

2017/18 audits

Notes for guidance

EU withdrawal



 AUDIT SCOTLAND

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Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

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Introduction

Background

1. The UK is expected to leave the European Union (EU) on 29 March 2019, followed by a transition period to the end of 2020. There are still a lot of uncertainties surrounding the terms of the withdrawal agreement but the outcome will inevitably have significant implications for devolved government in Scotland and for Scottish public bodies.
2. Given the scale of the potential implications and possible timescales for implementing changes, it is critical that public sector bodies are working to understand, assess and prepare for the impact on their organisation. This is likely to include consideration of three areas:
 - **Workforce:** the extent to which potential changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.
 - **Funding:** the extent to which potential changes to funding flows, including amounts anticipated under existing EU funding programmes, are likely to affect the finances of the organisation and the activity that such funding supports.
 - **Regulation:** the extent to which potential changes to regulation across a broad range of areas currently overseen at an EU level are likely to affect the activities of the organisation.
3. Appointed auditors have an important role to play in building our understanding of the key issues facing public bodies in relation to EU withdrawal. The [Audit Planning Guidance](#) for 2017/18 states that auditors should consider the impact of EU withdrawal on the bodies they audit as part of their wider dimension work. In the context of [guidance](#) on the four audit dimensions, auditors should consider the risks of EU withdrawal when scoping, planning, performing and reporting their work.

Purpose of guidance

4. This guidance supplements the section on EU withdrawal in appendix 5 of the [Audit Planning Guidance](#) for 2017/18. It provides additional information to auditors to support their discussions with audited bodies and the **audit reporting anticipated in the planning guidance**. Under the headings of **workforce**, **funding** and **regulation**, it sets out:
 - contextual information and a summary of the key issues
 - three headline questions, and prompts to help auditors explore these questions with audited bodies
 - potential sources of evidence to support auditors' understanding on the three headline questions
 - links to additional sources of information.

5. Auditors should refer to this guidance as a basis for discussions with audited bodies about the extent to which they are working to understand, assess and prepare for the impact of EU withdrawal. The 2017/18 audit work should provide baseline information on what public bodies are doing to understand and assess the potential impact of EU withdrawal on their organisation and the services they provide, from which progress can be assessed in future years. At this stage, auditors are not expected to make a judgement on how prepared audited bodies are for EU withdrawal.

Reporting

6. There will not be a one-size-fits-all approach to preparing for EU withdrawal, as public bodies will be affected in different ways and will experience different levels of impact at different times. Auditors should use their knowledge of the audited body to determine the amount and type of work required to build their understanding of the position, under the three headline questions:
 - What is the audited body doing to understand the implications of EU withdrawal on its workforce?
 - What is the audited body doing to understand the implications of EU withdrawal on its finances and the activity this funding supports?
 - What is the audited body doing to understand the implications of changes to EU regulations on its activities?
7. For the avoidance of doubt, the questions and related material are provided as the basis for discussion with audited bodies and to assist auditor understanding. Auditors are not expected to form specific judgements on each of the three areas.
8. Public bodies may not have identified EU withdrawal as an individual risk but it may be reflected in other risk areas considered as part of the annual audit, such as workforce planning or financial sustainability. Where auditors identify specific risks relating to EU withdrawal, they should reflect these in their annual audit reports, recommendations (where appropriate) and reporting to audit committees. **If possible, the current issues returns due in July 2018 (all sectors except FE) and autumn 2018 (LG and FE)** (specific dates are referred to in the [Audit Planning Guidance](#)) **should include commentary on what audited bodies are doing, if anything, to understand and assess the impact of EU withdrawal.** If the July return date is not possible, then there a further opportunity to report will be made available for CG and NHS sectors.
9. We anticipate that this guidance will support audit work in 2017/18 and beyond. It does not provide an exhaustive list of issues for auditors to consider. Due to continued levels of uncertainty around the terms of withdrawal and the differing nature and scale of impact on public bodies, organisations may be considering a range of issues that affect them. Auditors are encouraged to also report on any specific risks or relevant activity outside that detailed in this guidance.

Guidance

Workforce

The extent to which potential changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.

Context and issues

10. The rights of EU27 citizens in the UK will be subject to negotiations with the European Commission.¹ To date, the EU and the UK Government have agreed that EU27 citizens arriving in the UK between 29 March 2019 and 31 December 2020 will enjoy the same rights and guarantees as those who arrived before. The same will apply to UK citizens in Europe. The UK Government is currently considering a range of options for the UK's immigration system from 2021 and will set out plans in the coming months.
11. Different rules on who can live, work and study in the UK will have an impact on the delivery of public services. Many local services are dependent on workers from EU countries. Scottish universities also attract many students from the EU who stay on to work here after graduation. There is a risk that reductions in the public sector workforce will impact on its ability to deliver 'business as usual', particularly when there are already workforce and service pressures arising from an ageing population and rising public expectations.
12. COSLA has [identified](#) some sectors that could be particularly affected by reduced migration from the EU – this includes teaching, social work and care, agriculture and fishing, hospitality and the food industry. The British Medical Association has [highlighted](#) that not retaining the EU's freedom of movement policy and mutual recognition of professional qualifications could have "serious consequences" for healthcare in Scotland and risks exacerbating current recruitment and retention problems.
13. In February 2018, the Scottish Parliament [backed](#) the need for Scotland to have the power to create a migration policy tailored to its needs and distinct demographic circumstances. We don't yet know what the outcome of this will be but it is important that public bodies are considering the potential impact of EU withdrawal in their workforce planning to ensure that they are best equipped to deal with any changes going forward.

Question and prompts for auditors

What is the audited body doing to understand the implications of EU withdrawal on its workforce?

- What has the audited body done to identify how many of its current workforce are EU citizens and which sectors of the organisation they work in?

¹ EU27 refers to the 27 EU member states, not including the UK.

- What has the audited body identified as the key risks to its workforce from EU withdrawal? Are they reflected in the risk register?
- Where does the impact of EU withdrawal feature in workforce plans?
- What work has the audited body done to understand and assess the possible implications of changes in the workforce for service delivery?
- To what extent is the audited body engaging with other public bodies to discuss or assess the potential impact of EU withdrawal on the workforce (either at an organisation or sector level)?

Potential evidence sources

- Analysis of workforce demographics (e.g. number / skill profile of EU workforce and potential gaps left as a result of any changes)
- Risk registers / risk assessments that reflect the potential impact of EU withdrawal on the workforce
- Workforce planning documents that consider the possible impact of EU withdrawal - evidence of longer-term / scenario planning
- Modelling of changes in the workforce under different scenarios to assess potential impact
- Discussion of the workforce risks / issues within the organisation (e.g. consideration at the Board, committees, management teams)

Funding

The extent to which potential changes to funding flows, including amounts anticipated under existing EU funding programmes, are likely to affect the finances of the organisation and the activity that such funding supports.

Context and issues

14. EU funds are proportionately more important to Scotland than the rest of the UK. According to [SPICe](#), Scotland was set to receive 14 per cent of the UK's funding between 2014 and 2020, compared to its population share (in 2015) of 8.3 per cent. Any changes to funding may impact on policy options for the Scottish Government and the subsequent bodies administering funds.
15. The main sources of EU funding to the Scottish budget provide financial support for farmers and rural businesses, and projects to encourage economic growth. We estimate this funding totalled around £620 million in 2016/17:
 - Common Agricultural Policy (CAP) - £510m
 - European Structural Funds (ESF) - £100m
 - European Maritime and Fisheries Fund - £10m.

16. CAP payments are delivered through the Scottish Government, Forestry Commission and Scottish Natural Heritage (SNH). The UK Government is currently in the process of [consulting](#) on their proposed system to replace CAP which could see farmers receiving money for “public goods” such as investment in sustainable food production, rather than the amount of land farmed. Farm payments in 2019 will follow the existing model. It is currently unclear what impact EU withdrawal will have on agricultural funding in Scotland and how this is delivered. Any changes have the potential to impact on the activity of public bodies with a remit in this area.
17. Scotland has been allocated around €940 million of European Structural Funding towards support for economic development between 2014 and 2020. Activities funded include skills and training, support to business and the development of infrastructure. EU money funds a range of activity undertaken and supported by public bodies such as Scottish Enterprise and Highlands and Islands Enterprise, Scottish Funding Council, Transport Scotland, local government and some of the work of the Scottish Government. The Scottish Government distributes funds to lead partners, such as policy directorates, agencies and local authorities, who provide match funding and then distribute funding to individual projects and organisations. So far, around 50 per cent has been [committed](#) to projects. One challenge for the Scottish Government will be to ensure the structural funds are match-funded and legally committed before the UK leaves the EU.

Question and prompts for auditors

What is the audited body doing to understand the implications of EU withdrawal on its finances and the activity this funding supports?

- What has the audited body done to identify the current level of funding it receives from the EU and any associated funding streams?
- Is the audited body aware of future plans for this funding (e.g. when it will stop)?
- What has the audited body identified as the key risks to its funding streams and the services this funding provides from EU withdrawal? Are they reflected in the risk register?
- Where does the impact of EU withdrawal feature in financial plans?
- What work has the audited body done to assess the potential impact of a change / discontinuation of this funding on:
 - the funding it receives?
 - the services it provides and service users?
- To what extent is the audited body engaging with other public bodies that may be similarly affected by a reduction in funding from the EU?

Potential evidence sources

- Analysis of any EU funding (e.g. what is received / when / what this pays for / how this is delivered)

- Risk registers / risk assessments that reflect the potential impact of EU withdrawal on funding streams
- Financial planning documents that consider the possible impact of EU withdrawal on funding streams - evidence of longer-term / scenario planning
- Discussion of the risks to funding within the organisation (e.g. consideration at the Board, committees, management teams)

Regulation

The extent to which potential changes to regulation across a broad range of areas currently overseen at an EU level are likely to affect the activities of the organisation.

Context and issues

18. European law and regulations have a strong bearing on the Scottish public sector. All public bodies will have to comply with EU regulations to some extent in their day-to-day operations. Examples include EU employment law, health and safety legislation, environmental regulation, procurement rules and State Aid rules, all of which underpin the delivery of public services.
19. The EU Withdrawal Bill aims to transpose existing EU law into UK law, and pave the way for the UK Parliament to amend or introduce new legislation. This has implications for devolved governments and the powers that will subsequently be devolved to the Scottish Parliament. Agreeing the extent and timing of any changes to policy and regulation, and implementing these changes, is likely to take a long time. This should allow public bodies a long lead-in time to prepare for any changes that will affect them.
20. The remit of some public bodies is directly linked to EU regulations (e.g. Scottish Environment Protection Agency and Scottish National Heritage), and the potential implications for them are likely to be much greater.

Question and prompts for auditors

What is the audited body doing to understand the implications of changes to EU regulations on its activities?

- What has the audited body done to identify the EU regulations that apply to it?
- What work has the audited body done to assess the impact of potential changes to EU regulation on:
 - the operation of the organisation? (e.g. employment / procurement law)
 - the services it delivers? (e.g. regulating against EU standards)
- What has the audited body identified as the key risks relating to any changes in regulations? Are they reflected in the risk register?
- To what extent is the audited body engaging with other public bodies and stakeholders about potential changes to regulatory arrangements?

Potential evidence sources

- Assessment of the EU regulations that apply to the operation of the organisation or the services it provides
- Risk registers / risk assessments that reflect the potential impact of EU withdrawal on how the organisation operates / service delivery
- Discussion of the risks to the organisation of any changes in regulation (e.g. consideration at the Board, committees, management teams)

Other significant issues

21. There may be other issues that are specific to the client that the auditor may wish to examine in more detail, for example:

- **Capacity to deal with change:** Additional resources are likely to be required to manage changes resulting from EU withdrawal. This may be a significant programme of work in some organisations, which will require the time and attention of existing staff – and possibly the recruitment of new staff. This will be additional work on top of existing funding and service reform challenges. All public bodies are likely to face capacity issues to some extent as they try to manage the implications of EU withdrawal and maintain business-as-usual.
- **Changes to trade rules:** Some services may be affected directly by changes to trade rules. For example, in the NHS different trading arrangements could potentially affect access to specialist medical equipment and drugs, potentially making it more difficult and expensive to access them (or easier and cheaper). Some public bodies may be concerned about the security of supply chains, or see an impact on the costs of supplies and services.
- **Impact on local economies:** Changes to funding streams, local workforces and specific sectors as a result of EU withdrawal may impact on local economies. Some public bodies, in particular councils, may be doing work to assess the potential implications for their local area and its economic performance.

22. The 2017/18 audit work should provide baseline information on what public bodies are doing to understand and assess the potential impact of EU withdrawal on their organisation and the services they provide. We will continue to examine this area in the 2018/19 audit and beyond, and assess how public bodies are preparing for any changes resulting from EU withdrawal.

If you have any questions about the guidance, please contact:

- Rebecca Seidel, rseidel@audit-scotland.gov.uk
- Kirstin Scott, kscott@audit-scotland.gov.uk

Appendix: Additional information

The following sources of additional information on EU withdrawal may be helpful for auditors.

Scottish Parliament Information Centre (SPICe)

- [SPICe EU hub](#)
- [SPICe weekly briefings on EU withdrawal](#)
- [Anticipated EU Funding in Scotland 2014 – 2020](#) - picture of the EU funding Scotland was scheduled to receive over the next few years, how it will be spent and by whom. This includes pre-allocated funding in areas such as agriculture, fisheries and economic development (ESF and ERDF) and competitive funds in areas such as research.
- [The impact of EU membership in Scotland](#), - analysis of the data relating to Scotland's economic and social links to the EU, including trade, inward investment, migration, public finance, higher education, transport, energy, agriculture, fisheries and the environment.

Scottish Government

- [Scottish Government website](#) - latest news on EU withdrawal
- An initial [assessment](#) by the Scottish Government identifying 111 areas where powers returning from the EU intersect with the devolution settlement in Scotland, including agriculture, the environment, public procurement and state aid.

UK Parliament

- [European Union \(Withdrawal\) Bill 2017-19](#)
- [EU withdrawal research and analysis](#)

UK Government

- [Department for Exiting the European Union website](#)

European Commission

- [Article 50 negotiations](#)

National Audit Office

- [Series of reports on exiting the EU](#)

Institute for Employment Studies

- [Preparing for Brexit through workforce planning](#)