Resources Committee on 15 March. Remco were briefed that agreement in principle has been reached with PCS on both BaBO and Reward.
 - the contract for the wellbeing partner has been awarded and health checks are under-way
 - the tender for the Glasgow office improvements has been issued.
- *Making a Difference* – where:
 - audits using the new approach to auditing Best Value are progressing well and the first audit will be reported in May 2017
 - feedback from MSPs indicates that the strategic approach to parliamentary engagement having a positive effect
 - we are developing a Digital Audit strategy, focussing on audits with a digital focus, harnessing digital technology to support the audit process


and present audit conclusions and insight and reviewing the digital capacity we need for both of these.

The appendix provides additional information on each of the BWC workstreams.

4. Recommendation

The Board is invited to note the progress made to date and the next steps.

Appendix

	<p>Our objective is to ensure that public audit in Scotland: • applies the highest professional and ethical standards • is efficient, proportionate and risk based • is informed by an excellent understanding of the strategic and operational context • responds effectively to changing circumstances and emerging issues • reports clearly and authoritatively • follows the public pound wherever it is spent • promotes transparency, accountability and Best Value.</p>	
Project/ initiative/ product	Status update	Next steps
Code of Audit Practice (COAP)	<p>The new code came into effect in October 2016 and applies to all audit work. This project is now complete.</p>	<p>Delivery of audits under the new code.</p>
Fees and funding	<p>The SCPA considered the 2017/18 budget at its meeting on 21 December 2016. It published its report on 16 January and wrote to the Finance and Constitution Committee recommending approval of the budget. The Board considered the SCPA official report at its meeting on 20 January 2017. The Parliament passed the Budget (Scotland) Bill at Stage 3 on 23 February 2017.</p> <p>A comparison report on indicative and agreed fees 2015/16 was considered by the Management Team on 17 January 2017 and the Audit Committee on 1 February.</p>	<p>Monitoring of fees.</p>
Procurement and appointments	<p>The new audit appointments are now operational. This project is now complete.</p>	<p>Ongoing engagement and quality monitoring and mid term review of the audit appointments.</p>
Review of Audit Quality	<p>Scope development and review work is under way and was discussed at the Annual Audit Conference on 18 January. The scope and work to date was also considered by the Board at its meeting on 20 January 2017 and the Accounts Commission at its meeting on 9 February 2017.</p> <p>Discussions with partners in the firms have also been taking place.</p>	<p>An update report will be considered by the Board at its meeting on 31 March 2017.</p> <p>Development work and implementation with a planned go live date of October 2017 including the high level quality framework and the detailed quality monitoring arrangements which underpin it.</p>




BUILDING
A BETTER
ORGANISATION

Our objective is to make Audit Scotland a great place to work so that we can attract and retain a highly skilled workforce. We want to make the best use of our resources so that we can deliver audit work that improves the use of public money.

Project/ initiative/ product	Status update	Next steps
How we work together Job Design Reward & Recognition Performance Appraisal	<p>A reward and recognition proposition has been developed and this has been the subject of extensive consultation through workshops and several drop-in sessions. Following negotiations with PCS, the proposed BaBO Reward and pay award package was presented to the Remuneration & Human Resources Committee on 15 March. Remco were briefed that agreement in principle has been reached with PCS on both BaBO and Reward.</p> <p>The Time place and travel principles are being rolled out across the teams in business groups.</p> <p>The 2016 Best Companies Survey headline results were published in December 2016 and have been considered by the Management Team, the Leadership Group and the Board. Business group meetings are taking place to share the results in more detail.</p> <p>3D development discussions are taking place across business groups.</p>	<p>The key milestones are:</p> <ul style="list-style-type: none"> • Conclude negotiations with PCS by the end of March 2017 • The second round of 3D to be completed by the end of March 2017. • Career development gates in place by October 2017.
How we learn and develop Planning careers, developing skills, professional training schemes, becoming better managers and leaders	<p>The PDG has updated the Learning and Development Strategy and plan. An extensive learning and development programme continues.</p>	<p>Refreshed 2017/18 Learning and Development Strategy and plan scheduled for quarter 1 of 2017/18.</p>
Wellbeing	<p>The procurement process for the Wellbeing partner has been concluded and the Healthy Working Lives sub group continues to build on the wellness checks through information campaigns and training.</p>	<p>Wellness checks currently available to all colleagues and are taking place.</p>
Office accommodation	<p>Glasgow – consultation has taken place on proposals for improvements in conjunction with haa design. The tender for the Glasgow office improvements has been</p>	<p>Contract to be awarded in April and an implementation plan will be put in place immediately thereafter.</p>

Project/ initiative/ product	Status update	Next steps
	issued with a closing date of 24 March 2017.	

	Our objective is to maximise the difference our audit work makes to public services, the people that they serve, the outcomes that those people experience and the use of public money.
---	---

Project/ initiative/ product	Status update	Next steps
Auditing Best Value	<p>The BV audits are under-way, with the first of the six scheduled for 2016/17 nearing completion. Templates for the BV assurance reports have been issued to audit teams. PABV senior managers have been designated as link managers to appointed auditors. Teams from the early audits have developed audit tools and are providing support to colleagues on the later audits.</p> <p>Audit teams are currently determining the five year BV workplans for all councils as part of the planning cycle for all audits.</p> <p>At its meeting on 9 March the Accounts Commission considered an update report and agreed the six audits for year two of the programme.</p> <p>The Accounts Commission' steering group continues to meet to inform and monitor developments.</p> <p>The working group leading the review of the statutory guidance continues, the group last met on 10 March 2017. The Group is committed to having proposals in place by Summer 2017.</p>	<p>The key milestones are:</p> <ul style="list-style-type: none"> • The first Best Value Assurance Reports will begin to be presented to the Commission in 2017 following the LG elections. Six reports will be considered between May 2017 and January 2018. • September 2017 - the first Annual Audit Reports that will reflect the wider scope of the audit and the new approach to auditing Best Value. • Early 2018 - the Controller of Audit's Annual Assurance and Risks Report to the Commission will be the first to reflect the wider scope of audit and the new approach and the Commission's Strategic Audit Priorities.
World Class Programme Development	<p>The Auditor General and the Accounts Commission approved the refreshed five year rolling work programme 2017/18 – 2021/22 in December 2016. Consultation on the programme has taken place over the early months of 2017.</p> <p>Following consideration of the consultation feedback the Auditor General and the Accounts Commission agreed the programme in March 2017.</p>	<p>We will continue to:</p> <ul style="list-style-type: none"> • develop programme development approaches in 2017/18 through a series of external engagement events to inform our monitoring of policy and performance and support the development of alternative audit outputs. • develop stronger links between our cluster work and related strategic developments such as our New

Project/ initiative/ product	Status update	Next steps
		Financial Powers developments work, the implementation of the new approach to auditing Best Value and the Audit Intelligence project.
Communications and engagement strategy	<p>The Board approved the Communications and Engagement Strategy at its meeting on 18 August 2016.</p> <p>We are continuing to develop a variety of engagement activity. The 2017 Self-directed support audit is looking at what impact changes to social care delivery have had on people's lives. We launched an online survey and digital engagement campaign called #MySDSStory to get the views of SDS users, carers and families on this very question. The campaign was supported by dozens of health and social care organisations and received 35,000 views on social media. There have been 109 complete responses to the survey which will inform the audit work.</p> <p>On 8 March we hosted a knowledge café with Young Scot, the national youth information and citizenship charity, to share and discuss the results of our pilot project to improve Audit Scotland's engagement with young people. The project was a positive experience for all involved. It will inform future programme development activity and improve audit procedures, not only in terms of better involving young people in our work and understanding their views, but through applying similar techniques with other sections of the community.</p>	<p>Implementation of the strategy.</p> <p>Engagement activity will inform the Self Directed Support audit which is scheduled to publish in Summer 2017.</p> <p>A report on the Young Scot pilot project will be considered by the Board at its meeting on 31 March 2017.</p>
Strategic approach to Parliamentary Engagement	We have now successfully implemented phase 1 of our Parliamentary engagement strategy. On 20 January the Board considered an update report , including the results of a survey of MSPs which offered positive assurance. A stocktake is under way to inform phase 2.	<p>The next phase of our activity will involve:</p> <ul style="list-style-type: none"> • Consolidating and building on the relationships we have established with clerking teams and committees. • Ensuring that our five-year work programmes complements the work of parliamentary committees • Supporting the Public Audit and Post-Legislative Scrutiny Committee and subject committees in delivering high quality parliamentary scrutiny.
Digital audit	Work is under-way to develop a digital audit strategy. The Board considered a presentation at its meeting on 20 January 2016.	<p>The next steps include:</p> <ul style="list-style-type: none"> • Ongoing work in the audit intelligence and audit

Project/ initiative/ product	Status update	Next steps
	<p>The Accounts Commission's PAC and FAAC considered similar presentations at the meetings on 23 February.</p> <p>The second phase of the Audit Intelligence project is progressing; this is focussing on financial and outcomes data and data to support two performance audits.</p> <p>The audit analytics project is also progressing. This includes the development of audit analytics tests and analyses to support the financial audit.</p> <p>Our engagement with the UK and ROI audit agencies is increasing in this area.</p>	<p>analytics projects.</p> <ul style="list-style-type: none"> • Development of the Digital Audit Strategy by June 2017.

AUDIT SCOTLAND BOARD

31 MARCH 2017

REPORT BY ASSISTANT DIRECTOR FOR QUALITY

REVIEW OF AUDIT QUALITY

1. Purpose

This report provides an update on the review of audit quality arrangements across all audit work which commenced in October 2016.

2. Background

In reviewing and revising our existing quality framework, our goal is to:

- provide assurance to the Auditor General, the Accounts Commission and Audit Scotland Board about the quality of all types of audit work carried out on their behalf; and
- support continuous improvement in the quality and value for money of audit work.

3. Recent Progress

Recent activity has focussed on:

Developing an Audit Quality Vision to support the direction of the review

A draft vision statement which reflects our world class ambition has been compiled to provide clarity on our goals. The draft focusses on achieving quality through investment in our people, processes and products.

Quality Framework

A draft document has been prepared. We are seeking the views of colleagues at the Quality Summit taking place on 21 March 2017 as part of the management team meeting.

Capturing current arrangements for quality activity for all audit work

There are a number of processes and procedures in place to facilitate quality arrangements across Audit Scotland and the firms.

These are summarised below:

- The new wider scope audit requirements quality arrangements are currently in development. Arrangements to support the new approach to auditing best value are still to be developed taking into account the increasing links to annual audit work and the role of the appointed auditor.
- There is a need to establish the scope and volume of future quality monitoring arrangements alongside the governance structure to support effective scrutiny.

- Contractual arrangements for the bi-annual quality monitoring reviews conducted by ICAS on the work performed by Audit Services have now expired. External arrangements for the firms do not specifically cover public sector audit work.
- We require to agree and procure external quality monitoring arrangements for both Audit Scotland and the firms across all audit work. Discussions have taken place with ICAS, FRC and ICAEW to explore ideas and options prior to entering the procurement stage.

Communication with Accounts Commission, Audit Scotland Board and the Auditor General for Scotland

A key objective of our revised Audit Quality arrangements is that they will meet the needs of the Audit Scotland Board, the Auditor General and the Accounts Commission. We are involving the Auditor General and Accounts Commission through updates and discussions to ensure that their requirements are fully understood and incorporated into the revised arrangements. These discussions will take place in parallel with Board updates and discussions.

Communication with Firms

We have now met with all of the appointed firms and discussed the overall approach to developing an Audit Quality Framework that applies to all of our audit work and supporting monitoring arrangements. We have discussed the likelihood of introducing external quality monitoring arrangements that provide direct assurance over all audit work to the Auditor General, the Audit Scotland Board and the Accounts Commission. The meetings were informative as we were able to explore quality arrangements within each of the firms and also establish whether there was coverage of the public sector audit work commissioned by the Auditor General and the Accounts Commission.

Communication with Audited Bodies

We are in the process of conducting client interviews to seek feedback on the audit handover arrangements and also ascertain the value of external audit work. Early interviews have indicated generally good relationships between auditors and audited bodies with some useful suggestions for further improvement. The output from these interviews will be included in the 2017 Transparency and Quality Report.

Outcome of Staff Survey

The staff survey results are now available and highlight that:

- 92% of staff feel that they are encouraged to deliver high quality audit work;
- 63% felt they had sufficient time and resources to deliver quality audits; and
- 62% felt they received enough training and development to enable them to deliver quality audits.

We have established a people and culture group and will work closely with the PDGG to take forward the findings from the survey.

Review of other Audit Agencies

The review fieldwork has now been completed and the report will be finalised by 30 April 2017.

4. Proposed Timeline for Audit Quality Reports

The Quality Framework document will set out the high level principles and policies for audit quality. The Framework needs to be supported by the Audit Scotland Board, the Auditor General and the Accounts Commission in order to be successful. We therefore propose to have an item at both Board and Accounts Commission meetings to discuss a draft Framework and the issues to be considered before bringing back a revised version for approval by all parties.

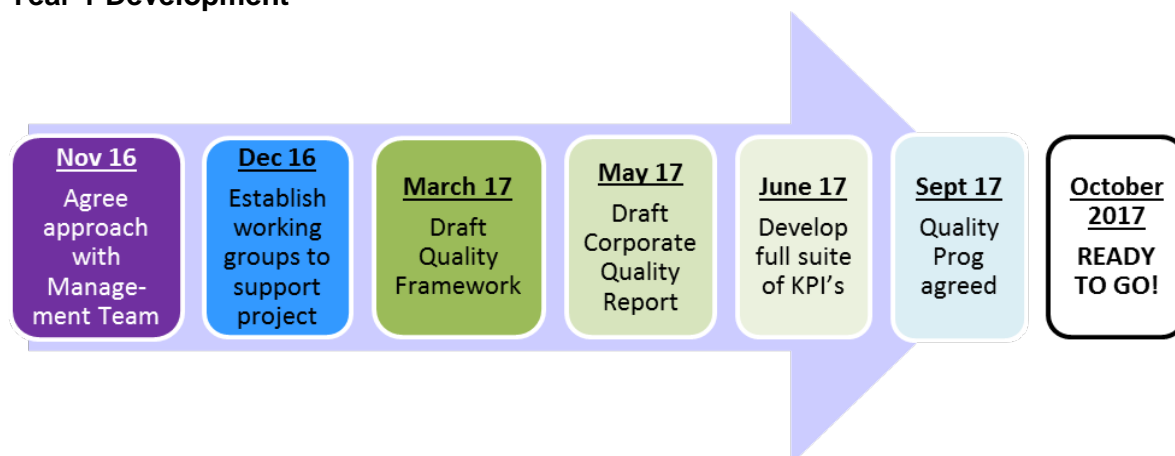
The proposed timeline for key Board and Accounts Commission involvement:

	Management Team	Audit Scotland Board	Accounts Commission
Draft Quality Framework – Discussion	25 April 2017	5 May 2017	8 June 2017
Review of Other Audit Agencies	25 April 2017	5 May 2017	8 June 2017
2017 Transparency and Quality Report	16 May 2017	6 June 2017	10 August 2017
Finalised Quality Framework	1 August 2017	23 August 2017	10 August 2017

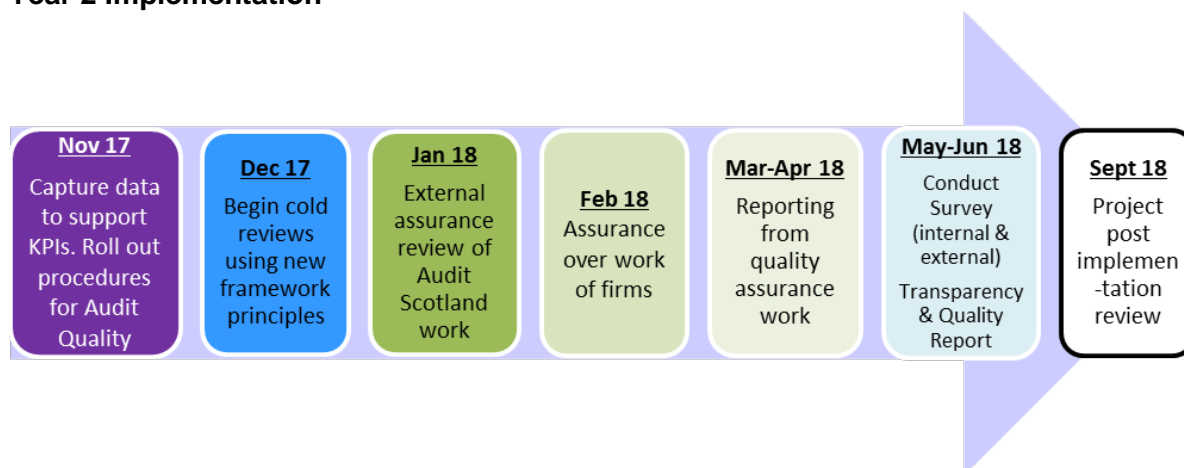
Project Review: High level timelines

Following the Audit Quality Summit (held 21 March 2017), we have revised and extended the overall timeline for the review as follows:

Year 1 Development



Year 2 Implementation



5. Conclusion and Recommendation

The Board is invited to note progress on the quality review and proposed timetable for consideration of the revised Quality Framework.

AUDIT SCOTLAND BOARD

31 MARCH 2017

REPORT BY SENIOR MANAGER, PERFORMANCE AUDIT AND BEST VALUE

PUBLIC ENGAGEMENT WORK WITH YOUNG SCOT

1. Purpose

This report updates the Board on a pilot project of youth engagement, delivered in partnership with Young Scot, the outcomes of that project and future plans.

There will be a short presentation at the meeting to further inform the Board about this work.

2. Background

Audit Scotland commissioned Young Scot to deliver a pilot project aimed at improving our engagement with young people. Young Scot is a national youth charity with a well-established approach to co-design.

This pilot is one of the approaches we have used to improve our engagement with people who use public services. We are committed to improving our public engagement so that our work better reflects the interests of citizens, service user and communities. This will help us have a better user focus when we identify audit topics, develop audit questions and carry out audits. Better public engagement will also help us produce outputs that are more tailored for people who use services, further increasing their impact.

We have a lot of experience of engaging with people as part of our performance audit and best value work, through surveys, focus groups and interviews. This tends to be carried out as part of an audit looking at a particular topic, service or council, where we have already identified the scope of the audit and the issues to investigate. This pilot project aimed to engage with people at an earlier stage, take a broader approach and try out a new way of working. We have no history of engaging with young people as a specific group, and we were keen to pilot this broader approach with young people.

We agreed two aims for the Young Scot project:

- to identify what this group of young people see as important issues around education, skills and employability
- to identify ways that young people could be involved in the audit process.

The pilot involved using Young Scot's co-design approach, and Audit Scotland staff worked closely with Young Scot on the pilot. We paid Young Scot £10,000 to deliver the pilot project. As it was a pilot, part of the project was to test out whether using this approach to public engagement could address the aims set out above.

The project took place over summer 2016. It involved four workshops with a group of 21 people aged 16-20, and a final session involving the young people and ten Audit Scotland staff. It resulted in clear recommendations for what the young people saw as important issues to consider through our audit work, and clear suggestions for how they

could be involved in the audit process. At the final session, the young people fed back their conclusions and recommendations, and they asked the Audit Scotland staff to agree and make commitments in response.

The young people decided that the areas where they would most like to see improvement related to college courses, gaining work experience, and apprenticeships. They identified a range of difficulties and suggested improvements. These insights will help inform the scoping for future audit work. The group also identified three areas where young people could be involved in the audit process: deciding on what areas to audit; looking for audit evidence; and reporting. They had a number of helpful and practical suggestions relating to each of these stages.

Audit Scotland staff made 10 commitments to the young people, and we are currently working to take these forward:

- consider opportunities for young people to be on our audit teams
- more work experience and modern apprenticeships at Audit Scotland
- involving young people when tailoring our outputs - podcasts, videos, highlighting what it really means to them
- provide support by funding young people's involvement; pay travel expenses
- consider how to involve young people in the justice, education and lifelong learning (JELL) cluster, where we monitor what's happening in the areas of education & lifelong learning
- introduce standing or ad hoc young person's panels or advisory groups
- have more person-centred recommendations – find the real stories
- use real stories to create greater impact
- tell people what we have done and how we used their feedback and suggestions
- have smaller audits looking at issues young people care about.

The pilot was successful in meeting its aims, and demonstrated that this approach can work. It resulted in very clear feedback from the young people involved, and insightful recommendations about how they could be involved in the audit process. This was a positive experience for the staff involved, and gave them a better understanding of the issues discussed, which is helping inform future audit work. It will also help us to better involve young people, and other people who use public services, in our work, increasing its impact. We have a number of areas in our work programme where we will be able to apply the learning that came out of this pilot. The project was also a positive experience for the young people themselves, and we saw them grow in confidence over the period of the project.

We are taking forward the outcomes and learning from the pilot to build on our public engagement work, and embed a wider range of approaches across our work. This approach was successful in exploring the issues that one group of young people saw as priorities. We will build on that first step to improve how we work with that age group, for example through working with a standing youth advisory panel, supported by Young Scot. This pilot also demonstrated the value of working with a specialist partner in the third sector to help access groups of people that are harder for us to reach. Many of the outcomes and learning points from the pilot are also applicable to different groups of people, such as older people, and we will build on this work as we improve our engagement with other groups.

3. Recommendation

The Board is invited to note the report.