Papers and minutes of the Audit Scotland Board

2018

Agenda

Wednesday 31 January 2018, 10.00am

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

AUDIT SCOTLAND

1. Welcome and apologies

2. Declarations of interest

3. Decision on items to be taken in private
For approval

Standing items

4. Chair's report – verbal update

5. Accountable Officer's report – verbal update

6. Accounts Commission Chair's report – verbal update

7. Review of minutes:
For approval
- Board meeting, 29 November 2017
- Audit Committee, 13 September 2017

8. Review of action tracker
For information

Strategy and planning

9. SCPA report on Audit Scotland's 2018/19 budget
For information

10. Best Companies survey results
For information

11. Audit Scotland staff conference update
For information

12. Publications schedule: January to June 2018
For information

13. Any other business

14. Review of meeting

15. Date of next meeting

Items to be taken in private

16. Office accommodation
For approval
[Item to be taken in private due to commercial sensitivity]

Minutes

Wednesday 29 November 2017, 12.00pm

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

Present:

I Leitch (Chair)
C Gardner
H Logan
R Griggs

Apologies:

G Sharp

In attendance:

D McGiffen, Chief Operating Officer
R Frith, Assistant Auditor General
M Walker, Assistant Director, Corporate Performance and Risk
M Taylor, Assistant Director, Audit Services
R Seidel, Audit Manager, Performance Audit and Best Value
S Dennis, Corporate Finance Manager
A Devlin, Corporate Governance Manager
J Webber, Senior Executive Assistant

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. Russel Griggs advised that he would update his register of interests to reflect his new appointment.

2. Welcome and apologies

The Chair advised of apologies received from Graham Sharp, whose appointment as a member of the Board was effective from 1 November 2017. The Board noted Graham was content that business proceed in his absence.

3. Declarations of interest

There were no declarations of interest.

4. Chair's report

Ian Leitch provided a verbal update on meetings with Caroline Gardner and Diane McGiffen particularly in preparing for the budget submission to the Scottish Commission for Public Audit.

The members welcomed the update.

5. Accountable Officer's report

Caroline Gardner invited the Board to note Parliamentary engagement sessions following the publication of the NHS Overview report and consideration by the Public Audit Scrutiny and Post Legislative Committee of the joint report with the Accounts Commission on Self Directed Support report.

Caroline provided a summary of the meeting of the UK Supreme Audit Institutions on Friday 27 October 2017, when audit quality and implications for audit following withdrawal from the EU were discussed. Caroline advised she was on the interview panel for the appointment of a new Auditor General for Wales.

Caroline invited the Board to note a number of speaking engagements on new financial powers and advised them of Section 22 reports due by the end of the year. Caroline advised that the Scottish Government are responsible for laying section 22 reports in Parliament.

Turning to internal matters, Caroline advised the Board of the organisational arrangements to follow Russell Frith's departure, with the new Appointments and Assurance and Professional Support teams settling well and their work plans taking shape. She advised the Board that an update will be provided in six months time.

Caroline informed the Board that 2016/17 audit accounts were almost finalised before the teams move onto planning for the new audit cycle. The first year of the audit appointments had gone well and provided a good platform.

Action ASB64: **An update report on developments within the Appointments and Assurance and Professional Support teams to be scheduled. (May 2018)**

6. Review of minutes

Board meeting, 25 October 2017

The Board considered the minutes of the meeting on 25 October 2017, which had been previously circulated and agreed these were an accurate record of the meeting.

Heather Logan queried whether an action for Ronnie Hinds under item 9 of the agenda, 2018/19 Draft Budget could be added to the action tracker.

Diane agreed to discuss Parliamentary funding with Graham ahead of the next Board meeting on 31 January 2018.

Action ASB65: **Diane McGiffen to discuss Parliamentary funding with Graham Sharp. (January 2018)**

7. Review of actions tracker

The Board noted the updates provided by the action tracker.

8. New financial powers and constitutional change update

Mark Taylor, Assistant Director, Audit Services and Rebecca Seidel, Audit Manager, Performance Audit and Best Value, joined the meeting.

Mark Taylor introduced the New financial powers and constitutional change report, a copy of which had been previously circulated.

Mark invited the Board to note key developments since the previous update in June 2017.

The Board noted the publication of the Budget Process Review Group's report in June which included 59 recommendations to deliver significant changes to the current budget process and the European Union (Withdrawal) Bill which was introduced to the UK Parliament in July.

The Board discussed the potential capability and capacity issues across government to respond to the forthcoming changes, the recruitment required to support the social security agency and the implications for audit. Mark advised that risks identified will be reported on formally by the Auditor General once audit work had been concluded.

Turning to the withdrawal from the EU, the Board acknowledged ongoing uncertainty and the need to be flexible in responding to events.

Mark advised of continued Parliamentary engagement, working with the Finance Committee clerking team to provide briefings and members' session.

Mark provided and update on resourcing within Audit Scotland and the plans to develop reporting on new financial powers that feature in the 2018/19 budget proposal.

The Board welcomed the report and discussion.

Mark Taylor, Assistant Director and Rebecca Seidel, Audit Manager, Performance Audit and Best Value, left the meeting

9.   Q2 Financial performance report 2017/18

Stuart Dennis, Corporate Finance Manager, joined the meeting

Stuart Dennis, Corporate Finance Manager, introduced the Q2 financial performance report 2017/18 which had previously been circulated.

Stuart invited the Board to note the financial results for the six months to September 2017.

Following discussion, the Board agreed they were content.

Stuart Dennis, Corporate Finance Manager, left the meeting

10.   Q2 Corporate performance report 2017/18

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the Q2 corporate performance report 2017/18 which had previously been circulated.

Martin invited the Board to consider the performance reported and Heather Logan reflected on progress on performance reporting made since 2013/14, commending the work on focussing reporting on the strategic objectives.

The Board discussed the audit days reported for BVAR reports in 2017/18 and Heather requested that this be tracked for the next performance report.

The Board discussed Audit Scotland's participation in the TRAM inquiry and noted the ongoing monitoring of it.

Heather Logan asked for further information on the Canadian Comprehensive Auditing Foundation and its database of performance audit work. Diane advised the team had found it helpful as it complemented existing knowledge on performance audit methodology. The Board agreed they would appreciate further detail as part of the annual review of international work.

Russel Griggs queried the number of charitable trusts Audit Scotland audit and Russell Frith advised that over 100 charities are audited each year.

Following discussion, the Board welcomed the report and the addition of appendix 3 as a helpful insight to the local impact achieved through audit.

Action ASB66:   **An update on the BVAR audit days to be reported to the next meeting of the Audit Committee. (March 2018)**
Action ASB67:   **The annual report on international work to expand on the engagement with the Canadian Comprehensive Auditing Foundation in developing the performance audit work. (March 2018)**

11. Q2 Becoming world class improvement programme report 2017/18

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the Q2 Becoming world class improvement programme report 2017/18 which had previously been circulated.

Martin invited the Board to note good progress on Securing World Class Audit by finalising the Audit Quality framework, establishing the Appointments and Assurance and Professional Support teams and work being undertaken on new financial powers. The Board also noted that role profiles and career development gateways have been completed as part of the Building a Better Organisation and the Digital Audit and Digital Services strategies had been developed as part of Making a Difference.

The Board welcomed the significant progress reported and acknowledged the impact of EU withdrawal in relation to audit work was limited so far.

The Board also noted work on the refreshed Parliamentary engagement strategy.

12. Evaluation of Board effectiveness

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the Evaluation of Board effectiveness report 2017/18, which had previously been circulated.

Martin invited the Board to consider and agree the proposed process and timeline for the evaluation of Board effectiveness.

The members agreed to undertake an evaluation of Board effectiveness and that a development workshop should be scheduled early in 2018.

Martin confirmed he would share copies of the self evaluation forms with members to inform that meeting and the Board agreed they would again welcome input from Audit Scotland's Management Team.

Action ASB68:   Martin Walker to issue the self evaluation forms to members and Audit Scotland's Management Team. (November 2018)

Action ASB69:   A date to be scheduled for a Board development workshop. (February 2018)

13. Corporate governance policies update

Alex Devlin, Corporate Governance Manager, joined the meeting

Alex Devlin, Corporate Governance Manager, introduced the Corporate governance policies update report, which had previously been circulated.

Alex invited the Board to approve updates to the Standing Orders, Financial Regulations and Scheme of Delegation with effect from 1 January 2018.

The Board discussed and approved the policies with effect from 1 January 2018.

Alex Devlin, Corporate Governance Manager, left the meeting

14. Publication of reports

The Board approved the publication of all the reports considered.

15. Any Other Business

Heather advised of the recent internal audit report on IT Services and Ronnie Hind's note of the Accounts Commission's concern with regard to service levels querying the best way to overcome these concerns.

Martin Walker advised of discussions between David Robertson, Digital Services Manager and Paul Reilly, Secretary to the Accounts Commission and commission members to better understand the issues.

The Chair noted this was Russell Frith's final Board meeting before retiring as Assistant Auditor General at the end of 2017 and recorded the Board's recognition and appreciation of his greatly valued contribution and knowledge on a range of matters since 2000.

16. Review of meeting

The members agreed the meeting had been conducted effectively and the Chair thanked everyone for their contributions.

17. Date of Next Meeting

It was noted that the next Audit Scotland Board meeting was scheduled for 31 January 2018 in the offices of Audit Scotland, 102 West Port, Edinburgh.

Minutes of meeting of the **Audit Committee** of
Audit Scotland held in the offices of
Audit Scotland, at 102 West Port, Edinburgh on
13 September 2017 at 10:00hrs.

PRESENT:	H Logan (Chair)
	R Hinds
APOLOGIES:	R Griggs
IN ATTENDANCE:	C Gardner, Auditor General for Scotland/Accountable Officer
	D McGiffen, Chief Operating Officer
	R Frith, Assistant Auditor General
	E Boyd, Assistant Director of Audit Strategy
	J Gilchrist, Manager in Audit Strategy
	M Walker, Assistant Director, Corporate Performance and Risk
	D Hanlon, Corporate Finance Manager
	S Dennis, Corporate Finance Manager
	A Devlin, Corporate Governance Manager
	D Robertson, Digital Services Manager
	D Blattman, HR&OD Manager
	C Robertson, BDO LLP Internal Auditors
	S Cunningham, Alexander Sloan External Auditors
	J So, Alexander Sloan External Auditors

Item No	Subject
1.	Private meeting of Audit Committee members and BDO
2.	Welcome and apologies
3.	Declarations of interest
4.	Minutes of meeting 6 June 2017
5.	Review of actions tracker
6.	Audit Committee terms of reference
7.	Internal audit report – Quality management
8.	Internal audit progress report
9.	Internal audit recommendations update
10.	Quality review update
11.	Digital security enhancements
12.	Review of risk register
13.	Risk interrogation – capacity and one organisational working
14.	3D review report
15.	Corporate governance policies update
16.	Data incident/loss report
17.	Files and records management update
18.	Q1 financial performance report 2017/18
19.	AOB
20.	Review of meeting
21.	Date of next meeting

1. **Private meeting of Audit Committee members and BDO**

    A private meeting was held with BDO, the internal auditors, and Alexander Sloan, external audits prior to the start of the meeting.

    There were no issues raised from the private meeting.

2. **Welcome and apologies**

    Apologies were received from R Griggs.

3. **Declarations of Interest**

    There were no declarations of interest.

4. **Minutes**

    The Audit Committee members reviewed the minutes of the meeting of 6 June 2017, which had been previously circulated.

    The Chair requested updates from the officers in attendance on the actions from the previous meeting. The following actions were discussed:
    - 35AC – The Chief Operating will cover this at a meeting scheduled for 25 September 2017 with the Clerk of the SCPA. Action on-going.
    - 36AC – Audit Committee's terms of reference updated, action complete.
    - 37AC – Action on data security will be covered under item 11 on today's agenda.
    - 38AC – Standing Orders updated, action completed.
    - 39AC – Identity verification will be covered under agenda item 11 on today's agenda.

    The minutes were approved as an accurate record.

5. **Review of Actions Tracker**

    The Assistant Director, Corporate Performance and Risk tabled an updated actions tracker.

    The Audit Committee noted progress and the updates given under item 4.

6. **Audit Committee Terms of Reference**

    The Chair invited comments from members on the report submitted by the Corporate Governance Manager, which had been previously circulated.

    The members noted the report and that the terms of reference would be discussed under item 10.

7. **Internal Audit Reports**

    Elaine Boyd, Assistant Director, Quality and John Gilchrist, Manager in Audit Strategy joined the meeting.

    Claire Robertson, BDO introduced the internal audit report on Quality Management which had been previously circulated.

    Claire advised the members that there were five recommendations made for further improvement.

The Chair welcomed the report and noted that there was no evidence of non-compliance with the audit quality processes identified as the definition for Reasonable Assurance in respect of Operational Effectiveness implied. Claire acknowledged that the precise definition did not fit neatly to the audit findings, but that the overall rating was the most appropriate in the circumstances as substantial had not been achieved. The Assistant Director, Quality informed the members that that plans were already in place to address the issues raised.

A discussion took place on:

- The level of assurance given.
- The role of the Accounts Commission and the Auditor General in relation to the Code of Audit Practice.
- The programme of cold reviews for performance audits and Best Value audits
- The Terms of Reference for the Management Team.

The members noted the report.

Action
- **41AC – Corporate Governance Manager to add review of Management Team Remit/Terms of Reference to added to the action tracker. (September 2017)**

8.   Internal Audit Progress Report

Claire Robertson, BDO submitted the internal audit progress report, which had been previously circulated. Claire advised the members that the report circulated was the wrong version of the report and that the correct version would be submitted for the meetings records. Claire provided an overview of the progress to date and advised the members that all the audits were on schedule.

The Chair invited comments and questions from the members in relation to the report. Ronnie Hinds sought confirmation on whether the audit efficiency audit covered the firms; Claire advised that it covered audits carried out by Audit Scotland.

The Audit Committee noted the report.

9.   Update on Internal Audit Recommendations

The Corporate Governance Manager submitted a report on progress with implementing internal audit recommendations, which had been previously circulated.

The Audit Committee noted the report.

10.   Audit Quality Review Update

There was submitted a report by the Assistant Director, Quality on the review of Audit Quality, which had been previously circulated.

The Assistant Director, Quality informed the members that our quality systems remained in a good place and that the proposed changes would further enhance our processes. The members' attention was drawn to section nine of the report on recommendations for discussion and agreement.

A discussion took place on the contents of the report and its appendices. The discussion covered:

- The terms of reference for the Audit Quality Group (AQG) and its role.
- The need for additional clarity on the different teams and groups involved with the delivery of audit quality. The Auditor General advised the members that the Assistant Auditor General would be providing further information on each of the quality team and groups' remits and composition in a report to the Human Resources and Remuneration Committee in October 2017. The members welcomed this and requested a diagram to aid the explanation and understanding of the relationships between the groups and team.
- The link with Audit Quality and Value for Money. The members were reminded that a paper had been recently presented to the Board by the Assistant Auditor General on this aspect and that the firms' added value commitments within their tender submissions would be reported at the end of the audit year.

Recommendation (a) – agree the amended Audit Committee's TOR

The Audit Committee agreed to the proposed amendments to its terms of reference.

Recommendation (b) – comment on the draft Audit Quality Framework

A discussion took place on the style, purpose, content and application of the draft Audit Quality Framework including:
- Confirmation that the framework applied to all audits, whether the appointed auditor is Audit Scotland or one of the firms. The members were informed that the draft will be discussed with the firms after today's discussion. The Auditor General suggested that the Framework could be more explicit about what was required of Audit Scotland and the firms and would be redrafted in light of that.
- Reporting on quality assurance and timescales involved for planning purposes for Management Team, Audit Committee, Accounts Commission, etc.
- The role of the Professional Support Team.
- The need for more detail on how any quality shortfalls would be treated.

Recommendation (c) – consider and agree key performance indicators

A discussion took place on the draft KPI's and how they would be applied. The members were informed that the current method of responding to surveys would be enhanced with more face-to-face interviews to enhance the quality of the feedback. The Chief Operating Officer informed the members that the KPI's would evolve over time.

The Chair noted that the KPI's did not include one on the number of management responses that disagreed with the audit findings. It was noted that this was a very rare occurrence, but it was agreed that this would be included in the KPI's.

The Chair also noted that the collation and analysis should not become an industry in its own right and that focus was required to mitigate this.

Recommendation (d) – Note proposed changes to the management arrangements

The members agreed to return to the discussion on the proposed changes in light of the aforementioned report to the Human Resources and Remuneration Committee in October 2017.

Recommendation (e) – Note the draft terms of reference for the Audit Quality Group

The members asked if there would be more KPI's for the Audit Quality Group than those discussed at item 'c' above. The members were informed that there would be more and these would be at a more granular level.

Ronnie Hinds sought clarification on the membership of the Audit Quality Group and the role of the Secretary to the Accounts Commission. The Assistant Auditor General advised that he was considering the most appropriate involvement of the Secretary in the matter of quality assessment and monitoring.

Recommendation (f) – Note progress on procurement of external assurance

The members were given an update on the procurement process for securing external assurance resources. The members were informed that the tender would be published by the end of September and that a number of organisations had already shown an interest in the work.

The members noted the report.

Action(s):

- **42AC – The Assistant Auditor General to develop a diagram to aid the explanation of the interrelationships between the different quality groups for the Human Resources and Remuneration Committee update report in October. (October 2017)**
- **43AC - The Assistant Director, Quality to arrange for the Audit Committee's Terms of Reference to be updated to include audit quality. (November 2017)**
- **44AC - The Assistant Director, Quality to update the framework in light of the Audit Committee's comments, including reference to the firms (October 2017)**
- **45AC - The Assistant Director, Quality to include a KPI on any management responses that disagreed with the audit findings. (November 2017)**

Elaine Boyd, Assistant Director Quality and John Gilchrist, Manager Audit Strategy left the meeting.

11.   **Digital Security Enhancements**

David Robertson, Digital Services Manager joined the meeting.

There was submitted a report by the Digital Services Manager, on digital security enhancements, which had been previously circulated.

The Chair invited comments from the members. Ronnie Hinds asked for confirmation that Accounts Commission members were covered by the arrangements, including two stage identity verification; David confirmed the Commission was covered by this requirement.

A discussion took place on various aspects of digital security and the benefits of using the cloud based technology to aid system security, availability, resilience and flexibility.

The Chair sought assurance that the Digital Services workload was achievable within the current resource parameters; she was informed it was.

The Audit Committee noted the report.

David Robertson, Digital Services Manager left the meeting.

12.   **Review of Risk Register**

There was submitted a report by the Assistant Director, Corporate Performance and Risk, on the review of Audit Scotland's risk register, which had been previously circulated.

The members were informed that the main change had been discussed under item 11 on digital security and also that the deputy First Minister had recently written to all public bodies about digital security and cyber resilience.

The Chair of the Audit Committee noted that the target risk score of 15 for digital security seemed high. The Assistant Director, Corporate Performance and Risk advised that this reflected the prevalence and ever changing nature of the risk, that the risk appetite and response definition for 'amber' risks was one that requires action and constant active monitoring to reduce exposure and noted that this appropriate for this type of risk.

The Chair asked if risk 14 about records management remained a strategic risk now that more controls were in place. It was agreed to remove the risk from the corporate risk register, noting that it would remain on the information risk register for monitoring by the Knowledge, Information and Technology Governance Group. The Chair asked the management team to consider whether there should be a strategic risk of the assurance maps and inherent controls failing.

Ronnie Hinds sought clarification on the colour coding and direction of travel arrows in the report. An explanation was provided and it was agreed to add this to the legend in the report for future.

The Audit Committee noted the report.

Action(s):

- **46AC - The Assistant Director, Corporate Performance and Risk to remove risk 14 from the register and ensure it remains on the information risk register. (November 2017)**
- **47AC - The Assistant Director, Corporate Performance and Risk to update the risk register legend to incorporate an explanation of the direction of travel arrows. (November 2017)**

13. **Risk Interrogation – Capacity and One Organisational Working**

David Blattman, HR & OD Manager joined the meeting.

There was submitted a report by the Assistant Director, Corporate Performance and Risk, on the interrogation of a corporate risk, which had been previously circulated.

The Chair of the Audit Committee commented on the detail of the report and the effort that had gone into producing it. She enquired if the business groups found the interrogations useful. The Assistant Director, Corporate Performance and Risk advised that the interrogation process was useful and that the reports also offered useful information to a range of internal stakeholders.

The report was noted.

14. **3D Review Report**

The HR & OD Manager submitted the 3D review report, which had been previously circulated. David provided an overview of 3D completion rates compared to the previous

PAD process and the quarterly engagement with each business group about progress in conducting 3D reviews.

The Chair welcomed the update report and further discussion took place on:
- The benefit of the new system in freeing up staff and manager time as a result of the streamlined approach of the 3D process.
- The expectations of staff from the 3D process and how staff and managers were empowered to support development and make 3D work for all.

The Audit Committee noted the report.

David Blattman, HR & OD Manager left the meeting.

15.   Corporate Governance Policies Update

The Corporate Governance Manager submitted a report on the review and update to the corporate governance policies, which had been previously circulated.

The Chair invited comments from the members on the:
- Financial regulations
- Scheme of delegation
- Members' code of conduct
- Staff code of conduct.

The Chair highlighted that the Scheme of delegation contained a definition of the Management Team which referred to the Board's agreement of its make-up and which was not confirmed elsewhere in the governance policies. The Auditor General advised the members that Management Team membership would be looked at by the REMCO.

The members were satisfied with the proposed changes and agreed to recommend them to the Board for approval.

Action(s):

- **48AC - The Corporate Governance Manager to submit the policies to the Board for approval. (October 2017)**

16.   Data Incident/Loss Report

The Corporate Governance Manager submitted a report on data incidents/loss, which had been previously circulated.

There were no comments or questions and the Audit Committee noted the report.

17.   File and Records Management Update

There was submitted an update report by the Assistant Director, Corporate Performance and Risk, on files and records management, which had been previously circulated.

The Assistant Director, Corporate Performance and Risk informed the members that the report focused on the next steps to continually improve our records management arrangements.

The Chair of the Audit Committee asked whether there was a technical solution to quantify any data losses, should they occur in the future. The Assistant Director,

Corporate Performance and Risk agreed to look at this with the Digital Services Manager.

The members noted the report.

Action(s):

- **49AC - The Assistant Director, Corporate Performance and Risk to establish if a technical solution is available to quantify any losses in future. (November 2017)**

18. **Q1 Financial Performance Report 2017/18**

There was submitted a report by the Corporate Finance Manager, on the Q1 financial performance for 2017/18, which had been previously circulated.

The report had been previously submitted and discussed at the Board on 23 August 2017; as there were no further questions on the report since it was discussed at the Board and the members noted it.

19. **Any Other Business**

There was no other business raised.

20. **Review of Meeting**

The Chair of the Audit Committee invited members to comment on the standard of the papers submitted to them and on the meeting itself.

The Chair of the Audit Committee thanked David Hanlon, Corporate Finance Manager for all the work and support he has given the Committee over the years, and on behalf of the Committee wished him well in his retirement.

21. **Date of Next Meeting**

The next meeting will be held at 10.00am on **15 November 2017** in the offices of Audit Scotland, 102 West Port, Edinburgh.

AUDIT SCOTLAND BOARD ACTION TRACKER 2017/18

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
ASB16	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	Complete	Yes	The annual review of the policies was considered by the Audit Committee on 15/11/2017 and subject to item 14 of today's agenda, recommended to the Board.
ASB49	Board	18	Making a Difference: Public Engagement Work with Young Scot	Diane McGiffen, Chief Operating Officer, to schedule an update report in March 2018.	31/03/2017	01/03/2018	Diane McGiffen	Joy Webber	Ongoing	No	This item is scheduled for 28 March 2018.
ASB58	Board	18	2016/17 Annual report on international work and international strategy 2017-20	Antony Clark, Chair of International Steering Group to consider the longer term impact of international work in future reporting.	06/06/2017	01/06/2018	Antony Clark	Sarah Pollock	Ongoing	No	A report will be scheduled by June 2018.
ASB61	Board	9	2018/19 Draft Budget	Stuart Dennis, Corporate Finance Manager, to include an explanatory note on efficiencies into the budget proposal prior to submission. (November 2017)	25/10/2017	29/11/2017	Stuart Dennis	Stuart Dennis	Complete	No	An explanatory note regarding efficiencies has been incorporated into the budget proposal ahead of submission to the SCPA in December 2017.
ASB62	Board	16	Arrangements for Board meetings	Alex Devlin, Corporate Governance Manager, to update the Standing Orders to reflect the public meetings of the Board from January 2018. (January 2018)	25/10/2017	31/01/2018	Alex Devlin	Alex Devlin	Complete	Yes	The report was considered at item 14 at the meeting of the Board on 29/11/17.
ASB63	Board	17	2018 proposed Board meeting dates	Diane McGiffen, Chief Operating Officer, to consider the proposed meeting dates for 2018 and report to the Audit Committee. (November 2017)	25/10/2017	29/11/2017	Diane McGiffen	Diane McGiffen	Complete	Yes	A report was submitted and the 2018 dates approved by the Audit Committee on 15 November 2017.
ASB64	Board	5	Accountable Officer's Report	An update report on developments within the Appointments and Assurance and Professional Support teams to be scheduled.	29/11/2017	28/03/2018	Diane McGiffen/Fiona Kordiak	Diane McGiffen/Fiona Kordiak	Ongoing	No	This item will be scheduled for 28 March 2018.
ASB65	Board	6	Review of minutes	Diane McGiffen, to discuss parliamentary funding with the Chair of the Accounts Commission.	29/11/2017	31/01/2018	Diane McGiffen	Diane McGiffen	Ongoing		The Chief Operating Officer discussed this issue with the Chair of the Accounts Commission on 24 January 2018.
ASB66	Board	10	Q2 Corporate performance report	An update on the BVAR audit days to be reported to the next meeting of the Audit Committee.	29/11/2017	14/03/2018	Martin Walker	Martin Walker	Ongoing		This item will be scheduled for 14 March 2018 meeting of the Audit Committee.
ASB67	Board	10	Q2 Corporate performance report	The annual report on international work to expand on the engagement with the Canadian Comprehensive Auditing Foundation in developing the performance audit work.	29/11/2017	06/06/2018	Antony Clark	Antony Clark	Ongoing		This item will be scheduled for 28 March 2018.

Ref	FORUM	Agenda Item No	Item Title	Action Description	Meeting Date	Due Date	Responsible	Assigned to	Complete/Ongoing	Reported Yes/No	Progress Notes
ASB68	Board	12	Evaluation of Board effectiveness	Martin Walker to issue the self evaluation forms to members and Audit Scotland's Management Team.	29/11/2017	30/11/2017	Martin Walker	Martin Walker	Complete	No	The evaluation forms have been issued and responses collated. These will inform future Board development work.
ASB69	Board	12	Evaluation of Board effectiveness	A date to be scheduled for a Board development workshop.	29/11/2017	31/01/2018	Diane McGiffen	Martin Walker	Ongoing		The date and format of the development workshop to be agreed. A verbal update will be provided at the Board meeting on 31/01/2018.

Scottish Commission for Public Audit: Report on Audit Scotland Budget Proposal 2018-19
Chief Operating Officer

Purpose

1. This report updates the Board on the Scottish Commission for Public Audit's (SCPA) report on the Audit Scotland Budget Proposal for 2018-19.

Background

2. The SCPA considered the 2018-19 budget proposal at its meeting on 20 December 2017. The minute and the official report of the meeting are available on the SCPA pages of the Scottish Parliament's website.

3. The Chair of the SCPA wrote to the Convenor of the Finance and Constitution Committee on 20 December confirming that the Commission was content with the budget proposal.

4. The SCPA published its report on the budget proposal on 24 January 2018.

Next steps

5. It is anticipated that the Finance and Constitution Committee will publish its report on Friday 26 January 2018.

Recommendation

6. The Board is invited to note the SCPA report.

The Scottish Parliament
Pàrlamaid na h-Alba

Scottish Commission for Public Audit

Audit Scotland Budget Proposal for 2018-19

Contents

Committee Membership

Colin Beattie
Scottish National Party

Bill Bowman
Scottish Conservative
and Unionist Party

Alison Johnstone
Scottish Green Party

Rona Mackay
Scottish National Party

Jenny Marra
Scottish Labour

Introduction

1.   Section 11(9) of the Public Finance and Accountability (Scotland) Act 2000 requires that Audit Scotland prepares proposals for its use of resources and expenditure and sends these proposals to the Scottish Commission for Public Audit ("the Commission"). The Commission then examines the proposals and reports to Parliament on them.

2.   As Audit Scotland's budget forms part of the total Scottish budget, the Commission particularly directs this report to the Finance and Constitution Committee in order to assist that Committee in its wider scrutiny of the Draft Budget for 2018-19.

3.   Audit Scotland submitted its budget proposal for 2018-19 and associated fee strategy on 12 December 2017 in recognition of the timescale for scrutiny of the 2018-19 Scottish budget. The Commission took oral evidence on the budget proposal and fee strategy at its meeting on 20 December 2016. Specifically, the Commission took evidence from Ian Leitch, Chair of the Board of Audit Scotland; Caroline Gardner, Auditor General for Scotland; Russell Frith, Assistant Auditor General and Diane McGiffen, Chief Operating Officer for Audit Scotland.

4.   Mr Frith's appearance before the Commission was his final engagement on behalf of Audit Scotland prior to his retirement. The Commission wishes to put on record its appreciation for the contribution that Mr Frith has made to the work of Audit Scotland and to the work of the Commission.

Change of membership

5.   The membership of the Commission changed during the consideration of this Report. Jackie Baillie MSP left the Commission and the Public Audit and Post Legislative Scrutiny Committee on 22 December 2017.

Budget Proposal 2018-19

Overview

6.   Audit Scotland's budget is drawn from two main sources. These are fees charged to audited bodies and monies approved by the Scottish Parliament from the Scottish Consolidated Fund. The budget proposal which the Commission is required to consider broadly funds the following areas of activity by Audit Scotland—

- Non-chargeable Central Government audits

- Performance audits

- The Auditor General

- The Accounts Commission

- A proportion of Audit Scotland senior management

- National Fraud Initiative

- New Financial Powers

7.   Audit Scotland's budget proposal for 2018-19 is based on a total expenditure requirement of £24,356K. This represents an increase of £837K (3.6%) in cash terms from the approved 2017-18 budget of £23,519K albeit lower than the 2016-17 budget of £24,579K. The budget proposal seeks parliamentary approval for funding of £7,148K. This represents an increase of £617K (9.4%) in cash terms from the 2017-18 budget. Audit Scotland summarise the rationale for this proposed increase as follows—

> The new financial powers demands and the biennial National Fraud Initiative exercise are principal factors in the Total Resource Requirement for 2018-19 increasing by £617K from the approved requirement in 2017-18. [1]

8.   The budget proposal is underpinned by three main assumptions. These are:

- The creation of eight new posts to deal with audit work arising from the devolution of new financial powers and constitutional change;

- An increase in the Audit Scotland pay bill of 2% (1% on pay scales and 1% pay progression); and

- An increase in pension scheme employer contributions of 0.5%.

9.   In terms of the medium term financial profile of the organisation, the Auditor General commented, in correspondence to the Commission, that—

> We are planning a phased increase in resource requirements over the next four year period (2018-19 to 2021-22). This approach is aligned with the expected timeline for implementing new financial powers and establishing bodies that will require additional audit work. [2]

10. The budget proposal notes that it has been prepared in the context of a number of uncertainties which impact on the Audit Scotland budget in the medium term. These include the impact of the Scottish Government's public sector pay policy, on-going devolution of financial powers, the impact of changes arising from the implementation of the Budget Process Review Group to the Scottish budget process and, lastly, the potential impact of Brexit. In relation to Brexit, the Chair of the Board of Audit Scotland, Ian Leitch, observed—

> On Brexit specifically, we do not have a worst-case scenario, because we do not know what we do not know. If we were to simply pluck a worst-case scenario out of the air it would mean cost. How do you put a figure on that? We have to take this bit by bit. The commission has asked questions on this in past, and rightly so. It is a question that we ask ourselves constantly. We have made provision in our budget for looking at where Brexit is going but, frankly, until the powers that be know where they are going—I say this with respect, as it is not a political point—we cannot assume to know where they are going. [3]

New Financial Powers

11. The main driver for the proposed budget increase is a consequence of the impact of the implementation of the devolution of financial powers arising from the Scotland Act 2016. As noted above, it is intended that eight new posts will be created to undertake audit work in this area. The Auditor General for Scotland commented on the workload for these posts as follows—

> Overall, the additional resources will enable us to carry out new work, including providing assurance to the Parliament as the financial and social security powers in the Scotland Act 2016 are implemented; further work to support Parliament as the complexity of the Scottish finances and the links to economic performance increase; the audit of the Scottish Fiscal Commission, where legislation does not allow us to charge a fee for the audit; work with the National Audit Office to provide assurance on income tax and, in due course, VAT income; and the audit of further taxes and social security as these are devolved. [4]

12. The total cost of the additional eight new posts is £667K however the funding requirement being sought from the Scottish Parliament is £380K due to efficiencies generated within Audit Scotland. As outlined above, the response to the further devolution of powers in the 2018-19 Budget Proposal is the start of a phased response to the devolution of powers. Audit Scotland state—

> As financial and social security powers transfer on a phased basis, our mid-point projection of the full additional resource required by 2021-22 is 20 staff at a total cost of £1,200K. By that point we expect that around £2.9 billion of social security spending will have been devolved and that the Scottish Parliament will be responsible for raising income of £22 billion – more than half the total budget for Scotland. This is a seismic shift to the public finances. [5]

13. The Commission sought further information on the basis underpinning the budgetary projections of the impact of the further devolution of powers. Diane

McGiffen, Chief Operating Officer, outlined the planning approach taken in the following terms—

> We have based our planning for the new financial powers on modelling that looks at a low point, a high point and a mid point. For now, the most prudent assessment that we can make is based on the mid-range of those assumptions. The budget that you are considering today contains the largest single growth—an estimated eight full-time equivalent posts. In each of the subsequent three years, we would be looking at an additional four posts if our mid-range assumptions hold true. We will revisit those assumptions continually throughout the years, particularly as the exact timetable for rolling out the new financial powers transpires, and we will revisit annually with the commission the question whether the assumptions are holding up. [6]

14. The Commission recognises that the devolution of further powers will necessarily result in an increased workload for Audit Scotland. The Commission considers that the additional resources sought in the 2018-19 Budget Proposal are commensurate with the scale of that additional workload.

Pay Policy

15. The Audit Scotland Budget Proposal was submitted to the Commission prior to the publication of the Scottish Government's Draft Budget. Audit Scotland's budget proposal assumes a 1% increase in pay scales and a corresponding uplift of 1% in the fees paid to audit firms who conduct work on behalf of Audit Scotland. Audit Scotland's current pay deal ends on 31 March 2018 and negotiations with the Public and Commercial Services Union (PCS), as the recognised trade union, are due to commence in 2018.

16. The Scottish Government's 2018-19 Draft Budget seeks to guarantee a minimum 3% pay increase for public sector workers earning £30,000 or less and an increase of 2% for those earning more than £30,000 (limited to a £1,600 increase for those earning £80,000 or more). Each additional 1% increase in Audit Scotland pay scales equates to an additional £150K. The Commission queried what the impact may be if the budgetary assumptions regarding pay policy contained in the Budget Proposal did not hold following pay negotiations. The Auditor General responded in the following terms—

> We will be working very hard to balance what is affordable within our current budget with the expectations and the need to recruit and retain the staff that we need. If we end up in a position where we simply cannot reach agreement within the budget that we have here, we will look for further efficiencies internally. That gets more difficult every year, as it does for all public bodies, but we will look at that. We will look at fee setting for the next audit year, which starts in October 2018. As a last resort, we have the autumn and spring budget revisions to come back to you, but we work very hard to make sure that we never have to do that. [7]

17. The Commission sought information on the pay ratio between the highest and lowest paid staff members within Audit Scotland and also with regard to the degree of any gender pay gap within the organisation. In terms of pay ratios, Russell Frith, Assistant Auditor General, stated—

> The disclosure in our accounts to March 2017 was that the multiple between the median salary, which is the one that is required to be disclosed, and the highest one was 3.4 times. [8]

18. In later correspondence with the Commission, Audit Scotland highlighted the 'Equal Pay Review 1 April 2015 – 31 March 2016'. The review found that "the gender pay gap for Audit Scotland shows that, having analysed data across the whole of Audit Scotland, women earn around 4.5 per cent less than men" [9]. This gap, which is significantly lower than the UK gender pay gap in 2015 of 19.2%, was attributed primarily to more women being in junior roles within Audit Scotland and a "significantly higher proportion of males than females in senior roles". [9]

19. The Commission welcomes the active measures Audit Scotland take to monitor pay ratios and the gender pay gap within the organisation. The Commission recommends that Audit Scotland report annually to the Commission, as part of the budget process, with an updated position against these measures.

Audit Quality

20. The Commission, in its report on the 2017-18 Budget Proposal, highlighted that a reduction in fees charged could impact upon the quality of audit work undertaken. The Budget Proposal notes that Audit Scotland expects to continue to make real terms reductions in fees across all sectors of audit activity. In relation to funding to ensure the quality of audit work undertaken the Budget Proposal includes funding "of £250K to support an enhanced quality regime. This is an increase of £150K from the 2017-18 budget and is funded by internal restructuring". [10]

21. The Auditor General commented on the overall rationale for the funding of audit quality in the following terms—

> Members of the commission will remember that our budget proposal last year made mention of the fact that the procurement round that we had been through with the firms, which we have now appointed for an additional five-year period, had generated significant savings for us on top of the savings and efficiencies that we had made in ways of work across Audit Scotland. That was a good thing for the public purse, but we were very conscious that it also raised the risks of audit not being delivered to the quality that is required across the piece and we recognised the commercial pressures that the firms operate under". [11]

22. In evidence to the Committee the Auditor General highlighted three main areas of activity that have been undertaken in recent years to provide assurance with regard to audit quality. These are firstly, the agreement of a new audit quality framework to provide quality assurance across all the audit work undertaken by Audit Scotland.

Secondly, putting in place independent assurance of all audit work. Lastly, the development of an enhanced reporting assurance which is in the process of being implemented.

23. The Commission welcomes the commitment of Audit Scotland to ensuring audit quality and the funding proposed to support this in the 2018-19 Budget Proposal.

Efficiency Savings

24. As discussed above with regard to the audit of new financial powers a substantial proportion of the proposed 2018-19 budget proposal to support 8 new posts in this area is being funded through efficiency savings. The Chief Operating Officer, Diane McGiffen, summarised the approach being taken to generate efficiency savings in this area as follows—

> ... the efficiencies will come from how we have built up the work that is required for the new financial powers along with a refocusing of some of the audit work that is already taking place in central Government and associated bodies. There is a bit of refocusing going on to deliver efficiencies that will contribute to the new financial powers work. [12]

25. In evidence to the Commission additional areas of work which aim to generate efficiencies were also highlighted. This included activity in relation to the use of information technology to support audit and improved use of data analytics.

26. The Commission recognises the commitment of Audit Scotland to generating efficiencies and welcomes the continued commitment, particularly given the current fiscal environment, to obtaining efficiencies savings.

Conclusion

27.   The Commission recommends that Audit Scotland's budget proposal for 2018-19, including the request for a total resource requirement of £7,148K, is approved.

[1]   Audit Scotland. (2018). Budget Proposal 2018-19, p.2.

[2]   Auditor General for Scotland. (2017, December 12). Correspondence , p.2.

[3]   Scottish Commission for Public Audit. (2017, December 20). Official Report, Col. 12.

[4]   Scottish Commission on Public Audit. (2017, December 20). Official Report, Col 5.

[5]   Audit Scotland. (2018). Budget Proposal 2018-19, p.6-7.

[6]   Scottish Commission on Public Audit. (2017, December 20). Official Report, Col 6.

[7]   Scottish Commission on Public Audit. (2017, December 20). Official Report, Cols 16-17.

[8]   Scottish Commission on Public Audit. (2017, December 20). Official Report, Col s 9-10.

[9]   Audit Scotland. (2017). 'Equal Pay Review: 1 April 2015 – 31 March 2016', p.8.

[10] Audit Scotland. (2018). Budget Proposal 2018-19, p.8..

[11] Scottish Commission on Public Audit. (2017, December 20). Official Report, Col 15.

[12] Scottish Commission on Public Audit. (2017, December 20). Official Report, Cols 22-23.

Best Companies survey results
Chief Operating Officer

Purpose

1. This report updates the Board on the latest results of the Best Companies Survey and highlights next steps. The report invites the Board to consider and comment on the results.

Background

2. Audit Scotland first took part in the Best Companies survey in 2009, with those results reported during 2010. We have repeated the survey annually since then and our latest results are reported here. The survey is one way in which we collect feedback from colleagues, and provides an annual temperature check on how colleagues feel about working at Audit Scotland.

3. The Best Companies survey is confidential, and was completed in November 2017.

Context

4. Last year, we continued to develop and implement our approach to becoming a world class audit organisation that improves the use of public money. During 2017 we implemented all of the planned actions of 'Building a Better Organisation', including a new organisation structure, role profiles and new pay and reward arrangements.

5. Last year also saw the first full year of the new audit appointments and delivery of new best value audits on behalf of the Accounts Commission, changes to professional audit support and audit quality and further preparation for new financial powers.

Best Companies Results summary

6. Our overall best company index score is 635.1, our highest BCI score to date. This represents an increase of 16 points from 2017. Audit Scotland has also retained its 'One to Watch' status for the ninth year.

7. Participation in the survey remains very high with 79 per cent (214 out of 272) colleagues taking part.

8. A special edition of abacus sharing this year's Best Companies results was shared with colleagues in December 2017. This linked to the survey results and highlighted areas of activity over the last 12 months which were in direct response to previous suggestions for improvement.

9. This year we have seen increases in seven out of eight factors, with My Manager and My Team seeing the largest positive increase of 3%. Within 'My Manager', colleagues have more confidence in the leadership skills of their manager and are feeling that managers are talking more openly and honestly. Our strongest performing areas continue to be leadership and my company. Wellbeing has dipped 2%, and we will continue our work on emotional health and wellbeing through the Health, Safety and Wellbeing committee during 2018. A time series summary of the results is attached as an appendix.
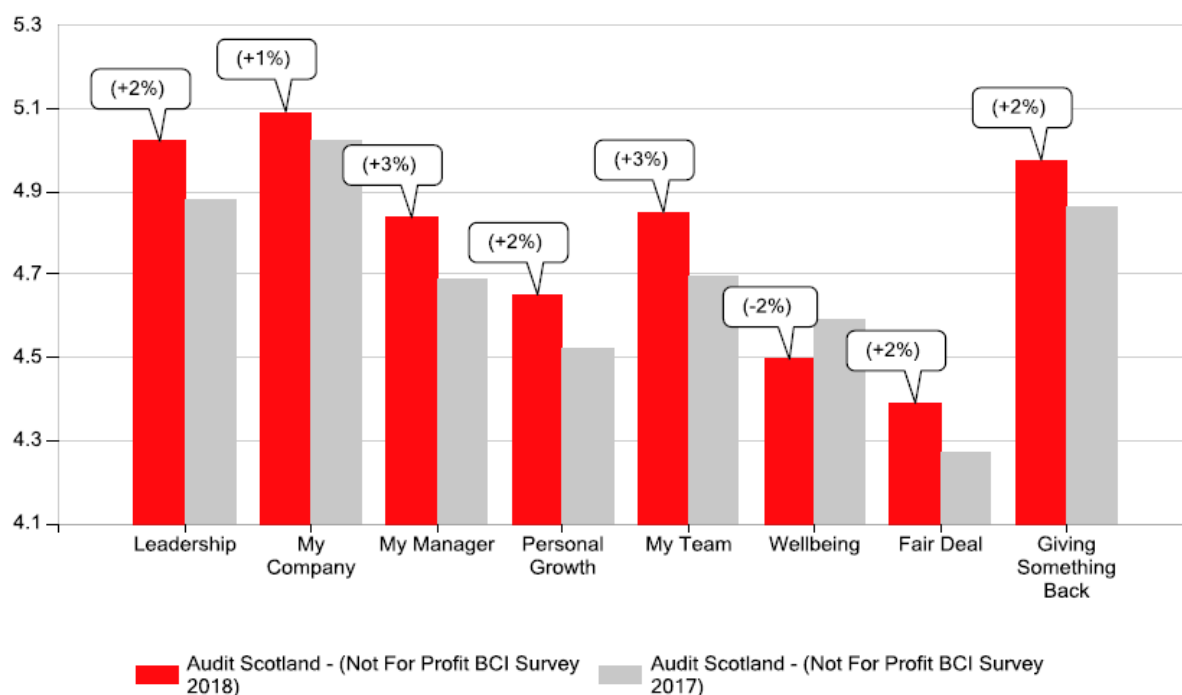
Next steps

10. Results are being shared across the business groups and the results will be discussed with Best Companies on 2 February 2018.

Recommendations

11. The Board is invited to consider and comment on the results of the Best Companies Survey.

2017 – 2018 Comparison by factor

Over all score 2010 – 2018
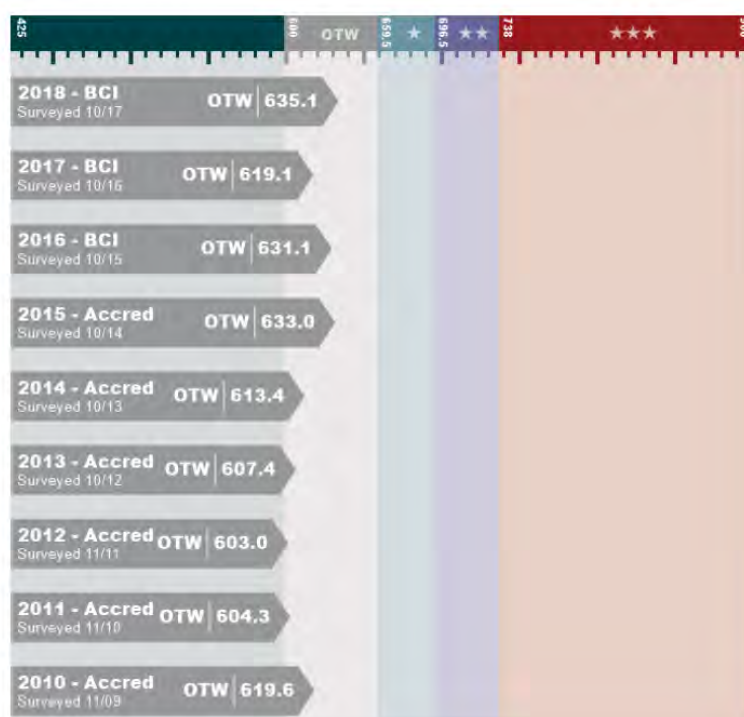
Six year trend – by factor
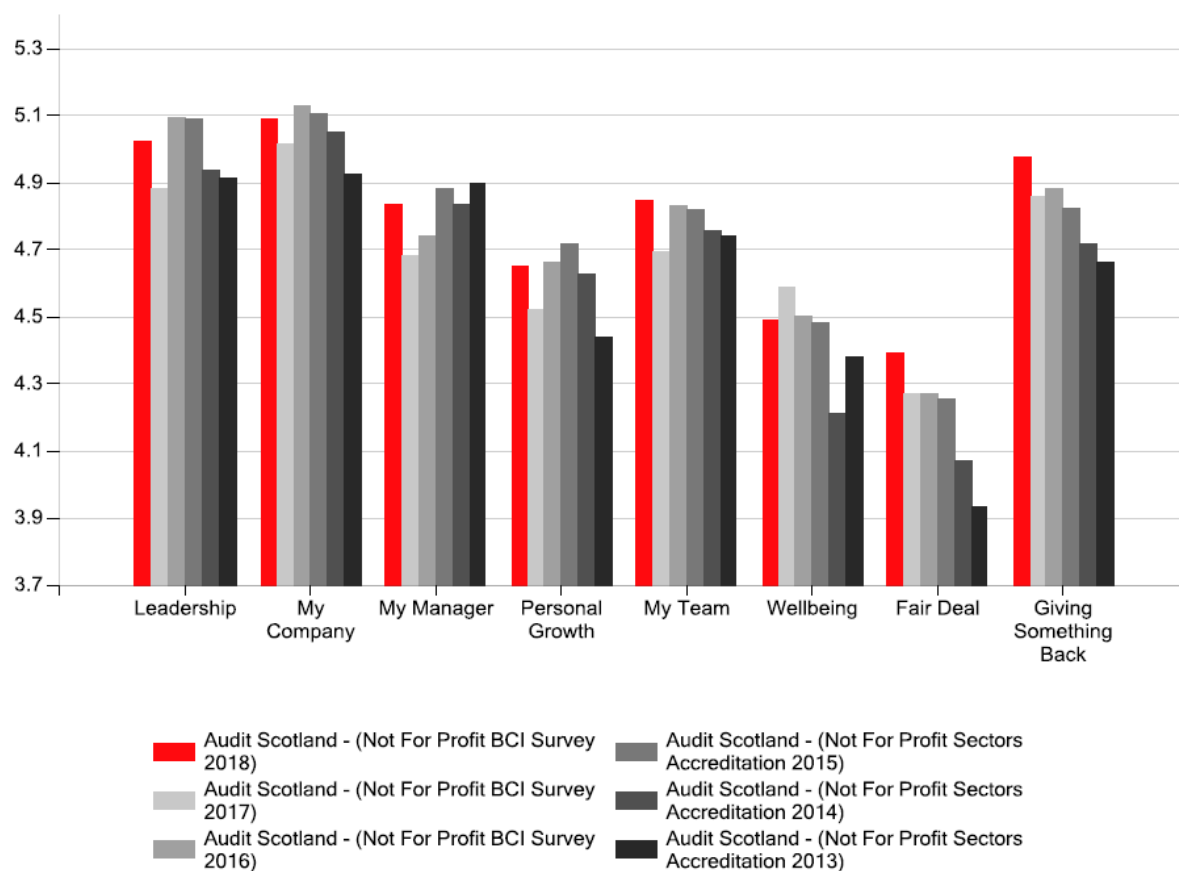
Legend:
- Audit Scotland - (Not For Profit BCI Survey 2018)
- Audit Scotland - (Not For Profit BCI Survey 2017)
- Audit Scotland - (Not For Profit BCI Survey 2016)
- Audit Scotland - (Not For Profit Sectors Accreditation 2015)
- Audit Scotland - (Not For Profit Sectors Accreditation 2014)
- Audit Scotland - (Not For Profit Sectors Accreditation 2013)

Purpose

1. This report invites the Board to note feedback following the recent Audit Scotland staff conference held on 18 January 2018. A copy of the conference agenda is attached.

Conclusion

2. The Chief Operating Officer will provide a verbal update on the conference at the meeting.

Agenda

Challenge and transformation:
All staff conference 2018

09.00 – 09.30	Registration and tea/coffee	
09.30 – 10.00	**Setting the scene**	Caroline Gardner & Graham Sharp
10.00 – 11.00	Our world: **New Financial Powers**	Professor Graeme Roy Director, Fraser of Allander Institute
11.00 – 11.30	Coffee Break	
11.30 – 12.30	Our world: **Brexit**	Professor Tom Mullen Professor of Law, The University of Glasgow

12.30 – 14.30

Transforming our work:
Lunch and breakout sessions:

1. Impact of Best Value   **2. Quality Framework**   **3. Digital public services**

4. City Deals   **5. Effective report writing**   **6. Design for all**

14.30 – 15.30	Our challange: **Transforming public services**	Jane Grant Chief Executive, NHS Greater Glasgow and Clyde Board
		Joyce White OBE Chief Executive, West Dunbartonshire Council
15.30 – 16.00	**Close of session**	

Purpose

1. This report updates the Board on the publications schedule for the six months to June 2018.

Background

2. Audit Scotland publishes reports for the Auditor General and the Account Commission, along with key corporate Audit Scotland reports. This schedule flows from the annual work programme consultation and the annual audit cycle.

Audit Scotland publications to June 2018

3. The appendix to this report details the schedule of publications to end June 2018. The detail of the schedule is worked out taking into account a number of factors and is agreed jointly by Performance Audit and Best Value, the Communications team, Secretary to the Accounts Commission and the Auditor General.

4. The appendix also identifies the annual audit plans and annual audit reports scheduled for publication over the six month period. The schedule is monitored and reviewed monthly and dates are sometimes subject to change.

5. Members of the Board are asked to consider if they have any comments on the schedule, or would like to receive any further information on individual items.

Conclusion

6. The Board is invited to consider for information and comment the publications schedule up to June 2018.

Appendix

AUDIT SCOTLAND

Publications schedule January – June 2018

January	BVAR: Clackmannanshire
February	BV: Falkirk follow-up PA: Early learning and childcare
March	s102: Dundee City Council (TBC) National Scrutiny Plan + 32 LSPs PA: Managing Scotland's new financial powers H&SC integration briefing paper
April	Openness and transparency briefing paper Local government overview s22's: Colleges BVAR: East Ayrshire Equalities outcomes and updates
May	PA: Arm's-length external organisations BVAR: Fife PA: Scottish Fire and Rescue Service
June	Accounts Commission annual report / strategy and action plan / engagement plan Corporate plan 2018-21 Audit Scotland annual report and accounts Audit quality and International annual reports Housing benefit annual update Scotland's colleges 2018 NFI in Scotland

Over the six month period we will also publish:

222 annual audit plans for NHS, Central Government, Local Government (including pensions, joint boards and IJBs) and Further Education bodies

23 NHS annual audit reports.

Agenda

Wednesday 28 February 2018, 10.15am

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

1. Welcome and apologies

2. Declarations of interest

3. Decision on items to be taken in private   For approval

Standing items

4. Chair's report – verbal update

5. Accountable Officer's report – verbal update

6. Accounts Commission Chair's report – verbal update

7. Review of minutes: For approval
   - Board meeting, 31 January 2018

8. Review of action tracker   For information

Strategy and planning

9. Q3 Finance performance report 2017/18   For information

10. Q3 Corporate performance report 2017/18   For information

11. Q3 Becoming world class improvement programme report 2017/18   For information

12. Any other business

13. Review of meeting

14. Date of next meeting: 28 March 2018

Minutes

Wednesday 31 January 2018, 10.00

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

AUDIT SCOTLAND

Present:

I Leitch (Chair)
C Gardner
H Logan
G Sharp

Apologies:

R Griggs

In attendance:

D McGiffen, Chief Operating Officer
M Walker, Assistant Director, Corporate Performance and Risk
A Clark, Assistant Director, Performance Audit and Best Value
J Gillies, Communications Manager
S Dennis, Corporate Finance Manager
J Webber, Senior Executive Assistant

1. Welcome and apologies

Ian Leitch welcomed members and attendees to the first public meeting of the Audit Scotland Board, the agenda and papers for which had been published on Audit Scotland's website on Monday 29 January 2018.

The Chair advised members of apologies received from Russel Griggs who had confirmed he was content for business to be conducted in his absence.

2. Declarations of interest

There were no declarations of interest.

3. Decision on items to be taken in private

The members agreed that Item 16 about office accommodation would be considered in private as it contained commercially sensitive information.

4. Chair's report

Ian Leitch provided a verbal update on meetings with Caroline Gardner and Diane McGiffen on various business matters.

The members welcomed the update.

5. Accountable Officer's report

Caroline Gardner advised the Board of forthcoming business scheduled at the Public Audit and Post Legislative Scrutiny (PAPLS) Committee and on the development of the Audit and Accountability Framework between the Scottish Government and HM Treasury. She also advised members of the session at PAPLS on 11 January 2018 on the Scottish rate of income tax with evidence provided jointly with Sir Amyas Morse of the National Audit Office, and of attendance at the Health and Social Committee.

Caroline also advised members of her recent membership of the panel recruiting the new Auditor General for Wales.

Caroline invited members to note the Audit Scotland staff conference on 18 January 2018 on which Diane McGiffen would provide an update at item 11, the overall positive results from the Best Companies survey results reported at item 10 and the graduate recruitment open evening at West Port on 24 January 2018 which had attracted over 50 interested attendees.

The Board welcomed the update.

6.   Accounts Commission Chair's report

Graham Sharp provided a verbal update on the recruitment campaign for up to four new Accounts Commission members.

Graham advised that the next meeting of the Accounts Commission on 8 February 2018 would consider a report on the first year of the new approach to auditing Best Value and would welcome the Annual assurance and risks report.

Graham also invited members to note the Accounts Commission annual strategy conference on 13 and 14 March 2018.

The Board welcomed the update.

7.   Review of minutes

Board meeting, 29 November 2017

The Board considered the minutes of the Board meeting on 29 November 2017, which had been previously circulated, and agreed these as an accurate record of the meeting.

Audit Committee meeting, 13 September 2017

The Board noted the minutes of the meeting of the Audit Committee on 13 September 2017, a copy of which had been agreed by Committee members as an accurate record of the meeting at their meeting on 15 November 2017.

8.   Review of actions tracker

The Board noted the updates provided by the action tracker and Heather Logan asked about the date for the Board development workshop in February 2018. Diane McGiffen advised that a suitable early date was being discussed and would be shared as soon as possible.

9.   SCPA report on Audit Scotland's 2018/19 budget

The Chair invited members to note the official record of the meeting on 21 December 2017 with the Scottish Commission for Public Audit on Audit Scotland's Budget 2018/19, a copy of which had been previously circulated and invited any comments.

The Board discussed the SCPA report and welcomed the recommendation to approve the additional resources to support audit of new financial powers. The Board welcomed the strategic engagement with the SCPA on Audit Scotland's budget.

Following discussion, the Board welcomed the report.

10.   Best Companies survey results

Diane McGiffen introduced the report on the Best Companies survey results, a copy of which had been previously circulated.

The Board discussed the results and noted that the overall score was the highest yet achieved, and the movement on individual elements of the score.

Diane explained the scoring and ranking methodology and the plans to discuss the results with the leadership group and in business groups.

The Board recognised that the survey provided one valuable way of gaining feedback from colleagues and provided a useful reference at a point in time each year. The Board welcomed the report and thanked Audit Scotland colleagues for the outstanding response rate in the survey.

11. 2018 Audit Scotland staff conference update

Diane McGiffen introduced the 2018 Audit Scotland staff conference update report, which had been previously circulated.

Diane provided a verbal update on the Audit Scotland conference on 18 January 2018. Diane advised that the strategic sessions in the morning led by Dr Graeme Roy on new financial powers and Professor Tom Mullen on the impact of Brexit had been well received by colleagues, with the afternoon sessions providing insight from Jane Grant, Chief Executive of NHS Greater Glasgow and Clyde Board, and Joyce White OBE, Chief Executive of West Dunbartonshire Council, on the challenges facing public bodies. Diane invited the Board to view the comprehensive visual representation of the day.

Diane advised of the positive feedback received so far with conversations already taking place within teams on the potential impact for Audit Scotland's work and public bodies. In addition, some of the heavily subscribed breakout sessions would be run again over the next few months.

The Board discussed audit quality and reputational risk and agreed to consider this matter further once the annual quality report was presented to the Board in June 2018.

The Board also noted that the Accounts Commission would consider a review of the first year of Best Value audit and the Board would welcome the opportunity to consider the report following discussion at the Accounts Commission.

Following discussion, the Board welcomed the opportunity to bring colleagues together to consider some of the key issues affecting the public landscape. In addition, the Board agreed that they would appreciate ongoing strategic briefings on the implications of the new financial powers and Brexit on public audit.

ASB70 Action: **A discussion on audit quality and reputational risk to be scheduled following consideration of the Annual Audit Quality report. (August 2018)**

ASB71 Action: **A review of Best Value to be scheduled for the Board once it has been reported to the Accounts Commission. (May 2018)**

ASB72 Action: **Ongoing updates on the implications for public audit in light of the new financial powers and Brexit to be scheduled, as appropriate. (May 2018)**

12. Publications schedule: January to June 2018

James Gillies, Communications Manager, and Antony Clark, Assistant Director, Performance Audit and Best Value, joined the meeting.

James Gillies introduced the Publications schedule: January to June 2018 report, which had been previously circulated.

James invited the Board to consider the schedule of reports due for publication on behalf of the Auditor General for Scotland, the Accounts Commission and Audit Scotland's corporate reporting.

Heather requested copies of several of the reports scheduled for publication and a copy of the Openness and Transparency briefing paper.

Following discussion, the Board thanked James and Antony for the report.

ASB73 Action: **Antony Clark to circulate a copy of the Openness and transparency briefing paper to members. (April 2018)**

James Gillies, Communications Manager, and Antony Clark, Assistant Director, Performance Audit and Best Value, left the meeting.

13. Any other business

There was no further business.

14. Review of meeting

The members agreed the meeting had been conducted effectively and the Chair thanked everyone for their contribution.

15. Date of Next Meeting

It was noted that the next Audit Scotland Board meeting was scheduled for 28 February 2018 in the offices of Audit Scotland, 102 West Port, Edinburgh.

16. Office accommodation

This item contains commercially sensitive information and is recorded in a confidential minute.

AUDIT SCOTLAND BOARD ACTION TRACKER 2017/18

Ref	FORUM	Agenda Item No	Item Title	Action Description	Meeting Date	Due Date	Responsible	Assigned to	Complete/Ongoing	Reported Yes/No	Progress Notes
ASB49	Board	18	Making a Difference: Public Engagement Work with Young Scot	Diane McGiffen, Chief Operating Officer, to schedule an update report in March 2018.	31/03/2017	01/03/2018	Diane McGiffen	Joy Webber	Ongoing		A verbal update will be provided at the meeting on 28 March 2018 with a report scheduled for May 2018.
ASB58	Board	18	2016/17 Annual report on international work and international strategy 2017-20	Antony Clark, Chair of International Steering Group to consider the longer term impact of international work in future reporting.	06/06/2017	01/06/2018	Antony Clark	Sarah Pollock	Ongoing		A report will be scheduled by June 2018.
ASB61	Board	9	2018/19 Draft Budget	Stuart Dennis, Corporate Finance Manager, to include an explanatory note on efficiencies into the budget proposal prior to submission. (November 2017)	25/10/2017	29/11/2017	Stuart Dennis	Stuart Dennis	Complete	Yes	An explanatory note regarding efficiencies was incorporated into the budget proposal ahead of submission to the SCPA in December 2017.
ASB64	Board	5	Accountable Officer's Report	An update report on developments within the Appointments and Assurance and Professional Support teams to be scheduled.	29/11/2017	28/03/2018	Diane McGiffen/Fiona Kordiak	Diane McGiffen/Fiona Kordiak	Ongoing		This item will be scheduled for 28 March 2018.
ASB65	Board	6	Review of minutes	Diane McGiffen, to discuss parliamentary funding with the Chair of the Accounts Commission.	29/11/2017	31/01/2018	Diane McGiffen	Diane McGiffen	Complete	Yes	The Chief Operating Officer discussed this issue with the Chair of the Accounts Commission on 24 January 2018.
ASB66	Board	10	Q2 Corporate performance report	An update on the BVAR audit days to be reported to the next meeting of the Audit Committee.	29/11/2017	14/03/2018	Martin Walker	Martin Walker	Ongoing		This action will be covered at the 14 March 2018 meeting of the Audit Committee.
ASB67	Board	10	Q2 Corporate performance report	The annual report on international work to expand on the engagement with the Canadian Comprehensive Auditing Foundation in developing the performance audit work.	29/11/2017	06/06/2018	Antony Clark	Antony Clark	Ongoing		This item is scheduled for the meeting on 6 June 2018.
ASB69	Board	12	Evaluation of Board effectiveness	A date to be scheduled for a Board development workshop.	29/11/2017	31/01/2018	Diane McGiffen	Martin Walker	Complete	No	The date of the Board development workshop has been confirmed for 28 February 2018.
ASB70	Board	11	2018 Audit Scotland staff conference update	A discussion on audit quality and reputational risk to be scheduled following consideration of the Annual Audit Quality report.	31/01/2018	22/08/2018	Diane McGiffen	Elaine Boyd	Ongoing		A report will be scheduled to come to the Board meeting on 22 August 2018.
ASB71	Board	11	2018 Audit Scotland staff conference update	A review of Best Value to be scheduled for the Board once it has been reported to the Accounts Commission.	31/01/2018	02/05/2018	Diane McGiffen	Fraser McKinlay	Ongoing		A report will be scheduled to come to the Board meeting in May 2018.
ASB72	Board	11	2018 Audit Scotland staff conference update	Ongoing updates on the implications for public audit in light of the new financial powers and Brexit to be scheduled, as appropriate.	31/01/2018	02/05/2018	Diane McGiffen	Mark Taylor	Ongoing		A report is scheduled to come to the Board meeting on 2 May 2018.
ASB73	Board	12	Publications schedule: January to June 2018	A copy of the Openness and transparency briefing paper to be circulated to members.	31/01/2018	30/04/2018	Diane McGiffen	Joy Webber	Ongoing		A copy of the briefing paper will be shared on publication in April 2018.

Q3 Financial performance report 2017/18

Corporate Finance Manager

Purpose

1. This report presents the financial results for the nine months to December 2017.

Background

2. The Management Accounts and finance report for the nine months to December 2017 is attached to this paper. 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 2017/18
- Schedule 8a   Work in Progress 2016/17 Audit Year
- Schedule 8b   Work in Progress 2017/18 Audit Year
- Schedule 9   2017/18 Financial year – fee income analysis

3. The report was discussed by Management Team on Tuesday 13 February 2018.

Discussion

4. In the nine months to December 2017, Audit Scotland's Net Operating Expenditure was £4,016k which was £205k less than budget.

5. In-house income was in total £148k higher than plan with the 2016/17 audit year generating a surplus of £198k of which £62k was volume related in respect of the improved progress on the European Agricultural Fund Audit (EAFA). Progress on 2017/18 audit work was on average 0.69% below plan leading to a negative volume variance of £51k.

6. Fee income earned for audits carried out by external firms net of fees and expenses paid to the firms was £20k better than budget. Although income was £274k higher than budget this was offset by fees and expenses payable to the external firms being £254k higher than budget. This is in recognition of additional work the firms have carried out to generate the higher income earned.

7. Staff costs including agency and secondment expenditure and net of secondment income were £169k more than budget.

8. Other expenditure contributed £251k to the favourable position. The main areas of reduced costs were recorded in training £87k, printing and office costs £43k and information technology £42k.

9. There are no matters of concern requiring discussion with the Board. Further detailed information is provided in the attached report.

Virement

10. There were no instances of budget virement in excess of £20k in the nine months to December 2017

Recommendation

11. The Board is invited to note the financial results for the 9 months to December 2017.

AUDIT SCOTLAND

Schedule 1

FINANCE REPORT

Nine Months to 31 December 2017

Headline Results

> 1. In the nine months to December 2017 Audit Scotland's Net Operating Expenditure at £4,016k was £205k less than budget.
>
> - Total income recorded in the nine months to December 2017 was £435k more than the phased budget. Fee income including central charges was £389k higher than budget. Other income of £59k was mainly due to reimbursement of staff on secondment to other organisations. Bank interest, at £6k, was £13k less than budget.
> - Expenditure was £230k more than budget. Favourable variances were recorded for own staff costs £54k, travel and subsistence £23k, legal, professional and consultancy £17k, training £87k, printing and office £43k and information technology (IT) £42k.These favourable variances were offset by increased expenditure on approved auditors £254k and agency and seconded staff £281k. Further details are provided in section 2.

The summary financial information to December 2017:

£000	Annual Budget	Actual	Budget	Var.	% Var.	Prior Year
Fee Income - In House	7,200	5,687	5,539	148	-2.7%	6,175
Fee Income - Audit Firms	4,463	3,996	3,722	274	-7.4%	4,877
Central Charges	5,505	4,096	4,129	(33)	0.8%	3,660
Interest	25	6	19	(13)	68.4%	28
Other Income	0	59	0	59	-	91
IAS 19 Income	0	0	0	0	-	0
TOTAL INCOME	**17,193**	**13,844**	**13,409**	**435**	**3.2%**	**14,831**
Approved auditors	3,952	3,526	3,272	(254)	7.8%	4,301
Staff salaries and oncosts	15,125	11,277	11,331	54	-0.5%	11,174
Payroll provisions incl. severance	0	0	0	0	-	0
Agency and secondment costs	60	341	60	(281)	468.3%	329
IAS 19 Pension costs	90	0	0	0	-	0
Property costs	930	640	645	5	-0.8%	672
Travel and subsistence	922	654	677	23	-3.4%	615
Legal, professional and consultancy	560	218	235	17	-7.2%	302
Training	528	312	399	87	-21.8%	328
Recruitment	105	93	79	(14)	17.7%	86
Printing and office costs	286	170	213	43	-20.2%	191
Information technology	436	285	327	42	-12.8%	289
Audit	60	45	45	0	0.0%	39
Depreciation	397	276	298	22	-7.4%	265
Other costs	73	23	49	26	-53.1%	43
EXPENDITURE	**23,524**	**17,860**	**17,630**	**(230)**	**1.3%**	**18,634**
NET OPERATING (EXPENDITURE)	**(6,331)**	**(4,016)**	**(4,221)**	**205**	**-4.9%**	**(3,803)**

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

a)   Income

In the nine months to December 2017 total income, including central charges was £435k higher than budget.

In-house fee income - £148k favourable variance

The phased budgets for fee income have been profiled, mainly, on the basis of actual income levels recorded during the 2016/17 financial year. As the budgets have been based on the balance of expected audit fees to be collected in the financial year, 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, the expected values included in the budget. The table below shows the performance by sector at December 2017 for the in-house audits. With the exception of the EAFA audit all 2016/17 audits have been declared 100% complete:

	2016/17 Audit Year			2017/18 Audit Year			Total
	Volume		Price	Volume		Price	
	WIP %	£	£	WIP %	£	£	£
Local Government	-	-	+47	-1.03	-44	-	+3
Health	-	-	+7	3.71	+53	-	+60
FE	-	-	+4	-4.62	-2	-	+2
Central Government	+0.01	-	+21	-1.24	-12	-	+9
Non-statutory	+8.02	+62	+57	-5.82	-46	-	+73
Total – December 17	**+0.65**	**+62**	**+136**	**-0.69**	**-51**	**-**	**+147**

Work in progress (WIP) completion percentages are compiled through access to ASG's Management Information System (MIS) which captures audit day inputs from the MKI audit working papers system. The system derived percentages are reviewed and, if required, are submitted for further review by the appropriate ASG Assistant Director or Audit Manager and, based on the returns, the audit completion percentages are adjusted to provide a more representative WIP position as at the end of December 2017.

Income earned for in-house 2016/17 audits (excluding credits for non-chargeable audits) was £198k higher than the phased budget. Audit progress for 2016/17 chargeable audits was on average 0.65% above the budget expectation. The agreement of fees above the expected level included in the budget increased income by £136k – on average agreed fees are 2.67% higher than budget levels.

We have reported, in recent months on the impact delayed payments were having on our ability to progress EAFA work. Our audit activity is based on sample testing and late payments had affected our planned progress, however, due to the efforts of the team we have now caught up and exceeded our anticipated budget, up by 8.02%. As well as a price variance of £57k we also have a favourable volume variance of £62k.

In December, an adverse variance of -£51k was also recognised in the accounts for income

earned for 2017/18 audits. A favourable variance has been recorded against the Health sector, but all other sectors are adverse, compared to budget. Local Government was 1.03% below budget, -£44k, Central Government 1.24% adverse, -£12k, FE 4.62% below budget, -£2k and EAFA 5.82% adverse, -£46k. The EAFA variance reflects, in part, the delays we have encountered with the 2016/17 audit and diverting resources into catching up with the timetable.

As we have yet to receive any information about changes to the indicative fees for 2017/18 audits the variances are all volume related at this point in time.

External audit firms fee income - £274k favourable variance

The table, below, shows the performance for approved auditors to December 2017:

	2016/17 Audit Year			2017/18 Audit Year			Total
	Volume		Price	Volume		Price	
	WIP %	£	£	WIP %	£	£	£
Local Government	0.05	+1	+197	-1.27	-34	-	+164
Health	-	-	+44	0.38	+4	+1	+48
Water	-	-	+6	-0.31	-	-1	+5
FE	-1.49	-6	+22	0.08	-	-1	+16
Central Government	-0.11	-	+18	3.97	+15	-	+33
Total – December 17	**-0.11**	**-5**	**+287**	**-0.36**	**-15**	**-1**	**+266**

Income earned in respect of 2016/17 chargeable audits undertaken by external firms was £282k more than budget – audit progress information is collected from firms on a quarterly basis and the current results reflect the returns made at 31 December 2017. The agreement of fees above the expected level included in the budget increased income by £287k – on average agreed fees are 7.16% higher than budget levels. Audit progress on average was 0.11% below that assumed in the budget, for chargeable audits, reducing income by £5k.

Prior audit year income of £8k has been recognised in October following the receipt of an agreed final fee in the FE sector relating to the 2014/15 audit year.

Income derived from the 2017/18 audit work was -£16k,-0.36%, below the budget expectation. Local Government was 1.27% adverse, -£34k, and Water and FE audits were, each, just £1k adverse. The Health and Central Government sector returns were favourable by £5k and £15k respectively.

Further fee income information

The Management Team should note that any volume variance against fee income reported for 2016/17 audits at December 2017 will be timing related. Income will move towards budget or, where higher than expected fees have been agreed, exceed budget as recognition of the balance of the 2016/17 audit fee income is made over the next months.

Schedules 8a and 8b detail the cumulative WIP completion percentages for 2016/17 and 2017/18 audits in each sector at December 2017. Schedule 9 provides an analysis of total fee income by sector, audit year and by provider (in-house and external firms).

Other income - £59k favourable variance

Other income recovered for staff seconded to other public sector organisations was £58k above budget. Further unbudgeted miscellaneous income of £1k has been received in respect of

royalties.

Interest received, at £6k, was £13k less than budget – an adverse trend that is likely to continue as interest rates paid by our bank have been radically adjusted downwards from 21 June, falling to 0.01% from 1.0%.

b) **Expenditure**

Total expenditure for the nine months to December 2017 at £17,860k was £230k more than budget.

Staff & Agency Costs - £227k adverse variance

Own staff costs in the nine months to December 2017 were £54k less than budget. The average number of staff employed in the nine months to December 2017 at 271.6 w.t.e. was 3.3 w.t.e. lower than the establishment figure of 274.9 w.t.e. The staff budget for 2017/18 assumes a 2% vacancy factor and therefore the average number of staff employed in the period was 2.2 w.t.e. more than the numbers funded in the budget. The variance has increased from the £9k favourable last month as budget for staff engaged in new financial powers work has been allocated against staffing in PABV. However, as well as increased budget, the underlying reason for the favourable variance has been lower than budgeted average actual salary costs per employee. Further information is provided in schedule 7.

Agency and secondment costs were £281k greater than budget. The largest elements of the variance relates to the secondment of two staff from other public bodies to PABV (£125k) and agency staff requirements in ASG (£123k) to meet audit workload deadlines. Agency expenditure incurred by Digital Services (£7k) and HR (£9k) relates to cover for maternity leave and a vacancy. The remaining expenditure is attributable to Business Support who required cover for a member of staff on secondment (£17k).

Total staff costs to 31 December 2017 including agency and secondment expenditure and net of secondment income were £169k higher than budget.

Approved auditors - £254k adverse variance

Fees and expenses payable to external audit firms were £254k more than budget. The fees paid to external firms were £151k greater than budget and VAT recoveries on Local Government work £37k more than budget. Expenses paid were £140k more than budget. Excluding payments made to firms for non-chargeable audits (£10k more than budget), fees paid for chargeable audits were £274k 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 £274k more than budget the fees and expenses associated with the work were also higher than budget.

Other expenditure - £251k favourable variance

Legal, professional and consultancy fees were £17k less than budget mainly as a result of reduced consultancy expenditure across all business groups.

Training costs in the nine months to December 2017 were £87k less than budget. Expenditure on training was less than budget, £29k favourable, spending on seminar/conference attendance was lower than budget (£18k). Professional trainee costs were £42k less than budget and professional subscriptions were £2k adverse.

Expenditure on printing and office costs was £42k less than budget as a result of a number of small variances across a range of cost categories the most notable of which were photography (£7k), stationery (£10k), books and periodicals (£14k) and mobile phones (£7k).

IT costs were £42k lower than budget. The primary contributors to the underspend were hardware (£10k), software licences (£6k), development (£34k) and communications (£9k).

These positive variances were offset by an adverse variance in software costs (£19k).

Travel and subsistence expenditure year to date is £23k less than budget. Car lease costs (£8k) and travel/subsistence (£21k) are both underspent. It is expected that the expenditure pattern in respect of car leases will continue. The underspend has been reduced by an overspend within relocation expenses (£6k).

At this point in the year the full year forecast indicates that many of the favourable expenditure variances will decrease as the year progresses, as the current variances reflect the timing of expenditure.

Management Contingency & Provision budgets

The 2017/18 budget included a contingency fund of £150k which is controlled by the Management Team. In setting our operational budget £52k was allocated to part fund the additional costs arising from the implementation of our new reward system. A further £22k has been committed to a project for the development of the corporate performance and business management framework and a market scan of potential digital solutions. As a result £76k remains uncommitted at the end of December 2017.

A further £114k in respect of payroll reserves is earmarked for use before 31 March 2018.Of this £100k has been allocated to cover the costs for the planning of the additional work arising from New Financial Powers (NFP) and the impact of the EU referendum. The balance, £14k, has been moved to support the quality review in AAAT and it is expected that this will be required as a part year payment to support the delivery of the quality service framework.

2.   **Balance Sheet** (See *Sch. 3*)

At 31 December 2017, net liabilities of £31,749k were recorded in the Balance Sheet. This represented a decrease in net liabilities of £784k from the audited position at 31 March 2017.

Non-current assets have reduced by £174k as result of depreciation charges on our assets being greater than new capital investment in the nine months to December 2017.

The final round of billing for the 2016/17 audits took place in September with the majority of invoices being paid in October. However, a new round of billing for the first instalment of the 2017/18 audits tool place in December and trade and other receivables have increased by £4,617k from the position at 31 March 2017. The cash balance has increased by £201k with monies being received in from our September billing and a drawdown of £5,000k from the Consolidated Fund.

Trade and other payables increased by £3,599k primarily due deferred income, £1,750k, as a result of the billing run and the deferred element of the central charges, £1,297k. The cash balance payable to the Consolidated Fund increasing by £201k.

Deferred liabilities increased by £209k due to the continuing build up of the rent free provision for the new Edinburgh office. This provision is being created over the first 39 months of the lease. The provision for early retirement has reduced by £150k following payments made for BSS voluntary redundancy departures and monthly payments made for early retirements of former Accounts Commission and Local Government Ombudsman staff.

3.   **Cash Flow Statement** (See *Sch. 4*)

In the nine months to December 2017 cash balances have increased by £201k from £1,450k at March 2017 to £1,651k at December 2017. The position includes receipts from fee invoicing and £5,000k drawn down from the Scottish Consolidated Fund.

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

Capital investment in the nine months to December 2017 was £103k. Expenditure to date on the Glasgow office refurbishment was £97k and £6k has been spent on additional RSA security tokens and software to trial mobile capture of expenses.

Current projections for capital investment projects indicate that the allocation of £200k will be spent in full by 31st March 2018.

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

5.1   **Audit Services Group - net operating contribution of £373k, £49k less than budget**

- Fee income (including credits for non-chargeable work) was £90k higher than budget. Adverse variances were recorded for Central Government non-chargeable, -£58k, with all other sectors showing positive variances: Local Government £3k, NHS £60k, Central Government Chargeable £9k, Non-statutory audits £73k and FE £2k. On average total WIP was just over 1.00% more than assumed in the budget. With the budget phased broadly in line with actual experiences last year and WIP calculated on time recorded through MKI, this reported variance is split between the two audit years. 2016/17 is essentially complete, with only the EAFA audit outstanding. The 2017/18 audit year returns, as fees have yet to be agreed with the client bodies, is volume related and, as such, a timing difference. The agreement of fees above the expected level included in the budget increased income and income credits by £138k. Further details on income are provided in section 2, above, and schedules 8 and 9.

- Income earned from secondments was £27k above budget and related to a member of staff seconded on a part-time basis to ICAS. This secondment has now been completed.

- Own staff costs were £83k more than budget. The average number of staff employed in the nine months to December 2017 at 146.9 w.t.e. was 1.8 w.t.e. above establishment. As the staff budget for 2017/18 assumed a 2% vacancy factor, the average number of staff employed in the period was 4.7 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. Agency expenditure was £122k more than budget. Total staff costs including agency and net of secondment income were £178k more than budget.

- Expenditure levels in other categories were £39k less than budget mainly as a result of lower travel, subsistence costs £39k.

5.2   **PABV - net expenditure £2,715k, £90k less than budget**

- Total staff costs inclusive of secondment charges and net of secondment income were £68k less than budget. Two staff seconded into PABV from West Lothian Council and Scotland's Rural College increased expenditure by £125k. This expenditure was offset by lower own staff costs which were £183k less than budget (average staffing in the year was 57.8 w.t.e. compared to an establishment of 61.8 w.t.e.).

- £10k of income was received for a member of staff seconded to the Scottish Parliament in the first quarter of the financial year.

- Other expenditure in the nine months to December 2017 was £22k less than budget – mainly attributable to consultancy expenditure.

5.3   **Corporate Services - net expenditure £2,477k, £82k less than budget**

- Own staff costs were £72k higher than budget for the period. CSG staffing at 33.3 w.t.e. was 1.5 w.t.e. above establishment, with the majority of the adverse cost variance being driven by the 2% vacancy factor. Agency staff expenditure as a result of backfilling staff

on maternity/paternity leave was £16k more than budget.

- Other expenditure for Corporate Services was £181k less than budget. The main contributors to this variance were training & recruitment £67k, ICT costs £43k, consultancy £19k, and depreciation charges £22k.

- Bank interest earned in the year was £12k less than budget due to interest rates paid by the bank on deposits reducing significantly since the budget was set.

5.4   **Business Support and Facilities Management - net expenditure £1,159k, £70k lower than budget**

- Staff costs, including agency charges, were £35k lower than budget. The average number of staff employed in the year was 19.7 w.t.e., 2.5 w.t.e. below establishment. Four supernumerary members of staff have left on voluntary redundancy terms in the nine months to December 2017.

- £21k of income has been received for a member of staff seconded to Queen Margaret University.

- Other expenditure at £667k was £14k less than budget as a result of a number of small variances.

Stuart Dennis
Corporate Finance Manager
25 January 2018

AUDIT SCOTLAND

FINANCE REPORT

RESULTS SUMMARY: 31 December 2017   Schedule 2

£(000)'s	Annual	Actual	Period	Variance	Actual	Budget	Variance
INCOME							
Fee Income - In House	7,200	462	385	77	5,687	5,539	148
Fee Income - Audit Firms	4,463	767	713	54	3,996	3,722	274
Central Charges	5,505	442	459	(17)	4,096	4,129	(33)
Rebate	0	0	0	0	0	0	0
Bank interest	25	0	2	(2)	6	19	(13)
Other Income	0	0	0	0	59	0	59
TOTAL INCOME	**17,193**	**1,671**	**1,559**	**112**	**13,844**	**13,409**	**435**
EXPENDITURE							
Commission	177	16	14	(2)	118	128	10
Board	31	3	3	0	23	24	1
Auditor General	233	19	19	0	171	174	3
Accounts Commission Secretary	97	8	8	0	71	72	1
Management Team	623	78	52	(26)	491	466	(25)
Audit Strategy	697	54	51	(3)	508	486	(22)
Approved Auditors	3,952	601	546	(55)	3,526	3,272	(254)
Audit Services Group	8,483	731	712	(19)	6,530	6,364	(166)
Performance Audit and Best Value	3,857	316	384	68	2,725	2,805	80
Corporate Services	3,441	262	337	75	2,485	2,578	93
Business Support & Facilities	1,640	127	137	10	1,180	1,229	49
Reserves & Provisions	217	4	4	0	32	32	0
Contingency & EYF	76	0	0	0	0	0	0
TOTAL EXPENDITURE	**23,524**	**2,219**	**2,267**	**48**	**17,860**	**17,630**	**(230)**
NET OPERATING (EXPENDITURE)	**(6,331)**	**(548)**	**(708)**	**160**	**(4,016)**	**(4,221)**	**205**
SCPA agreed Budget	(6,331)						
Budget Revision - AME pension adjustment							
	(6,331)						

AUDIT SCOTLAND
FINANCE REPORT

Balance Sheet
As at 31 December 2017

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Schedule 3

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	31 March 2017 (Audited) £(000)'s	31 Dec 2017 £(000)'s
Non-Current Assets		
Property, Plant and Equipment	1,553	1,395
Intangible Assets	90	74
Total non-current assets	**1,643**	**1,469**
Current Assets		
Trade and other receivables	2,315	6,932
Cash and cash equivalents	1,450	1,651
Total current assets	**3,765**	**8,583**
Total assets	**5,408**	**10,052**
Less: **Current Liabilities**		
Trade and other payables < 1 year	3,624	7,424
Provision for early retirement < 1 year	254	104
Other provisions < 1 year	0	0
Total current liabilities	**3,878**	**7,528**
Non-current assets plus/net current assets/liabilities	**1,530**	**2,524**
Non-current liabilities		
Deferred liabilities	(545)	(754)
Provision for Early Retirement	(1,903)	(1,903)
Other provisions	(150)	(151)
Net Funded Pension Liabilities	(31,465)	(31,465)
Total non-current liabilities	**(34,063)**	**(34,273)**
ASSETS LESS LIABILITIES	**(32,533)**	**(31,749)**
Represented by:		
Taxpayers' Equity		
Net funded pension liabilities	31,465	31,465
General Fund	1,068	284
	32,533	**31,749**

AUDIT SCOTLAND

FINANCE REPORT

Cash Flow Statement
to 31 December 2017

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Schedule 4

£(000)'s

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	£(000)'s
Cashflows from operating activites	
Net Operating expenditure	(4,016)
Adjustment for non cash items:	
- Depreciation	276
- Other non-cash items	2
(Increase)/Decrease in trade and other receivables	(4,617)
(Decrease)/Increase in trade/other payables/deferred liabilities	3,808
(Decrease)/Increase in provisions for early retirement	(150)
(Decrease)/Increase in other provisions	1
Net cash outflow from operating activities	**(4,696)**
Cashflows from investing activities	
Purchase of property, plant and equipment	(99)
Purchase of intangible assets	(4)
Less / (add) movement in accrued expenditure	
	(103)
Cashflows from financing activities	
From Consolidated Fund (supply)	5,000
Net increase / (decrease) in cash and cash equivalents in the period	**201**
Cash and cash equivalents at the beginning of the period	**1,450**
Cash and cash equivalents at the end of the period	**1,651**
Net cash requirement	
Cashflows from financing activites	5,000
(Increase)/ decrease in cash	(201)
	4,799

AUDIT SCOTLAND
FINANCE REPORT

Capital Expenditure and Funding Report
As at 31 December 2017

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 2017	**1,276**	**271**	**909**	**798**	**3,254**
Reclassified in year	0	0	0	0	0
Additions for year	63	34	2	4	103
Disposals for year	0	0	(4)	0	(4)
As at 31 December 2017	**1,339**	**305**	**907**	**802**	**3,353**
Depreciation					
At 1 April 2017	**263**	**85**	**555**	**708**	**1,611**
Reclassified in year	0	0	0	0	0
Charge for Year	102	42	111	20	275
Disposals for year	0	0	(2)	0	(2)
As at 31 December 2017	**365**	**127**	**664**	**728**	**1,884**
Net Book Value					
As at 31 December 2017	**974**	**178**	**243**	**74**	**1,469**
Analysis of Asset Financing					
Owned	974	178	243	74	1,469

AUDIT SCOTLAND

FINANCE REPORT

ASG FINANCE REPORT: to 31 December 2017   **Schedule 6a**

£(000)'s	Annual Budget	Period	Period Budget	Variance	YTD	Budget YTD	Variance YTD
INCOME							
LG Audits	4,136	197	236	(39)	3,295	3,292	3
Health Audits	1,271	69	28	41	1,092	1,032	60
CG Audits	1,033	11	42	(31)	649	640	9
Non-statutory	717	185	80	105	618	545	73
CG Audits (non-chargeable)	1,933	80	88	(8)	1,189	1,247	(58)
FE Audits	43	0	(1)	1	32	30	2
Fees for Additional Audits	0	0	0	0	1	0	1
TOTAL FEE INCOME	**9,133**	**542**	**473**	**69**	**6,876**	**6,786**	**90**
Secondments Income	0	0	0	0	27	0	27
Other Income	0	0	0	0	0	0	0
OTHER INCOME	**0**	**0**	**0**	**0**	**27**	**0**	**27**
TOTAL INCOME	**9,133**	**542**	**473**	**69**	**6,903**	**6,786**	**117**
DIRECT COSTS							
Salaries	5,836	495	486	(9)	4,432	4,377	(55)
National Insurance	640	54	53	(1)	484	480	(4)
Superannuation	998	85	83	(2)	762	749	(13)
Superannuation Lump Sum	40	3	3	0	30	30	0
Class 1A NI	43	4	4	0	43	32	(11)
Agency Costs and Secondments	60	11	0	(11)	182	60	(122)
TOTAL DIRECT COSTS	**7,617**	**652**	**629**	**(23)**	**5,933**	**5,728**	**(205)**
EXPENDITURE							
Training & Recruitment	41	15	10	(5)	28	26	(2)
Cars	362	35	31	(4)	272	269	(3)
Travel & Subsistence/Relocation	413	26	34	8	265	304	39
Accommodation	0	0	0	0	8	0	(8)
Other Accommodation Costs	6	0	1	1	8	4	(4)
Printing	2	0	0	0	1	1	0
Communications	0	0	0	0	0	0	0
Stationery & Consumables	4	0	0	0	1	3	2
Postage & Distribution	3	0	0	0	1	2	1
ICT	16	2	4	2	7	12	5
Consultancy	6	0	1	1	0	5	5
Legal/Professional Fees	0	0	0	0	0	0	0
Insurance	0	0	0	0	0	0	0
Corporate Costs	8	0	1	1	4	6	2
Depreciation	0	0	0	0	0	0	0
Miscellaneous	5	1	1	0	2	4	2
TOTAL EXPENDITURE	**866**	**79**	**83**	**4**	**597**	**636**	**39**
GROSS EXPENDITURE	**8,483**	**731**	**712**	**(19)**	**6,530**	**6,364**	**(166)**
NET OPERATING CONTRIBUTION TO OVERHEADS	**650**	**(189)**	**(239)**	**50**	**373**	**422**	**(49)**

AUDIT SCOTLAND

FINANCE REPORT

PABV FINANCE REPORT: to 31 December 2017

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	0	0	0	10	0	10
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**	**10**	**0**	**10**
TOTAL INCOME	**0**	**0**	**0**	**0**	**10**	**0**	**10**
DIRECT COSTS							
Salaries	2,730	220	276	56	1,902	2,044	142
National Insurance	306	24	31	7	208	229	21
Superannuation	472	39	47	8	332	353	21
Superannuation Lump Sum	18	2	2	0	14	14	0
Class 1A NI	4	0	0	0	4	3	(1)
Agency Costs and Secondments	0	14	0	(14)	125	0	(125)
TOTAL DIRECT COSTS	**3,530**	**299**	**356**	**57**	**2,585**	**2,643**	**58**
EXPENDITURE							
Training & Recruitment	0	0	0	0	3	0	(3)
Cars	32	2	3	1	15	24	9
Travel & Subsistence/Relocation	66	10	5	(5)	50	47	(3)
Accommodation	0	0	0	0	0	0	0
Other Accommodation Costs	2	(1)	0	1	2	2	0
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	4	1	1	0	3	3	0
Consultancy	210	3	18	15	51	77	26
Legal/Professional Fees	0	0	0	0	3	0	(3)
Insurance	0	0	0	0	0	0	0
Corporate Costs	10	1	1	0	12	7	(5)
Depreciation	0	0	0	0	0	0	0
Miscellaneous	0	1	0	(1)	1	0	(1)
TOTAL EXPENDITURE	**327**	**17**	**28**	**11**	**140**	**162**	**22**
GROSS EXPENDITURE	**3,857**	**316**	**384**	**68**	**2,725**	**2,805**	**80**
NET OPERATING (EXPENDITURE)	**(3,857)**	**(316)**	**(384)**	**68**	**(2,715)**	**(2,805)**	**90**

AUDIT SCOTLAND
FINANCE REPORT

CSG FINANCE REPORT: to 31 December 2017   **Schedule 6c**

£(000)'s	Annual Budget	Period	Period Budget	Variance	YTD	Budget YTD	Variance YTD
INCOME							
Bank Interest	25	0	2	(2)	7	19	(12)
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**	**0**	**2**	**(2)**	**8**	**19**	**(11)**
TOTAL INCOME	**25**	**0**	**2**	**(2)**	**8**	**19**	**(11)**
DIRECT COSTS							
Salaries	1,262	113	105	(8)	1,001	946	(55)
National Insurance	136	12	11	(1)	108	102	(6)
Superannuation	216	19	18	(1)	173	162	(11)
Superannuation Lump Sum	9	1	1	0	6	6	0
Class 1A NI	0	0	0	0	0	0	0
Agency Costs and Secondments	0	0	0	0	16	0	(16)
TOTAL DIRECT COSTS	**1,623**	**145**	**135**	**(10)**	**1,304**	**1,216**	**(88)**
EXPENDITURE							
Training & Recruitment	534	21	91	70	343	410	67
Cars	0	0	0	0	0	0	0
Travel & Subsistence/Relocation	25	3	2	(1)	19	18	(1)
Accommodation	0	0	0	0	0	0	0
Other Accommodation Costs	17	0	2	2	9	13	4
Printing	8	1	1	0	6	6	0
Communications	80	4	7	3	48	60	12
Stationery & Consumables	1	0	0	0	0	1	1
Postage & Distribution	4	0	0	0	1	3	2
ICT	439	29	37	8	286	329	43
Consultancy	87	9	10	1	36	55	19
Legal/Professional Fees	107	9	9	0	84	80	(4)
Insurance	70	6	6	0	54	52	(2)
Corporate Costs	10	3	1	(2)	10	8	(2)
Depreciation	397	32	33	1	276	298	22
Miscellaneous	39	0	3	3	9	29	20
TOTAL EXPENDITURE	**1,818**	**117**	**202**	**85**	**1,181**	**1,362**	**181**
GROSS EXPENDITURE	**3,441**	**262**	**337**	**75**	**2,485**	**2,578**	**93**
NET OPERATING (EXPENDITURE)	**(3,416)**	**(262)**	**(335)**	**73**	**(2,477)**	**(2,559)**	**82**

AUDIT SCOTLAND
FINANCE REPORT

BSS & FM FINANCE REPORT: to 30 November 2017   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	21	0	21
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**	**21**	**0**	**21**
TOTAL INCOME	**0**	**0**	**0**	**0**	**21**	**0**	**21**
DIRECT COSTS							
Salaries	572	40	48	8	394	429	35
National Insurance	54	4	5	1	36	40	4
Superannuation	99	6	8	2	63	75	12
Superannuation Lump Sum	4	0	0	0	3	3	0
Class 1A NI	1	0	0	0	0	1	1
Agency Costs and Secondments	0	1	0	(1)	17	0	(17)
TOTAL DIRECT COSTS	**730**	**51**	**61**	**10**	**513**	**548**	**35**
EXPENDITURE							
Training & Recruitment	0	0	0	0	0	0	0
Cars	4	0	0	0	0	3	3
Travel & Subsistence/Relocation	6	1	1	0	7	4	(3)
Accommodation	799	63	67	4	590	598	8
Other Accommodation Costs	29	2	3	1	19	22	3
Printing	24	4	2	(2)	21	18	(3)
Communications	0	0	0	0	0	0	0
Stationery & Consumables	29	3	2	(1)	12	22	10
Postage & Distribution	12	1	1	0	7	9	2
ICT	1	0	0	0	1	1	0
Consultancy	0	0	0	0	0	0	0
Legal/Professional Fees	0	1	0	(1)	1	0	(1)
Insurance	5	1	0	(1)	6	4	(2)
Corporate Costs	0	0	0	0	3	0	(3)
Depreciation	0	0	0	0	0	0	0
Miscellaneous	1	0	0	0	0	0	0
TOTAL EXPENDITURE	**910**	**76**	**76**	**0**	**667**	**681**	**14**
GROSS EXPENDITURE	**1,640**	**127**	**137**	**10**	**1,180**	**1,229**	**49**
NET OPERATING (EXPENDITURE)	**(1,640)**	**(127)**	**(137)**	**10**	**(1,159)**	**(1,229)**	**70**

AUDIT SCOTLAND
FINANCE REPORT

WTE Staff in Post Summary: 2017/18   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	8.0	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9				7.9
Audit Services Group	145.1	143.8	144.2	146.2	145.0	145.0	143.0	154.0	150.6	150.7				146.9
Performance Audit and Best Value	61.8	57.6	56.6	57.6	57.6	55.6	53.0	60.7	60.7	60.9				57.8
Finance	4.6	4.6	4.6	4.6	4.6	5.6	5.6	4.6	4.6	4.6				4.8
Human Resources	5.4	5.4	5.4	6.4	6.4	6.4	7.2	7.2	6.2	7.2				6.4
Digital Services	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0				9.0
Communications	9.8	9.8	9.8	9.8	8.8	9.8	9.8	10.8	10.8	10.8				10.0
Corporate Planning & Projects	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0				3.0
Corporate Services	31.8	31.8	31.8	32.8	31.8	33.8	34.6	34.6	33.6	34.6	0.0	0.0	0.0	33.3
Business Support & Facilities	22.2	22.6	21.6	19.7	19.6	19.6	18.8	19.0	19.0	17.3				19.7
TOTAL AUDIT SCOTLAND (Exc Commission)	274.9	269.8	268.1	270.3	267.9	267.9	263.3	282.1	277.7	277.4	0.0	0.0	0.0	271.6
%age of Establishment	100.0%	98.1%	97.5%	98.3%	97.5%	97.5%	95.8%	102.6%	101.0%	100.9%				98.8%
Board	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0				3.0
Commission	12.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0				11.0
TOTAL	289.9	283.8	282.1	284.3	281.9	281.9	277.3	296.1	291.7	291.4	0.0	0.0	0.0	285.6
Agency and Secondments (w.t.e.)														
Agency estimate		1.2	0.3	1.8	11.5	15.6	8.6	7.6	3.9	3.2				6.0
Secondments to Audit Scotland		2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0				2.0
Secondments from Audit Scotland		-2.6	-2.6	-2.6	-1.6	-1.6	-1.6	-1.6	-1.3	-1.0				-1.8
		0.6	-0.3	1.2	11.9	16.0	9.0	8.0	4.6	4.2	0.0	0.0	0.0	6.1

AUDIT SCOTLAND
FINANCE REPORT

WORK IN PROGRESS 2016/17 AUDIT YEAR   **SCHEDULE 8a**

AUDIT COMPLETION PERCENTAGES

	15/16 AY	2016/17 Audit Year			
	ACTUAL	ACTUALS		BUDGET	VARIANCE
	December 2016 %	March 2017 %	December 2017 %	December 2017 %	December 2017 %
In House Teams					
Local Government	100.00	31.72	100.00	100.00	0.00
Health	100.00	38.52	100.00	100.00	0.00
FE colleges	100.00	35.00	100.00	100.00	0.00
Central Government	100.00	42.69	100.00	99.99	0.01
Non-statutory	83.05	15.92	80.15	72.13	8.02
Total Chargeable	**98.30**	**32.78**	**97.78**	**97.13**	**0.65**
Non Chargeable	100.00	28.06	100.00	99.95	0.05
Total In House	**98.64**	**32.02**	**98.13**	**97.59**	**0.55**
Approved Auditors *					
Local Government	100.00	24.64	100.00	99.95	0.05
Health	100.00	26.48	100.00	100.00	0.00
Water	100.00	40.00	100.00	100.00	0.00
FE colleges	98.51	3.76	98.51	100.00	-1.49
Central Government	100.00	24.68	100.00	100.11	-0.11
Total Chargeable	**92.62**	**23.72**	**99.87**	**99.98**	**-0.11**
Non Chargeable	100.00	22.47	100.00	100.00	0.00
Total Approved Auditors	**94.87**	**23.66**	**99.88**	**99.98**	**-0.11**
* To be reported quarterly					

AUDIT SCOTLAND
FINANCE REPORT

WORK IN PROGRESS 2017/18 AUDIT YEAR   **SCHEDULE 8b**

AUDIT COMPLETION PERCENTAGES

	2017/18 AUDIT YEAR			
	16/17 AY	Cumulative		
	ACTUAL December 2016 %	ACTUAL December 2017 %	BUDGET December 2017 %	VARIANCE December 2017 %
In House Teams				
Local Government	11.56	10.01	11.04	-1.03
Health	16.50	16.18	12.47	3.71
FE colleges	22.67	0.00	4.62	-4.62
Central Government	15.94	8.09	9.33	-1.24
Non-Statutory	1.94	9.41	15.23	-5.82
Total Chargeable	**12.15**	**10.81**	**11.50**	**-0.69**
Non Chargeable	6.11	11.47	16.01	-4.54
Total In House	**11.17**	**10.91**	**12.23**	**-1.32**
Approved Auditors *				
Local Government	7.31	5.89	7.16	-1.27
Health	9.69	9.14	8.76	0.38
Water	20.00	20.00	20.31	-0.31
FE colleges	0.46	0.08	0.00	0.08
Central Government	6.49	9.29	5.32	3.97
Total Chargeable	**7.44**	**6.77**	**7.13**	**-0.36**
Non Chargeable	6.33	5.05	5.99	-0.94
Total Approved Auditors	**7.38**	**6.68**	**7.08**	**-0.40**
* to be reported quarterly				

AUDIT SCOTLAND
FINANCE REPORT

2017/18 FINANCIAL YEAR - FEE INCOME ANALYSIS £000
As at 31 December 2017

	Prior year adjustments			2016/17 Audit Year			2017/18 Audit Year			2017/18 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	0	0	0	2,869	2,822	47	426	470	(44)	3,295	3,292	3	(45)	48	3
Health	0	0	0	864	857	7	228	175	53	1,092	1,032	60	53	7	60
Central Government	1	0	1	571	550	21	78	90	(12)	650	640	10	(12)	22	10
Non-statutory	0	0	0	544	425	119	74	120	(46)	618	545	73	16	57	73
FE colleges	0	0	0	32	28	4	0	2	(2)	32	30	2	(2)	4	2
Total In-house teams	**1**	**0**	**1**	**4,880**	**4,682**	**198**	**806**	**857**	**(51)**	**5,687**	**5,539**	**148**	**10**	**138**	**148**
Approved Auditors															
Local Government	0	0	0	2,159	1,961	198	158	192	(34)	2,317	2,153	164	(33)	197	164
Health	0	0	0	749	705	44	89	84	5	838	789	49	4	45	49
Central Government	0	0	0	292	274	18	35	20	15	327	294	33	15	18	33
FE colleges	8	0	8	391	375	16	0	1	(1)	399	376	23	(10)	33	23
Water	0	0	0	88	82	6	27	28	(1)	115	110	5	0	5	5
Total Approved Auditors	**8**	**0**	**8**	**3,679**	**3,397**	**282**	**309**	**325**	**(16)**	**3,996**	**3,722**	**274**	**(24)**	**298**	**274**
Total															
Local Government	0	0	0	5,028	4,783	245	584	662	(78)	5,612	5,445	167	(78)	245	167
Health	0	0	0	1,613	1,562	51	317	259	58	1,930	1,821	109	57	52	109
Central Government	1	0	1	863	824	39	113	110	3	977	934	43	3	40	43
Non-statutory	0	0	0	544	425	119	74	120	(46)	618	545	73	16	57	73
FE colleges	8	0	8	423	403	20	0	3	(3)	431	406	25	(12)	37	25
Water	0	0	0	88	82	6	27	28	(1)	115	110	5	0	5	5
Total Fees	**9**	**0**	**9**	**8,559**	**8,079**	**480**	**1,115**	**1,182**	**(67)**	**9,683**	**9,261**	**422**	**(14)**	**436**	**422**
Central Charges	0	0	0	4,096	4,129	(33)	0	0	0	4,096	4,129	(33)	0	(33)	(33)
TOTAL	**9**	**0**	**9**	**12,655**	**12,208**	**447**	**1,115**	**1,182**	**(67)**	**13,779**	**13,390**	**389**	**(14)**	**403**	**389**

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

Purpose

1. This report provides the Board with an overview of Audit Scotland's performance during quarter three of 2017/18.

Background

2. Performance reports are considered by the Management Team and the Board on a quarterly basis alongside the quarterly financial performance report and Becoming World Class improvement programme update. Management Team considered the quarter two report at its meeting on 14 November 2017. The report was then considered by the Board at its meeting on 29 November 2017. This report was considered by Management Team at its meeting on 13 February 2018.

3. The performance information is structured around the three strategic objectives of Securing World Class Audit, Making a Difference and Building a Better Organisation.

    - Appendix 1 (pages 3 – 5) provides a one page summary of performance for each strategic objective.

    - Appendix 2 provides the detailed performance information.

Q3 performance summary

4. The Q3 report demonstrates strong performance over all. Performance headlines include:

    - Securing World Class Audit - we are conducting relevant, timely and high quality audits:

        - 12 performance/overview/ BV/statutory/HB reports published

        - 30 CG annual audits delivered to schedule

        - 20 FE annual audits delivered to schedule

        - Contract awarded for external quality reviews in Q3.

    - Making a Difference - we are getting our messages out effectively and delivering new and improved products:

        - Substantial parliamentary, mainstream media and social media interest in reports, in particular the statutory report on SPA.

        - The Local Government and Communities Committee considered our evidence from the Local Government Financial Overview report as part of the scrutiny process on the draft Scottish Budget.

- Building a Better Organisation - we are managing our workforce effectively and investing in learning and development. Financial planning and budget management are effective:

  – Staff complement (w.t.e): 101% of 274.9 establishment at the end of the quarter (96% of 274.9 in Q2). 16 professional trainees started in Q3.

  – Best Companies Survey results - highest overall score to date and 'ones to watch' status maintained, improvement in seven of the eight groupings

  – absence rate of 1.07%

  – net operating costs, staff costs, property costs and travel and subsistence costs are below budget.

Recommendations

5. The Board is invited to review the Q3 performance report and consider whether any additional management attention is required.

Summary of 2017-18 Q3 performance

SECURING WORLD CLASS AUDIT	Our objective is to ensure that public audit in Scotland applies the highest professional and ethical standards, is efficient, proportionate and risk based. Audit work should be informed by an excellent understanding of the strategic and operational context and respond effectively to changing circumstances and emerging issues. We must report clearly and authoritatively and follow the public pound wherever it is spent. Audit must promote transparency, accountability and Best Value.

Headline: During quarter three we conducted relevant, timely and high quality audits.

Objectives	2016-17				2017-18				Actions
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
We conduct relevant and timely audits and report in public.	G	G	G	G	G	G	G		
We make clear and relevant recommendations for improvement	A	A	G	G	G	G	G		
Audits are of high quality	G	G	G	G	G	G	G		Quality assurance reporting – April /May 2018, client/firms/staff survey – May/June, Annual Quality Report – June
We systematically improve the quality of our work	G	G	G	G	G	G	G		Implementation of the new Audit Quality Framework.

Key performance indicators

Annual Audit

- 30 Central government Audits delivered in Q3 (15 Audit Scotland 15 Firms).
- 20 FE Audits delivered in Q3 (2 Audit Scotland 18 Firms).

Performance/ best value/ overviews/housing benefit/Section 22

- Twelve reports published in Q3 including: one performance audit, three BVAR, two overviews, one BV follow up, two HB and three S22 reports. One BVAR (Orkney) was published in December (Q3) having originally been scheduled for January (Q4).

On time in Q3

- We planned 69 audits and reports and delivered 64.
- One FE audit was rescheduled to Q4, this remains within the statutory deadline of 30 April 2018.

On budget

- Expenditure on annual audits was £12,058,940 in Q3 (2.17% above budget).
- BVAR audits delivered over budget in terms of input days.

Quality

- External quality assurance tender was awarded to ICAS who are due to commence work in Q4.
- ASG Audit Guide updated and issued in October 2017 with awareness sessions taking place during Q4.

Our objective is to maximise the difference our audit work makes to public services in Scotland.

Headline: We get our messages out effectively and there is evidence of recommendations leading to improvements.

Objectives	2016-17				2017-18				Actions
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
We get our messages out effectively	G	G	G	G	G	G	G		
We systematically deliver impact through our work	G	G	G	G	G	G	G		Further quantitative measures to be developed to supplement qualitative assessments.
We offer insight and foresight through our audit work					Y	Y	Y		This will be priority in the next Corporate Plan and we will develop a more comprehensive assessment framework to measure this objective more effectively.
We develop new and improved processes, products and services	G	G	G	G	G	G	G		

Key performance indicators

- The NHS Scotland overview, Scottish Police Authority S22, local government financial overview and the BVAR East Renfrewshire reports were responsible for most this quarter's media coverage and downloads.
- We attended eight meetings of the Public Audit and Post-Legislative Scrutiny Committee meetings and one Scottish Commission for Public Audit (SCPA). The Local Government and Communities Committee considered our evidence from the Local Government Financial Overview report as part of the scrutiny process on the draft Scottish Budget.
- We have presented to a wide range of forums on reports and hosted/ participated in round table events.
- 88 percent of correspondence responses issued within 30 days (87% in 2016/17). The remaining 12 percent are ongoing and expected to be delivered on time.

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

Headline: We manage our workforce effectively and invest in learning and development.

Objectives	2016-17				2017-18				Actions
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
We manage our resources effectively	G	G	G	G	G	G	G		
We maximise our efficiency					G	G	G		Efficiency report to Audit Committee September 2017 and 2017/18 efficiency review programme in place.
We manage information and intelligence effectively (internal)	A	A	A	A	A	A	A		Digital Audit Strategy implementation and review of performance management framework under-way.
We empower and support our people to be engaged, highly skilled and perform well	A	A	A	A	A	A	A		Implementation of BaBO, including new role profiles, career development gates, time place and travel, review of 3D and developing a new approach to professional leadership. Annual Best Companies Survey review in business groups. People themed management team session considering workforce planning, capacity, career development, learning and development and succession planning 27 February 2018.

Key performance indicators

People

- Best Companies Survey results - highest overall score to date and 'ones to watch' status maintained, improvement in seven of the eight groupings.
- Staff complement (w.t.e): 101% of 274.9 establishment at the end of the quarter (96% of 274.9 in Q2). 16 professional trainees started in Q3.
- Absence rate: 1.07% (1.27% in Q3 2016/17).
- Resignations: 5.32ytd% (4.16% in 2016).
- L&D events: 39 in-house events covering 503 places.
- Exams: 15 exams with 87% pass rate for professional trainees.
- Career progression: Three CDG applications received in Q3.

Resources

- Net operating cost: £205 k less than budget – variance of 4.9% of net operating expenditure budget.
- Staff costs: £54 k less than budget.
- Capital investment: £103k (ytd) including investment in new furniture and fittings and New RSA security tokens.
- Property costs: £5 k less than budget – variance of 0.8% on budget.
- Travel and subsistence expenditure: £23k less than budget – variance of 3.4%.

We conduct relevant and timely audits and report in public

Key Performance Questions	RAG				Actions
	Q1	Q2	Q3	Q4	
Are relevant audits being delivered?	G	G	G		
Are audits delivered on time?	G	G	G		Review of new approach to auditing BV will consider time and budget planning.
Are audits delivered on budget?	G	G	G		Review of new approach to auditing BV will consider time and budget planning.

Relevant/ timely/ in public

In Q3 we planned 69 audits and reports delivering 64.

All of the Central Government reports met the 31 December 2017 statutory deadline for laying in Parliament. Three Audit Scotland annual reports were delivered later than scheduled these include Non-domestic rates, Scottish Police Authority and Tayside Community Justice Authority. The Non domestic rate and Scottish Police authority were subject to S22 reports and the Tayside CJA was due to the last minute changes provided by the client.

Six of the Firms Annual reports were delivered later than scheduled including : Commissioner for Children and Young People in Scotland, Lothian & Borders Community Justice Authority, Scottish Human Rights Commission , Scottish Social Services Council , South west Scotland Community Justice Authority , Scottish Fire and Rescue Service.

The City of Glasgow college annual audit report was rescheduled to Q4 as agreed with Scottish Funding Council with a revised deadline of 31 January 2018.

As a result of a review of the risk matrix and updated DWP performance data the HB City of Edinburgh report is no longer required and the Shetland HB is rescheduled to Q1 2017/18.

Three reports scheduled for Q2 being delivered in Q3 and one report Orkney BVAR being brought forward from Q4.

On budget

The overall picture is that audit costs are 2.17% above budget up to end of Q3, this is within the 5% tolerance limit.

2017/18	Budget	Actual	£ Variance	% Variance
ASG	£9,984,939	£10,178,494	£193,555	1.94%
PABV	£1,817,407	£1,880,446	£63,039	3.47%
Total	£11,802,346	£12,058,940	£256,594	2.17%

Key: ✓ = delivered, (QX) = rescheduled to (from quarter identified in the brackets).   The planned outputs make provision for a number of statutory reports.

	Q1	Q2	Q3	Q4
Annual Audit Plans – AS (126)	✓2 FE			10 NHS 65 LG 49 CG
Annual Audit Plans – Firms (126)	✓19 FE			13 NHS 40 LG 28 CG
Audit – Audit Scotland (126)	✓10 NHS ✓ 5 CG	✓64 LG ✓27 CG	✓1 LG (Q2) ✓2 FE ✓15 CG	1 CG
Audit – Firms (100)	✓13 NHS ✓ 3 CG	✓39 LG ✓11 CG	✓1 LG(Q2) ✓18 FE ✓15 CG	1 FE(Q3)
Performance Audit (8)	✓CAP Futures update	✓NHS Workforce ✓Self Directed Support 2 ✓Equal Pay	✓Transport Scotland's Ferry services	Early learning and childcare Implementing the Scotland Act Scottish Fire and Rescue Service (Q1 18/19)
Best Value Assurance Report (6)	✓Inverclyde	✓Renfrewshire	✓East Renfrewshire ✓West Lothian ✓Orkney (Q4)	Clackmannanshire
Best Value follow up (2)			✓East Dunbartonshire	Falkirk
Overview Report (4)	✓Scotland's Colleges 2017		✓NHS in Scotland 2017 ✓Local government: a financial overview 2016/17	Local government: performance and challenges
Housing benefit (9)	✓Stirling ✓East Dunbartonshire ✓HB Annual report	✓ Scottish Borders X Moray(Q3)	✓ Moray(Q2) ✓ Eilean Siar X Shetland Islands (Q1 18/19)	West Dunbartonshire X City of Edinburgh*

Statutory (12)	✓S22 Edinburgh College (Q4 16/17) ✓S22 Lews Castle College (Q4 16/17) ✓S22 Moray College (Q4 16/17)	✓S22 Scottish Government consolidated accounts	✓S22 NHS Tayside ✓S22 Scottish Police Authority ✓S22 Non Domestic Rates (NDR)	*potential 3x FE and 2x local government
Other (3)	✓Principles for a Digital Future ✓ National Scrutiny Plan			National Scrutiny Plan
Planned (503)	**66**	**147**	**69**	**221**
Published	**63**	**147**	**64**	

Best Value

In Q3 we published three Best Value Assurance Reports. East Renfrewshire and West Lothian were published to schedule and Orkney was brought forward from Q4.

The Controller of Audit's Annual Assurance and Risks Report was considered by the Accounts Commission at its meeting on 08/02/18.

The Commission also considered a review report on the first year of the new approach to auditing Best Value.

Issues/ risks/ actions:

An ASG Resource Group has been set up with representatives from all super-teams working with a lead Assistant Director. The group meets regularly over the Autumn to Spring period to assess ASG resource needs across ASG as well as considering resource needs across the business. The group reviews the budgeted days to challenge the budgeted days compared to progress on the audit to date and makes comparisons across similar audits. A representative from Professional Support attends to facilitate the discussion around costs. Budgets will continue to be closely monitored and progress is reported regularly to the ASGMT.

Forward look:

- In Q4 the Accounts Commission will consider the Controller of Audit's Annual Assurance and Risks Report and a review report on the first year of the new approach to auditing Best Value. This highlights positive feedback from the commission and councils and notes that the scope of the first BVARs was ambitious and wider than we had anticipated, meaning that the time taken to produce the first six BVARs has exceeded our planning assumptions. It also notes we can tighten the scope of future BVARs and produce more concise reports.
- Q4 will also see the publication of the last of the six BV reports scheduled for 2017/18, a BV follow-up report on Falkirk Council and the Local government in Scotland: challenges and performance overview and the next performance audit on the managing new financial powers series.
- We are anticipating some statutory reports within the further education and local government sectors. Should these proceed to formal reports they will be completed during Q4.

Trend data: [link]

SECURING WORLD CLASS AUDIT	**We make clear and relevant recommendations for improvement**

Key Performance Questions	RAG				Actions
	Q1	Q2	Q3	Q4	
Are there practical, clear and relevant recommendations in all audit published audit reports?	G	G	G		

Examples of recommendations from Q3 reports include:

12 recommendations for the Scottish Police Authority within the December report. These were all accepted and an action plan is in place..

6 recommendations in the Transport Scotland's ferry services performance audit including; Transport Scotland should ensure that it has adequate resources to develop, monitor and report against its long-term ferries strategy and improve the transparency of decision-making for ferry users, this may include streamlining and formalising how it consults with and involves ferry users, by giving specific user groups a formal remit to comment on operational and policy matters.

A series of recommendations for the Scottish Government, NHS Boards and Integration Joint Boards (IJBs) within the NHS in Scotland Overview report; including that the Scottish Government should:

- develop a robust governance framework for the delivery of the Health and Social Care Delivery Plan which should set out all the work currently under way and planned
- move on from statements of intent to developing the specific actions, targets and timescales to deliver all of its workstreams and plans, to allow better oversight and progress to be assessed and reported publicly, simplify.
- make clear the lines of accountability and decision-making authority between the Health and Social Care Delivery Plan Programme Board and major work programme delivery oversight groups, regional boards, NHS boards and integration authorities.
- improve transparency by including measures of performance covering all parts of the healthcare system which include indicators of quality of care in addition to indicators of access.

During Q3 the PABV Quality group progressed its programme of post audit reviews including a review of the NHS Workforce and Self Directed Support audit.

Issues/ risks/ actions:

- An analysis of local government and NHS Annual Audit Plans has been carried out. The resulting reports were positive and highlighted that auditors were showing a high degree of compliance with the Code of Audit Practice.

Forward look:

- Development workshop with year 2 Best Value Assurance Report teams focussing on reporting requirements and learning from year one..
- The first of the external quality reviews under the new quality assurance arrangements will take place in Q4. This includes best value and performance audit work in addition to financial audit.

	Audit work is of high quality and we are systematically improving the quality of our work
SECURING WORLD CLASS AUDIT	

Key Performance Questions:	RAG				Actions
	Q1	Q2	Q3	Q4	
Are we assured about the quality of our work?	G	G	G		External quality assurance reviews taking place in Q4
Are we improving the quality of our work?	G	G	G		The Audit Quality project is progressing to schedule.

Assurance

The internal audit of audit efficiency completed in Q3 found the level of assurance for both design and operational effectiveness was substantial and that the arrangements were sound. There were two minor recommendations for improvement, these were and will be implemented in Q4.

The new Audit Quality Framework came into effect during Q3 and the first quality report was considered by the Audit Committee in November 2017. The headline findings were:

- Auditors completed all NHS and local government audits on time with the exception of two councils in which the delays were out with the auditors' control.
- Overall, audit plans are compliant with the 2016 Code of Audit Practice and of a high standard.
- All audit providers confirmed effective quality arrangements through compliance with ISQC1.
- Firms are generally conducting high quality audit work; they are responding appropriately to the significant improvement areas identified in their latest Financial Reporting Council (FRC) annual reports for firms.
- A number of material prior period errors have been reported by auditors in the 2016-17 financial statements and we will carry out further work through a thematic review in this area to identify any impact on audit quality.
- Non-audit services requests are compliant with the Ethical Standard. Requests were reviewed during the year and where appropriate approved by the Ethics Partner.

The external quality assurance contract was awarded to ICAS in Q3, work will commence work in Q4. Reviews of the 2016/17 financial audits started Q3 and the findings will be used to inform training requirements in Q4/Q1.

Improvement

In Q3 a series of workshops focussed on performance audit records of evidence and the use of Issues and Investigations Matrices. The sessions were delivered by experienced colleagues from the PABV Quality Group and attended by over 90% of the PABV team.

The 2017 Audit Guide was published on ishare and MKI. The guide was updated to incorporate changes to the International Standards on Auditing (UK), and includes a

new chapter covering the audit dimensions and Best Value. The team reviewing the guide has also addressed previous issues raised by quality reviewers (internal and external) by providing more guidance in areas such as law, regulation and analytical procedures.

Professional Support has been leading on a number of developments in Q3 including:

- updating templates (Annual Audit report, Annual audit plans and ISA 580) and the ASG audit guide.
- a series of 'cold reviews' of 2016/17 audits. The reviews examined compliance with the international auditing standards, Code of Audit Practice and other applicable guidance such as Practice Note 10. The review process has been enhanced to include a review of the audit team's compliance with CPD requirements. It also examined best value and wider audit dimensions audit work as well as financial audit. The process now also includes discussion with key client body personnel to gather the client bodies' perspective on the audit process. Once the reviews have taken place and the findings will be used to form the basis of training requirements in Q4.
- updating the key financial controls audit programme (B20) to improve some areas, including better worded notes to the auditors around the risk of fraud due inappropriate access to financial systems.
- updating the ASG's audit guide to incorporate changes to the International Standards on Auditing (UK) and Practice Note 10 - audit of financial statements of public sector bodies in the UK. This was supported by a series of presentations to super-teams on the new audit guide and other issues affecting the audit approach. The presentations were well received and a number of positive comments were made about the comprehensive nature of the audit guide and the clear way in which it has been written.

Issues/ risks/ actions:

- The new Quality Framework was finalised in October 2017 is being rolled out in Q3/Q4.
- An error was identified in the LG Financial Overview report post publication, and after we had incorrectly responded to a question on the issue at a public session of the LG&C Committee. We have corrected the report and apologised to the Committee and the Accounts Commission.

Forward look:

- The all staff Conference in January focusses on "Challenge and transformation - the future of public services in Scotland'.
- The External quality assurance contract was awarded to ICAS who are due to commence work in Q4.

MAKING A DIFFERENCE

We get our messages out effectively

Key Performance Questions:	RAG				Actions
	Q1	Q2	Q3	Q4	
Are we getting messages getting out effectively?	G	G	G		

Media

The NHS Scotland overview, Scottish Police Authority S22 and local government financial overview and the BVAR East Renfrewshire reports were responsible for most of the Q3 media coverage and downloads. We saw a significant rise in the number of BVAR council reports downloads, this has coincided with additional outreach activities from the communications team – a poster with report highlights for display in GP surgeries, libraries, etc. plus an e-newsletter for each BVAR. Although we cannot draw a straight line between downloads and this activity, the statistics would suggest that the increasing communications resource around these reports is helping increase public engagement with our findings.

Getting our message out

We attended eight Public Audit and Post Legislative Scrutiny (PAPLS) committee meetings, the Local Government and Communities Committee and the Scottish Commission for Public Audit (SCPA) Committee during Q3.

PAPLS took evidence on a number of our reports during Q3 including performance audit work on Principles for a digital future, and Transport Scotland's ferry services; the NHS in Scotland 2017 overview report; s22 report on NHS Tayside, and s22 reports on the Scottish Government's consolidated accounts.
The Committee also undertook post-legislative scrutiny in relation to Self-Directed support. This scrutiny follows our performance audit published in Q2 and included evidence sessions with the Scottish Government and NHS Scotland, and a roundtable evidence session with a broader range of key stakeholders.

The Local Government and Communities Committee invited us to provide evidence from the LG Financial Overview report as part of its process to scrutinise the draft Scottish Budget. Post publication sessions were also held with a range of organisations including the CIPFA Directors of Finance Group.

Colleagues met with IJB Chief Finance Officers to discuss the recommendations within the NHS in Scotland overview report, and to inform the planning for forthcoming performance audit work on health and social care integration. Colleagues from the NHS Workforce audit participated in a series of sessions with the NHS Shetland Board and Audit Committee in relation to the reports key messages and recommendations. There is a further invitation to attend a medical governance group later in the year to discuss primary care issues.

Media/ social media	Q1	Q2	Q3	Q4	YTD	16/17
Media	329	339	324		992	1,528
Downloads	179,531	146,283	178,281		504,095	704,996
Engagements*	5932	5592	4335		15,859	15,470
Retweets	751	713	561		2,025	3,952

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

Correspondence

New correspondence cases	Q1	Q2	Q3	Q4	YTD	16/17
Number of cases	41	33	25		74	119
Acknowledgement within five working days	100	100	100		100	90%
Final response within 30 working days	95	97	88*		96	87%

- *Three final response cases are pending at the time of reporting Q3 (12%). They are still within their expected target date.
- For the same quarter last year we reported 20 new cases with 95% acknowledgement and 100% final response targets achieved.
- In addition we had 32 audit enquiries (compared to 23, Q3 16/17), relating to queries about our work (e.g. figures within our reports, guidance and access to materials/reports).
- We have received a number of items of correspondence on contract management including issues around governance, procurement and performance management.

Issues/ risks/ actions:

Forward look:

- The Audit Scotland conference (Q4) will have a breakout session run by our communications team and external experts from 'Work on words' on getting our message across using effective infographics and plain English.
- Professional Support will be issuing a good practice note on reporting financial performance by NHS boards for use by auditors and audited bodies.
- The Annual Audit Report templates will be reviewed in Q4 to ensure they continue to communicate key judgements effectively and maximise impact.
- Media training sessions will be run during Q4.

Trend data: link

MAKING A DIFFERENCE	**We systematically deliver impact through our work**

Key Performance Questions:	RAG				Action
	Q1	Q2	Q3	Q4	
Is our work delivering impact?	G	G	G		
Are our recommendations leading to improvements?	Y	G	G		Further quantitative measures to be developed to supplement qualitative assessments as part of the new performance management framework review.

Examples of making a difference through audit include:
Financial management
• Following recommendations in the s22 report on the NDR account, the Scottish Government have increased disclosures within the Scottish Budget about how the distributable amount is calculated. Previously this has been unclear and led to much criticism of the Government during budget negotiations for the 17/18 budget. Both the Fraser of Allander Institute and SPICe referred to our report and findings in their own budget publications.
• The SPA audit identified relocation payments of £49,000 which had been omitted from the remuneration report. The further tax and national insurance costs, met by the authority, of £53,000 were also missing from the accounts and the remuneration report. The remuneration report was updated to reflect these disclosures. We also concluded that relocation payments of this magnitude do not represent a good use of public money. The SPA has agreed to review the relocation policies and consider introducing a maximum threshold.
• The improvement in the forecast year end financial position was not formally reported to the Health Board on a timely basis, resulting in a lack of transparency in financial reporting. The issue raised in our report was picked up in a number of local media articles. For 2017/18 the health board's reporting process has been refined in a number of areas as a direct result of our audit findings.
Financial sustainability
• The NHS in Scotland Overview team has delivered presentations on the reports key findings and recommendations to several NHS Boards, the Scottish Ambulance Service and the Lay Committee of the Royal College of Physicians. This engagement increases the coverage of the reports key messages and supports key stakeholders working together to address the issues identified within the report.
• Our evidence session at the Local Government &Communities committee on the LG Financial Overview was part of the committee's scrutiny of the draft Scottish Budget. We were able to highlight the significant impact of reductions in local government funding across councils and emphasise the risks to financial sustainability in a number of services.

Governance and transparency

- In reviewing the arrangements for the redundancy of a CG body's chief executive post we identified that a Board meeting was not held to discuss the options for the chief executive with this decision being made via e-mail. Our audit report outlined this governance approach and concluded that it fell short of expectations.
- A health Board's Audit committee members praised the format and content of the Annual Audit Report, welcoming the inclusion of management responses to the action points.
- Our audit work identified that RTA income was not being accounted for correctly in year, resulting in additional income for the Board of circa £4m.

Value for money

Colleagues from PABV are supporting Education Scotland in joint inspection work in councils, sharing both audit skills but specifically our experience gained during performance audit work on school educational attainment. The colleagues involved in this work will be involved in the future performance audit of educational outcomes, and will bring this useful local perspective to that audit.

We are also supporting the Care Inspectorate with joint inspection work of children's services. Colleagues from both ASG and PABV are involved in this work, and are using this as an opportunity to promote or work locally but also inform future local and national level audit work of social care.

Issues/ risks/ actions:

- Development of further metrics to supplement narrative capture of impact. This is likely to include numbers of recommendations, agreed, implemented in the short term and positive impact in the longer term.

Forward look:

- A number of high profile reports will be published in Q4 including; Implementing the Scotland Act (NFP) and the Local government in Scotland challenges and performance overview report. Based on previous experience these are likely to generate significant media coverage.
- A schedule of performance audit impact reports is being developed. There are six impact reports due during 2018/19.
- The AARs will be further refined to include more explicit reference to progress in implementing previous years' AAR action plans.
- Professional Support is developing a good practice guide on Integration Joint Boards (IJBs) that will assist audit teams in making an impact through our audit work.

Trend data: link

MAKING A DIFFERENCE	**We offer insight and foresight through our work**

Key Performance Questions:	RAG				Action
	Q1	Q2	Q3	Q4	
Are we making information and intelligence available to others?	G	G	G		This will be priority in the next Corporate Plan and we will develop a more comprehensive assessment framework to measure this objective more effectively.

Examples of offering insight and foresight through our work in Q3 include:

- The LG&C committee used the LG Financial Overview report to scrutinise the draft budget.
- Audit Scotland led a round table discussion on Pupil equity funding. The session included representatives from local and central government and will inform future audit work in this area.
- The first Audit Scotland Islands Forum met. This considered rural audit, and how we both audit rural issues but also maximise the impact of our work for rural bodies and communities.
- Colleagues from across the organisation and the audit firms commenced audit planning, including Team Risk Assessment Meetings (TRAMs). The first of the Local Area Network meetings between Audit Scotland and other scrutiny bodies took place as part of the Shared Risk Assessment process.
- Several colleagues met with clerking teams from the parliament and colleagues from SPICE to discuss our work. For example, representatives of the Health, Care and Communities Cluster met clerks responsible for the Health and Sport Committee.
- The Correspondence Team met with colleagues from the office of the Scottish Public Services Ombudsman to explore better ways of sharing information and intelligence.

Issues/ risks/ actions:

- The level of risk associated with foresight is inevitably higher than is the case with backward looking audit work.

Action:

- Consider our risk appetite for such content and the controls to mitigate such risks.

Forward look:

- Implementing the Scotland Act (new financial powers update report) (Q4)
- Local Government Overview – performance and challenges overview report (Q4)

MAKING A DIFFERENCE	**We develop new and improved processes, products and services**

Key Performance Questions:	RAG				Action
	Q1	Q2	Q3	Q4	
Are new processes, products and services being developed?	G	G	G		
Are products and study programmes suitable and appropriate for emerging issues?	G	G	G		Development work on requirements arising from the new financial powers and constitutional change.

Examples of new processes, products and services in Q3 include:

- Audit data analytics –ASG Management Team considered a progress report on 30 November 2017. This summarised the outcomes of the data analytics work during 2016/17 The results to date have been positive with benefits to the annual audit process, including:
  - Improved, more insightful reporting at the three local authority audits where data analytics was piloted.
  - Better assurance over the accuracy and completeness of a pension fund audit (omissions from the accounts were detected using data analytics and these may not have been detected using more traditional audit methodologies).
  - Increased assurance over fraud and management bias of the accounts where the data analytics approach was piloted.
- Professional Support are revising final accounts audit programmes for revisions to accounting standards, ISA's etc. and these will be rolled out in Q4 to audit teams for use on financial statement audit.

Emerging issues

The annual work programme refresh has taken place. The proposals for the Accounts Commission and Auditor General included new areas of audit work informed by our ongoing monitoring of audit risk and emerging issues. The proposals were agreed subject to minor changes and will be subject to external consultation with a view to sign off by the end of March. In the meantime work continues in resourcing and project planning the respective audits and other work set out within the programme.

Issues/ risks/ actions:

Local audit work indicates there is the potential for several statutory reports within the further education and local government sectors. If these proceed to s22 or s102 reports they will be reported during Q4 and into Q1 of 18/19.

Forward look:

- The Q3 quality reviews will be reported to engagement leads during Q4. The reports will set out areas of work done well and areas for improvement. Examples of good practice will be shared more widely within ASG. Areas for improvement if they are found to be consistent across a number of audits will be used to inform future training.
- Professional Support will revise all control and final account audit programmes to ensure they are fully complaint with international auditing standards and incorporate findings from quality reviews.

	We manage our resources effectively and maximise efficiency

Key Performance Questions:

Key Performance Questions:	RAG				Action
	Q1	Q2	Q3	Q4	
Are we managing our resources effectively	G	G	G		
Are we maximising efficiency?	G	G	G		Efficiency review programme 2017/18 nearing completion.

Resources

In the nine months to December 2017 Audit Scotland's Net Operating Expenditure at £4,016k was £205k less than budget.

Total income recorded in the nine months to December 2017 was £435k more than the phased budget. Fee income including central charges was £389k higher than budget. Other income of £59k was mainly due to reimbursement of staff on secondment to other organisations. Bank interest, at £6k, was £13k less than budget.

Expenditure was £230k more than budget. Favourable variances were recorded for own staff costs £54k, travel and subsistence £23k, legal, professional and consultancy £17k, training £87k, printing and office £43k and information technology (IT) £42k.These favourable variances were offset by increased expenditure on approved auditors £254k and agency and seconded staff £281k.

Audit Scotland budget proposals were presented to the Scottish Commission for Public Audit (SCPA) on 20 December 2017.

Net operating (expenditure) to December 2017

	Q1	Q2	Q3	Q4	16/17
Actual	(942)	(1,861)	(4,016)		(7,350)
Budget	(1016)	(1,936)	(4,221)		(7,423)
Variance	-7.3%	-3.9%	-4.9%		-1%

Staff

Own staff costs in the nine months to December 2017 were £54k less than budget. The average number of staff employed in the nine months to December 2017 at 271.6 w.t.e. was 3.3 w.t.e. lower than the establishment figure of 274.9 w.t.e.

In Q3 we recruited 16 professional trainees and this takes us above the establishment figure. The in take of trainees is in preparation for an increase in work load due to new financial powers work due to come online in 2018.

	Q1	Q2	Q3	Q4	16/17
2017/18 establishment w.t.e:	274.9	274.9	274.9		278.1
Average number of staff employed in 2017/18 w.t.e:	269.4	267.9	271.6		276.4
No. of staff at end of quarter w.t.e:	270.3	263.3	277.4		270.8

The new Career Development Gateway process went live during Q3. This will result in more flexibility around resourcing, and increased opportunities for colleagues to progress within the organisation. The Gateway process should also result in cost savings due to less need for external recruitment campaigns and the significant cost associated with these.

Capital expenditure

Capital investment in the nine months to December 2017 was £103k. Expenditure to date on the Glasgow office refurbishment was £97k and £6k has been spent on additional RSA security tokens and software to trial mobile capture of expenses. Current projections for capital investment projects indicate that the allocation of £200k will be spent in full by 31st March 2018.

Estate

Property costs in the year to December 2017 were £5k lower than budget.

£000 YTD	Q1	Q2	Q3	Q4	16/17
Actual spend	211	418	640		896
Budget	215	430	645		935
Prior year spend	206	442	672	896	

Costs of travel

Travel costs in the year to December 2017 were 3.4 per cent below the budget, but higher than last years expenditure. Travel and subsistence expenditure year to date is £23k less than budget and car lease costs (£8k) and travel/subsistence (£21k) are both underspent.

£000 YTD	Q1	Q2	Q3	Q4	16/17
Actual spend	204	428	654		863
Budget	201	438	677		985
Prior year spend	198	417	615	863	

IT network up time

The IT uptime was 98.58 percent in Q3 which is slightly down on previous quarters. The majority of the downtime in this quarter was due to two events that affected all staff. Firstly a four hour drop in the connection at the datacentre that hosts our skype server causing an outage to chat and telephony. Secondly a 7 hour outage with our main Internet service provider causing a loss of internet connections. As colleagues were affected there was a significant increase in hours lost and average time lost per person as a result.

IT Network	Q1	Q2	Q3	Q4	16/17
IT uptime	99.9	99.9	98.58		99.9
Working hours lost	220	106	3300		67.25
Average time lost per person (minutes)	<1	<1	660		13.1

IT Incident management summary

- 97.66% (836/856) of incidents were accepted within the response time SLA.
- 97.31% (833/856) of requests were closed within the fix time SLA
- An average of 2.7 incidents logged per user.

Business group productivity:

Business group productivity remains broadly consistent with productivity/ planning assumptions and is above the same quarter last year.

	17/18					16/17			
	Q1	Q2	Q3	Q4	YTD	Q1	Q2	Q3	Q4
ASG	57	74	59			60	78	51	73
PABV	76	74	67			68	69	65	73

Average cost per Audit Day
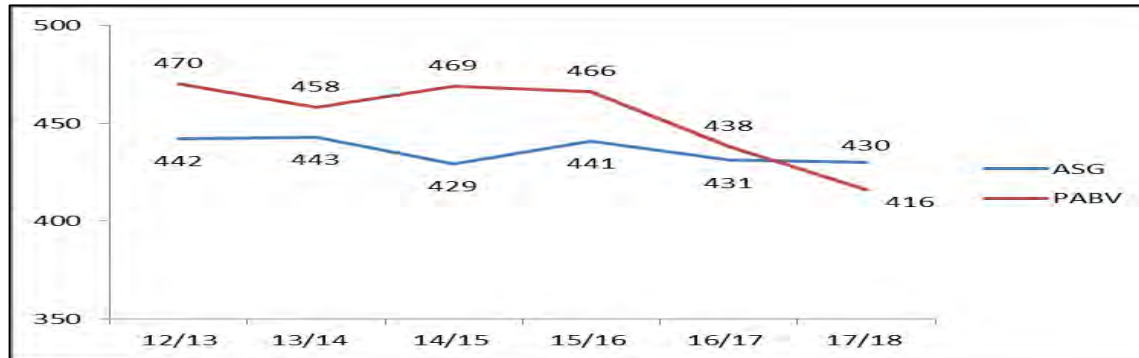
Issues/ risks/ actions:

- Further analysis of the business group productivity and the average cost per audit day to be done to consider consistency and comparability.

Forward look:

- New reports developed by MKI provide details of productivity for staff. These are currently being tested before roll out to audit staff. These can be used by audit teams for better monitoring and allocation of their work priorities Due for release in Q3 is now expected in spring 2018.
- Efficiency reviews on How We Use Our Time and procurement of external capacity to report to Management Team in Q4.
- Best Companies Survey 2017 results discussed in Business groups during Q4.
- The review of the performance management framework is complete and will report to Management Team in Q4.

Trend data: link

BUILDING A BETTER ORGANISATION	**We manage information and intelligence effectively (internal)**

SWCA Objectives	2016-17				2017-18				Actions
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Are we managing information and intelligence effectively (Internal)	A	A	A	A	Y	Y	Y		Digital Strategy implementation. Review of performance management framework. Implementation on professional lead roles across members of the leadership group.

Examples from Q3 include:

- Digital Audit Strategy and Digital Services strategies published in October 2017.
- The Office365 project commenced. The team includes colleagues from across the organisation and will significantly change how we manage and share information, including exploiting the opportunities that new technology offers us.
- Several information sharing sessions took place focussing on the new approach to the audit of Best Value. These were run by, and attended by, colleagues from both ASG and PABV.
- The Q3 PABV team meeting included a session from the new financial powers and constitutional change team on the audit implications of 'Brexit'.
- Review of performance management framework draft report delivered in Q3.
- Your business @ risk survey (YB@R) completed by 68 percent staff during Q3.

Issues/ risks/ actions:

- The move to Office 365 may require additional training for some users.

Forward look:

- Report to Management Team on the review of performance management framework in Q4.
- New MKI tool for data analysis expected in Q3 delayed until spring 2018.
- Report to Management Team on 'how we use our time' in Q4.
- Analysis of YB@R survey results in Q4.
- Preparations for GDPR continue in preparation for May 25 2018.
- Cyber Security and Cyber Essentials work progressing.

BUILDING A BETTER ORGANISATION	**We empower and support our people to be engaged, highly skilled and perform well**

Key Performance Questions:	RAG				Actions
	Q1	Q2	Q3	Q4	
Are our people empowered and engaged?	G	G	G		BaBO programme implementation
Are our people highly skilled?	G	G	G		L&D strategy implementation
Are people performing well?	Y	Y	Y		3D discussions in Q4 and annual check-in re coverage and themes by PDGG People themed management team session considering workforce planning, capacity, career development, learning and development and succession planning 27 February 2018.
How effective is communication and collaboration across the organisation?	G	G	G		
Are career paths offered across the organisation?	G	G	G		CDG training and awareness sessions in Q3, gateway reviews in Q4
Do we understand and support diversity within the workforce?	G	G	G		

Empowered and engaged -

The Best Companies survey launched Friday 20 October and closed Friday 10 November 2017. High level results were shared with colleagues in the December edition of abacus. Key messages from the survey are:

- Highest overall score to date and 'ones to watch' status maintained.
- An increase in seven of the eight groupings.
- Decrease in the overall wellbeing category.
- Largest increases are in 'my manager' and 'my team' groupings.
- 79 percent participation rate.

Strategic leadership development conversations continued, and the total role, recognition and reward package for Leadership Group was concluded in Q3.

The new Corporate Plan engagement sessions took place during Q3 to inform our priorities for the future.
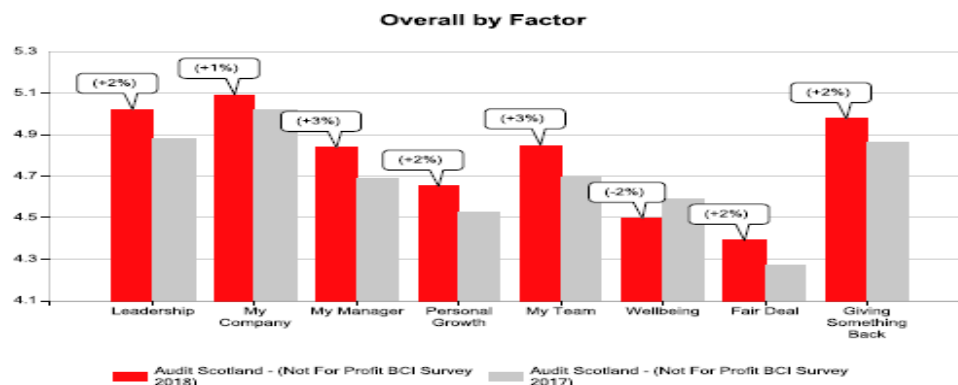
Highly skilled / Performing well

During Q3 the review of the 3D process was reported to the Audit Committee. We ran two manager and one employee 3D coaching sessions and Recruitment Matters, an external training provider, trained the first tranche of CDG panellists.

Career Paths

Career Development Gateways (CDG) opened on 1 December 2017 and we ran three CDG awareness sessions for managers and four for employees and we received three CDG submissions to 22 Jan 18. The 2017 intake of Professional Trainees commenced employment in October 2017 (15 plus one school leaver). PABV welcomed four new Audit Officers with a further five internal promotions to and within Band 2 (Senior Auditor / Audit Manager).

Wellbeing

Audit Scotland received Carers Positive accreditation in Q3. The health, safety and wellbeing committee ran several events on resilience and emotional health and wellbeing. Our external health and safety inspections of the new / refurbished Edinburgh and Glasgow offices rated both as excellent.

Absence levels

Absence levels have decreased relative to the previous quarter and remain low and are below the same quarter last year.

	Q1 days	Q2 days	Q3 days	Q4 days	ytd days
Audit Scotland - 17/18	0.69	1.16	1.07		3.09
Audit Scotland - 16/17	1.03	1.37	1.27	1.28	5.32

Audit Scotland - 15/16	0.89	0.98	1.49	2.05	5.62
Audit Scotland - 14/15	1.12	0.87	0.99	1.31	4.59
Audit Scotland - 13/14	1.6	1.14	1.57	1.40	5.99

Staff turnover

Turnover has increased compared to the previous quarter and the percentage of resignations is higher than the full year figures for last year and is likely to be slightly above the CIPD benchmark figure for the whole year.

2017/18	Q1	Q2	Q3	Q4	YTD	CIPD benchmark	16/17
Resignations %	1.77	1.42	2.13		5.32	5.5	4.16
All Leavers %	2.48	3.19	3.90		9.57	13.6	11.11

Highly skilled

In line with previous years Q3 saw a significant increase in the number of L&D events across the organisation.

	Q1		Q2		Q3		Q4		YTD		16/17	
	Events	Attendees	Events	Attendees	Events	Attendees	Events	Attendees	Events	Attendees	Events	Attendees
Health & Safety	0	0	0	0	1	25			1	25		
Knowledge Cafes	7	171	2	33	0	0			9	204		
Learning & Development	0	0	1	8	5	44			6	52		
Management Development	2	16	3	6	1	7			6	29		
Organisational Development	3	3	1	2	15	181			19	186		
Technical Training	5	61	0	0	17	246			22	307		
Total	**17**	**251**	**7**	**49**	**39**	**503**			**63**	**803**	**89**	**1,360**

Exam results

In Q3 there were 15 exams taken and 13 passes and the year to date pass rate is 82 percent.

	Q1	Q2	Q3	Q4	YTD	16/17
Exams taken	9	20	15		44	158
Exams passed	6	17	13		36	143
% pass rate	67	85	87		82	90.5%

Career paths and secondments

Our 2017 cohort of Professional Trainees started with Audit Scotland during Q3. This is the largest ever intake, and reflects our efforts to plan for the additional work due imminently in relation to the audit of Scotland's new financial powers and the new bodies supporting these powers such as Revenue Scotland. PABV also welcomed four new Audit Officers.

Vacancies filled	17/18 YTD	16/17
Internal	9	29
External	26	33
Total	35	62

Secondments	17/18	16/17
17/18 - New	0	4
17/18 - Existing	7	9

Issues/ risks/ actions:

Forward look:

- 3D – we have two manager and two employee 3D coaching sessions scheduled for Q4.
- CDG – we have an additional three CDG manager and three CDG employee awareness sessions in Q4.
- The Best Companies feedback sessions for Management Team, the Board, Leadership Group and in business groups.
- People themed management team session considering workforce planning, capacity, career development, learning and development and succession planning 27 February 2018.

Trend data: link

Purpose

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

Background

2. The BWC strategic improvement programme is a key enabler for achieving our vision to be a world class audit organisation. The last quarterly BWC update report was considered by the Board on 29 November 2017. This report was considered by the Management Team on 13 February 2018.

Progress on the BWC improvement programme

3. We continue to make good progress on the BWC improvement programme. Progress headlines since the last report include:

- Securing World Class Audit – where:

    - resource requirements for new financial powers have been built in to the 2018/19 budget proposal. The SCPA recommended the budget to the Finance and Constitution Committee which published its report on 26 January 2018. The report noted the SCPA's recommendation that Audit Scotland's budget proposal be approved

    - ICAS has been appointed to carry out the programme of external quality reviews and the reviews of Scottish Enterprise, NHS Tayside, East Renfrewshire BVAR, Equal Pay in Scottish Councils and East Ayrshire Council audits are now under-way

    - the Appointments and Assurance and Professional Support teams have been established and workplans have/ are being developed.

- Building a Better Organisation (BaBO) – where:

    - the first tranche of Career Development Gateway panellists have been trained, awareness sessions have been held for managers and colleagues and the gateways are now open and some applications have been received

    - the review of our performance management framework and the efficiency review on how we spend our time have concluded.

- Making a Difference – where:

    - all six scheduled audits of Best Value scheduled for 2017/18 have been reported to the Accounts Commission and published and the review of year 1 of the new approach to auditing Best Value has taken place

    - proposals for the refreshed rolling five year work programme have been developed and the Accounts Commission is consulting with local government stakeholders

    - the second phase of parliamentary engagement is under-way.

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

Recommendations

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

	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.

Project/ initiative/ product	Status update	Next steps
Implementing the Audit Quality Framework	On 25 October 2017 the Board approved the Quality Framework, the first iteration of KPIs and the timeline for future quality reports. The Audit Committee considered the first Audit Quality report at its meeting on 15 November 2017. ICAS was awarded the contract to carry out the external quality reviews on 30 January 2018. The first tranche of quality reviews are currently under-way.	The key milestones are: • Quality assurance reporting – April /May • Client/firms/staff survey – May/June • Annual Quality Report - June • Project review – September
Development of: Appointments and Assurance Team (AAT) Professional Support	The new Appointments and Assurance Team (AAT) and Professional Support took effect from October 2017. The AAT submitted a workplan and resourcing plan to Management Team on 23/01/18 and has held two team development workshops. Professional Support is preparing an Operational Plan for discussion at the Management Team which will reflect key issues discussed at the team development meetings in November and January.	The key milestones are: • Professional Support operating plan to Management Team on 27/02/18 • Implementation of the plans during 2018/19.
New financial powers and constitutional change (NFPCC)	The Board considered an NFPCC update report at its meeting on 29 November 2017. The 2018/19 budget proposal was considered by the SCPA at its meeting on 20 December 2017. This included additional resources for new work arising from NFPCC. The Chair of the SCPA wrote to the Convenor of the Finance and Constitution	The key milestones are: • Establishing social security and public financial management teams by end March 2018 • Detailed workforce and recruitment planning for 2018/19 – February and March 2018

Project/ initiative/ product	Status update	Next steps
	Committee on 20 December confirming that the SCPA was content with the budget proposal. The Finance and Constitution Committee published its report on the Draft Budget on 26 January 2018, which noted the SCPA's recommendation that Audit Scotland's budget proposal be approved. We have started to build capacity for 2018/19 and are establishing two new teams to lead on our audits of social security and public financial management. Colleagues in ASG and PABV have been invited to express an interest in this work, and we aim to assign people to the new teams by the end of March 2018. On 16 January 2018 Management Team considered an update paper and met with a range of internal stakeholders to discuss the implications of EU withdrawal. Diane McGiffen is the professional lead for our approach to Brexit.	

	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	Band profiles have been agreed and the Remuneration Committee approved the Career Development Gateways (CDGs) at its meeting on 5 October 2017. It also approved the reward structure, pay progression arrangements and transitional plan for members of the Leadership Group. The first CDG panellists were trained in October and we have been running awareness sessions for managers and colleagues since then. Gateways went live for submissions from colleagues with effect with effect from December 2017 and the first tranche of applications have ben received.	The key milestones are: • Gateway panels during 2018

Project/ initiative/ product	Status update	Next steps
How we learn and develop • Planning careers • Developing skills • Professional training schemes • Becoming better managers and leaders	3D coaching sessions have been running between November and January 2018. 3D review sessions for all colleagues are progressing. The review of the professional training scheme feedback sessions took place in November 2017 and January 2018. Actions arising are being progressed. On 23/01/18 the PDGG began discussions on the 2018-19 L&D strategy and plan. It will incorporate the professional development work being led by Professional Support and development needs arising from the new financial powers and fiscal framework.	The key milestones are: • 3D sessions ongoing • L&D strategy and Plan – June 2018

Strategic leadership	On 4 October Leadership Group (LG) held a workshop session on leadership roles, responsibilities and areas of focus. On 05/12/17 LG considered the development objectives and next steps.
	
	Professional leadership areas for members of the Leadership Group were confirmed in December.
	
	LG met on 07/02/18 to discuss development priorities for 2018.
	
	Management Team (MT) has also been reviewing how to improve the strategic focus of meetings and schedule regular strategic conversations involving an extended range of internal stakeholders throughout the year. These include themed MT meetings
		The key milestones are:
		• Development of scope and objectives for professional leadership areas – February – April 2018
		• Themed MT meetings:
		  – Performance (13/02/18)
		  – People (27/02/18)
		  – Strategy (March 2018)
		• Revised Management Team Terms of Reference – March 2018.

Programme of efficiency reviews	The Board considered a report on audit and organisational efficiency at its meeting on 23 August 2018. The 'How we use our time' (HWUOT) review has completed its second phase and identified areas for action and considered recommendations at its performance themed meeting on 13/02/18. A single time organisation-wide recording system will be introduced during 2018/19. The review on securing external capacity (consultants, agency,	HWUOT milestones are: • Introduction of a single time recording system 2018/19. External capacity review milestones are:

Project/ initiative/ product	Status update	Next steps
	internal audit and legal) is progressing.	• Conclude analysis – February 2018 • Report to Management Team – March 2018.
Performance management and business intelligence	We commissioned external consultancy support to review the business performance management framework and options for digital solutions to support that. The review has concluded and the report was considered by MT at its performance themed meeting on 13/02/18. A business intelligence led performance management framework will be introduced during 2018/19.	The key milestones are: • Implementation of a BI led performance management system during 2018/19.

MAKING A DIFFERENCE	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 (BV) in councils	BV assurance reports on all of the six councils scheduled for 2017/18 have been considered by the Accounts Commission and published. The Controller of Audit's Annual Assurance and Risks Report was considered by the Accounts Commission at its meeting on 08/02/18. The Commission considered a review report on the first year of the new approach to auditing Best Value at that meeting. The Scottish Government working group's review of the statutory BV guidance has concluded its work. The Scottish Government are now arranging the public consultation of the draft guidance. No timetable has been provided for this to date.	The key milestones are: • End of 2018 - The second tranche of six BVARs will be reported to the Commission by December 2018.

Project/ initiative/ product	Status update	Next steps
World Class Programme Development	The Auditor General and the Accounts Commission considered proposals for refreshing their joint five year rolling work programme (2018/19 to 2021/22) in December. The Accounts Commission is currently consulting councils, trade unions, COSLA and SOLACE (Scotland) on both the detailed proposals for the next two years and the longer term programme. The closing date for responses to the consultation is 23 February, with the Commission considering the responses at its meeting on 08/03/18. A series of activities are being planned in order to raise awareness of the future work programme across the public sector, and amongst those who use public services and have an interest in how public spending is scrutinised. This will include Chief Executives and Leaders of councils, Chief Executives and Chairs of Health Boards and NDPBs, MSPs and key officials at relevant national bodies such as COSLA and the Improvement Service.	The key milestones are: • Commission/AGS approval of work programme – March 2018 • Communication of work programme to key stakeholders – March/April.
Strategic approach to Parliamentary Engagement	We have refreshed the strategy for parliamentary engagement drawing on the lessons learnt from implementing phase 1 (understanding, informing and engaging with the Parliament). The refresh process has been informed by the wide range of feedback on progress to date received from MSPs, clerking teams, SPICe and staff from across Audit Scotland. In refreshing the strategy we have also been giving detailed consideration to how our approach to engagement with, and support for, the Parliament needs to evolve in response to the Budget Process Review Group and Commission on Parliamentary Reform reports. The two reports both recommend that Parliament develops a stronger focus on outcomes by robustly scrutinising what budgets have achieved and aim to achieve over the long-term. Our future priorities for parliamentary engagement were presented to the Audit Scotland Board on 31/01/18 we are currently preparing an implementation plan.	**The key milestones are:** • Communication of work programme to key Parliamentary stakeholders – March/April. • Development of new arrangements to support improved Parliamentary budget scrutiny – Summer 2018

Project/ initiative/ product	Status update	Next steps
Digital Audit	The Board approved the Digital Audit Strategy on The strategy contains a variety of commitments for 2017/18 and beyond under three main streams of work: • Auditing digital • Digital auditing • Digital capacity and resilience The Digital Services Strategy 2018-21 has also been approved and sets out how digital services will support the delivery of the strategy and core business delivery. Audit data analytics (ADA) –ASG Management Team considered a progress report on 30 November 2017. This summarised the outcomes of the ADA work during 2016/17 The results to date have been positive with benefits to the annual audit process, including: • Improved, more insightful reporting at the three local authority audits where data analytics was piloted • Better assurance over the accuracy and completeness of a pension fund audit (omissions from the accounts were detected using data analytics and these may not have been detected using more traditional audit methodologies). • Increased assurance over fraud and management bias of the accounts where the data analytics approach was piloted.	Implementation of the Digital Audit and Digital Services strategies 2017-21.

Agenda

Wednesday 28 March 2018, 10.15am

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

1. Welcome and apologies

2. Declarations of interest

3. Decision on items to be taken in private   For approval

Standing items

4. Chair's report – verbal update

5. Accountable Officer's report – verbal update

6. Accounts Commission Chair's report – verbal update

7. Review of minutes: For approval
- Board meeting, 28 February 2018
- Audit Committee meeting, 15 November 2017

8. Review of action tracker   For information

Strategy and planning

9. Audit Scotland budget 2018/19   For approval

Business management

10. Any other business

11. Review of meeting

12. Date of next meeting: 2 May 2018

Items to be taken in private

13. Audit Scotland draft annual report and accounts   For approval

14. Draft Corporate plan 2018-21   For approval

15. Internal audit services procurement   For approval

Minutes

Wednesday 28 February 2018, 10.00

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

Present:

I Leitch (Chair)
C Gardner
G Sharp
H Logan (by telephone)
R Griggs (by telephone)

Apologies:

None

In attendance:

D McGiffen, Chief Operating Officer
M Walker, Assistant Director, Corporate Performance and Risk
S Dennis, Corporate Finance Manager (by telephone)
J Webber, Senior Executive Assistant

1. Welcome and apologies

The Chair welcomed members and attendees to the meeting of the Audit Scotland Board, the agenda and papers for which had been published on Audit Scotland's website on Monday 26 February 2018. Ian Leitch advised that because of the adverse weather Heather Logan and Russel Griggs were participating by telephone, as allowed for in the Standing Orders.

2. Declarations of interest

There were no declarations of interest.

3. Decision on items to be taken in private

The members agreed that there were no items of business to be taken in private.

4. Chair's report

Ian Leitch provided a verbal update on meetings with Diane McGiffen on general business matters.

The members welcomed the update.

5. Accountable Officer's report

Caroline Gardner advised the Board that following the evidence session to the Public Audit and Post Legislative Scrutiny (PAPLS) Committee session on the development of the Audit and Accountability Framework, the Committee were seeking views from the other parliamentary committees. Caroline also advised that she and the team were due to present the Early Learning and Childcare report to PAPLS on 8 March 2018 and invited the Board to note the media coverage of this joint report with the Accounts Commission.

Caroline informed the Board that Fiona Kordiak had chaired the first meeting of the new Quality Group and that the Appointments and Assurance Team were working towards the second in-

year Quality Report, together with the first annual report under the new Quality framework which will include the findings from the independent review of our work and that of the firms by ICAS.

Caroline advised the Board that she would be speaking at the CIPFA Conference Scotland on 23 March 2018 and invited them to note that Fraser McKinlay was speaking at the IMPACT 2018 Conference in Australia on 19 and 20 March 2018 on 'The future of performance audit in an increasingly devolved Scotland'. The conference brings international experts together to share insights on changing government landscapes and also provided a good opportunity for Fraser to meet with the Heads of Audit at the New South Wales Audit Office.

The Board discussed international engagement and Diane McGiffen advised Antony Clark, who leads Audit Scotland's international strategy, would be attending the first meeting at the Auditors Alliance in Paris on 26 March 2018.

Following discussion, the Board welcomed the update.

6.   Accounts Commission Chair's report

Graham Sharp advised the Board that the Accounts Commission approved the Annual Assurance and Risks report at their meeting on 8 February 2018 and were currently organising a series of engagement events with Councils in June 2018.

Graham advised that consultation on the work programme had concluded and the March Accounts Commission meeting would consider the proposed programme of work, the Local Government Overview report and two statutory reports on local authorities.

Graham welcomed the joint report with the Auditor General for Scotland on Early Learning and Childcare.

The Chair of the Accounts Commission advised of forthcoming meetings with the Standards Commission and Best Value meetings with Falkirk Council and Clackmannanshire Council and of the Commission's Strategy Seminar which was taking place on 13 and 14 March 2018.

The members noted the work programme would come to the Board for information once it had been approved by the Auditor General for Scotland and the Accounts Commission.

The Board welcomed the update.

7.   Review of minutes

The Board considered the minutes of the Board meeting on 31 January 2018, which had been previously circulated, and agreed these were an accurate record of the meeting.

8.   Review of actions tracker

The Board noted the updates provided by the action tracker.

9.   Q3 Finance performance report 2017/18

Stuart Dennis, Corporate Finance Manager, joined the meeting by conference call.

Stuart Dennis, Corporate Finance Manager, introduced the Q3 Financial performance report 2017/18, which had been previously circulated.

Stuart invited the Board to consider the financial results for the 9 months to December 2017.

Heather Logan noted the report was coming to the Board in advance of it being considered by the Audit Committee because of the timing of the meetings and sought and received further clarification on the presentation of income in the report, the level of staff and agency staff and secondments in the quarter and how that compared to the annual budget, and on levels of fee income.

Stuart advised the Board on the presentation of income in the report and that the income for PABV forms part of the pooled central charges that, the increased staff costs are offset from additional audit work the fees for which are agreed with audited bodies. Stuart also advised that work was underway with the Appointments and Assurance Team to analyse where fees were above indicative levels and details of audit fees by the in-house team and audit firms forms part of our annual report and accounts which will be reported in June 2018.

Diane McGiffen and Heather Logan agreed to discuss further the refinement of quarterly reporting.

Following discussion, the Board welcomed the report.

Stuart Dennis, Corporate Finance Manager, left the meeting

10.   Q3 Corporate performance report 2017/18

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the Q3 Corporate performance report 2017/18, which had been previously circulated.

Martin invited the Board to note the strong performance of Audit Scotland's strategic objectives in the quarter and to the year to date.

Graham Sharp asked how issues arising are monitored and how emerging themes across sectors are monitored and discussed.

Martin advised the Board of the corporate review process which includes assessing data, trends and emerging issues by the Performance and Risk Management Group, review by the Assistant Director, Corporate Performance and Risk, and formal consideration by Management Team. Diane McGiffen also invited the Board to note there were additional regular updates by way of weekly correspondence updates, monthly reporting on Parliamentary engagement and media coverage and where any concerns were raised by audited bodies to the Appointments and Assurance team these are investigated and escalated as appropriate to the Auditor General for Scotland and the Controller of Audit on behalf of the Accounts Commission.

Following discussion, the Board welcomed the assurance around the review and monitoring arrangements.

11.   Q3 Becoming world class improvement programme report 2017/18

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the Q3 Becoming world class improvement programme report 2017/18 which had previously been circulated.

Martin invited the Board to note the overall good progress reported on each of the workstreams highlighting the budget approval from the SCPA to support the additional work on new financial powers, the external quality review work underway by ICAS, the first tranche of Career Development Gateways (CDG) which are now open for colleagues, the rolling five year work programme and parliamentary engagement.

The Board recognised the importance of balance and independence in Audit Scotland's external engagement and welcomed the initial feedback that the CDG process was going well.

Following discussion, the Board welcomed the report.

12.   Any other business

There was no further business.

13. Review of meeting

The members recognised the constraints of some members having to join by conference call and agreed the meeting had been conducted effectively. The Chair thanked everyone for their contribution.

14. Date of Next Meeting

It was noted that the next Audit Scotland Board meeting was scheduled for 10.00am on Wednesday 28 March 2018 in the offices of Audit Scotland, 102 West Port, Edinburgh

Minutes

Audit Committee Meeting

Wednesday 15 November 2017, 10.00am

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

Present:

H Logan (Chair)
G Sharp
R Griggs (joined the meeting from 10.40am)

In attendance:

C Gardner, Auditor General for Scotland
I Leitch, Chair of the Audit Scotland Board
D McGiffen, Chief Operating Officer
R Frith, Assistant Auditor General
M Walker, Assistant Director, Corporate Performance and Risk
S Dennis, Corporate Finance Manager
A Devlin, Corporate Governance Manager
E Boyd, Assistant Director
J Gilchrist, Manager
C Robertson, BDO
A O'Donnell, BDO
J So, Alexander Sloan

1.   Private meeting

A private meeting was held with BDO, the internal auditors, and Alexander Sloan, external auditors prior to the start of the meeting.

There were no issues raised from the private meeting.

2.   Welcome and apologies

The Chair of the Audit Committee welcomed Graham Sharp, Chair of the Accounts Commission to his first meeting of Audit Scotland's Audit Committee, and thanked Ronnie Hinds for his time and commitment to the Audit Committee's work as interim Chair of the Accounts Commission.

There were no apologies.

3.   Declarations of interest

There were no declarations of interest.

4.   Minutes of meeting 13 September 2017

The Audit Committee members reviewed the minutes of the meeting of 13 September 2017, which had previously been circulated.

The minutes were approved as an accurate record of the meeting.

5.   Review of actions tracker

The Audit Committee members reviewed the outstanding actions on the actions tracker. Updates were given by Audit Scotland's officers on:

35AC: An update would be provided to the members on discussions with SCPA about external audit at the end of the meeting.

41AC: The members noted progress on the revised TOR for the Management Team. The Chair asked if the definition of the constitution of the Management Team would be included in the update. The Chief Operating Officer informed the members that it would.

41AC continued: The Chief Operating Officer to revise the Management Team TOR. (January 2018)

43AC: To be covered at item six on today's agenda.

45AC: Completed, the audit quality framework was approved by the Board at its meeting on 25 October 2017.

46AC and 47AC: Completed and will be reported at item 13 on today's agenda.

48AC: Completed, the policies were approved by the Board at its meeting on 25 October 2017.

49AC: The Assistant Director, Corporate Performance and Risk, updated the members on the lack of a technical solution to quantify any losses for files and records management as many files were correctly deleted in accordance with the policy. The members were advised that the Knowledge, Information and Technology Governance Group (KITGG) were keeping a close watching brief on this issue.

The members welcomed and noted the update.

6.   Audit Committee terms of reference

The Chair invited comments from members on the report submitted by the Corporate Governance Manager, which had been previously circulated.

The Chair of the Audit Committee informed the members that the role of the Committee in monitoring external audit would be covered at the end of the meeting.

The members approved the inclusion of audit quality within its Terms of Reference.

7.   Internal audit progress report

Claire Robertson, BDO, submitted the internal audit progress report, which had been previously distributed. Claire informed the members that progress against the plan was on schedule and invited any questions or comments.

The Chair asked about the scope to the IT General Controls audit. Andrew O'Donnell outlined the scope of the audit and what areas the auditor would look at during the work. The Chair asked if the scope had been distributed to the members in advance of the audit; it was confirmed that it had, along with the TOR for the core financial controls audit. The Assistant Director, Corporate Performance and Risk informed the members that Digital service provision for the Accounts Commission was being covered in separate discussions between the Digital Services Manager and Commission members.

The members noted the report.

8.   Internal audit reports

Claire Robertson, BDO submitted the internal audit reports on procurement and contract management and audit efficiency, which had been previously distributed.

Procurement and contract management

Andrew O'Donnell, BDO provided an overview of the good practice points and key findings as well as the audit outcome of substantial assurance for design and reasonable assurance for operational effectiveness.

The Chair invited comments and questions on the report from the members.

The Chair of the Board asked about the draft procurement strategy. He was informed that the strategy is required for tenders over £5 million and that good progress was being made on it in advance of its requirement for the next procurement of external auditors in a few years time.

The Chair of the Audit Committee asked why a central register of contracts and central repository for procurement documentation would take until January to implement. The Chief Operating Officer informed the Chair that it had taken time setting up systems to meet the 2014 procurement act, that we have a central register for regulated contracts, and this was available on the Scottish Governments procurement portal. The members were informed that the time needed was for non-regulated contracts and that this was being progressed.

The Chair asked about the statement in the report on the potential for spend with major suppliers which may require more formal competition and whether this is a cause for concern with internal audit. Claire Robertson, BDO informed the members that Audit Scotland's processes were satisfactory and that they had no cause for concern regarding this issue.

Audit efficiency

Andrew O'Donnell, BDO gave an overview of the good practice points and key findings as well as the audit outcome of substantial assurance for both design and operational effectiveness.

Russel Griggs joined the meeting at 10.40 via video link for Audit Scotland's Glasgow office.

The Chair of the Audit Committee asked the member if he had any declarations of interest to declare. Russel replied that there were none. He also had no comment to make on the minutes of the previous meeting.

The Chair invited comments and questions on the report from the members.

A discussion took place on the following points:

- Whether having two systems for recording time to audit work would potentially cause difficulty during reporting. Claire Robertson advised that it would be more efficient to have one time recording system. The Chief Operating Officer advised the members that work continued on this with the aim of having one system.

- Was MKI used by PABV staff working on ASG financial audit work. The members were informed that MKI was not always used by PABV staff who predominantly use the CentralTime system. Time recording information was therefoire collated from the two systems. The Auditor General added that MKI was the principal tool for informing the fee setting.

- Time spent on training and corporate work and the need to review whether the balance between audit work and non-audit work was appropriate. The members were informed that a project was underway to review how staff spend their time and that this would be reported at a future date.

- ASG staff not completing timesheets expeditiously and whether that affected charging and payment phasing. The Chief Operating Officer outlined the process used by ASG managers to ensure that timesheets are done timeously. The members were also informed that as the charges consisted of three phased payments that late timesheet completion did not impact on charging.

The members noted the two internal audit reports.

9. Update on internal audit recommendations

The Corporate Governance Manager submitted a progress report on internal audit recommendations, which had been previously distributed.

The Chair noted that the implementation of the business performance management recommendation regarding a performance management system was originally 31 December 2016. The Assistant Director, Corporate Performance and Risk explained that due to work pressures it had taken longer than envisaged but that external consultants had been engaged on the project and that a report on the framework and an options appraisal on technical solutions would be received by the end of December.

The Chair asked if the report/conclusions would be brought to the Audit Committee/Board. The Chair was informed that the options presented and the financial implications of those would inform the appropriate route for reporting.

The members noted the progress on outstanding internal audit recommendations.

10. Internal audit procurement 2018

The Chair of the Audit Committee noted that the internal auditors would have a potential conflict of interest if present for this item. It was agreed it would be considered at the end of the meeting to minimise disruption.

11. Audit quality – first report 2017/18

Elaine Boyd, Assistant Director and John Gilchrist, Manager, Appointments and Assurance Team, joined the meeting

There was submitted a report on audit quality by the Assistant Director, Appointments and Assurance Team, which was previously circulated.

Elaine Boyd, Assistant Director, Appointments and Assurance Team introduced the first audit quality report for 2017/18 by highlighting the main points in the report. The members were also informed that she believed the quality reports would evolve over time.

The Chair of the Audit Committee welcomed the report and invited comments and questions from the members.

Graham Sharp, Chair of the Accounts Commission informed the members that the Accounts Commission was happy with the new framework and that there would be a section on audit quality in its annual report. Graham asked that the assurance team liaise with the Secretary to the Accounts Commission on future audit quality reports so that any issues could be picked up and addressed as appropriate in advance of the reports going to the Accounts Commission's Committees.

A discussion took place which included the following points:

- The structuring of issues raised in the report on the basis of priority and risk.

- Whether reducing the audit scope resulted in a reduction in the audit fee and how the smaller body provisions would be applied when setting the fees for 2017/18 audits. The members were informed that the audit plans would inform where the smaller body provisions would be applied.

- For firms, the fact that the FRC combined scores in public reports and whether a more detailed breakdown was available. The members were advised that we would approach the FRC on this. The Chair also asked whether we had sought assurances from Firms with scores which indicated improvement was required. In one case discussions had taken place around the action being taken by the Firm. The members were advised that

in another case the scores in question were from a 2013 report and that a new report would be available in December 2017.

- The lack of wider dimensions reporting on the public audit risks in five NHS boards and most FE colleges. The Chief Operating Officer informed the members about the sector wide meetings for raising issues and ensuring consistency going forward.

- The refusal of one request to carry out non-audit services and whether this raised concerns over the firm's judgement.

The Auditor General commented that the first audit quality report indicates good progress has been made in this important area of our work and the Chair and members endorsed that view.

The members noted the report.

Action: 51AC: Assistant Director, Appointments and Assurance Team to ask the FRC for access to more detailed scoring for elements 1 and 2A. (March 2018)

Elaine Boyd and John Gilchrist left the meeting.

12. Q2 financial performance report

There was submitted a report by the Corporate Finance Manager, on the Q2 financial performance report, which had previously been circulated.

The Corporate Finance Manager gave a short introduction to the main points of the report before taking questions.

The Chair asked whether the price variances noted indicated an underlying issue within the audited bodies that should be considered further. The Accountable Officer pointed out that the variances totalled less than one percent of the fees and would have no adverse effect on the strategy of lowering audit fees. Moreover, the price variances reflected increases in audit scope as a result of known issues so there was currently no cause for concern about rising trends.

The members noted the report.

13. Review of risk register

There was submitted a report by the Assistant Director, Corporate Performance and Risk, on the review of Audit Scotland's risk register, which had been previously circulated.

The Assistant Director, Corporate Performance and Risk, introduced the report by informing the members that there were no substantial changes since Management Team reviewed the register at the end of October.

The Chair asked whether compliance with the assurance maps should be brought in to the register as a cross cutting risk. The members were informed that this had been discussed at Management Team and its view was that the assurance framework was covered through the extensive annual assurance process and therefore does not need to be brought into the register as a strategic risk.

A discussion took place around Brexit and whether the risk register's amber rating was appropriate. The Chief Operating Officer informed the members that a report would be coming to the Board on 29 November on constitutional change and the actions being taken around this.

The Chair discussed the risks within the Digital Services Team and the reply received in the pre meeting note. The Chair asked Audit Scotland to consider when a potential single point of failure within the small Digital Services Team might become a strategic risk.

The Audit Committee noted the report.

14. Risk interrogation – failure of impact and influence

There was submitted a report by the Assistant Director, Corporate Performance and Risk, on the risk interrogation – failure of impact and influence, which had been previously circulated.

Russel Griggs noted that impact and influence will change over time due to the issues arising from the audit work. The Chief Operating Officer informed the members that a review of strategic engagement, including impact and influence will commence next year and this would include feedback from key stakeholders.

The Chair welcomed the examples of impact in the annexes to the report.

The Audit Committee noted the report.

15. Risk interrogation – 2018 schedule

There was submitted a report by the Assistant Director, Corporate Performance and Risk, on the risk interrogation – 2018 schedule, which had been previously circulated.

The Assistant Director, Corporate Performance and Risk introduced the paper and advised the members that the suggested interrogations were based on the current level of risk, the time since the last interrogation and the extent to which risks were being considered as part of other review and improvement work. The members were also advised that proposed risk interrogations could change depending on emerging issues and risks.

The members welcomed the report and approved the schedule of risk interrogations for 2018.

16. Business continuity arrangements – annual review 2017

The Corporate Governance Manager submitted a report on the annual review of Audit Scotland's business continuity arrangements, which had been previously circulated.

The Chair welcomed the report and commented that the arrangements were very comprehensive. The Chair invited comments from the other members.

Russel Griggs asked whether a 'blind' penetration test should be arranged, indpependent of the Digital Services Management Team. The Assistant Director, Corporate Performance and Risk, informed the member that penetration testing was currently undertaken under the direction of the Digital Services Manager, but that an alternative arrangement would be considered. The Chief Operating Officer noted that extensive security arrangements were in place and that systems were the subject of real penetration threats on an ongoing basis.

The Chair of the Audit Committee suggested that this could be revisited in 2018 after the Digital Services team implement all the changes and enhancements that were currently underway to increase security and resilience as part of the Digital Services Strategy agreed by the Board at its meeting on 25 October 2017.

Action: 52AC: Assistant Director, Corporate Performance and Risk to review the arrangements for penetration testing. (March 2018)

17. Review of the external auditor's independence and objectivity

There was submitted a report by the Assistant Director, Corporate Performance and Risk, on the review of the external auditor's independence and objectivity, which had been previously circulated.

The members noted the report.

18. Standing orders – update

There was submitted a report by the Corporate Governance Manager, on an update to Audit Scotland's Standing Orders, which had been previously circulated.

The Chair of the Audit Committee invited comments from the members and those in attendance on the changes. The Chair of the Board advised that the Standing Orders should include more detail on the approval of the agenda prior to publication including the items likely to be taken in private. A discussion took place on the process for deciding on papers and reports to be taken on public or in private.

Russel Griggs sought clarification from the members regarding a review of the Board meeting in public. The Board members agreed to review the arrangements after six months and noted that the Standing Orders could be amended at any point as required by the Board.

The Members agreed to recommend the Board approve the Standing Orders at its next meeting on 29 November 2017 subject to the amendment discussed.

Action: 53AC: The Corporate Governance Manager to amend the Standing Orders. (November 2017)

19. Data incident / loss

The Corporate Governance Manager submitted a report on data incidents/loss, which had been previously circulated.

The members noted the report.

20. Proposed Audit Committee dates for 2018

There was submitted a report by the Chief Operating Officer on the proposed Audit Committee dates for 2018, which had been previously circulated.

The Chair informed the members that the meeting date for the Committee on 14 March 2018 should show its location as Glasgow to coincide with the Remco and that the schedule should be updated to reflect this.

The members approved the meeting dates for 2018.

Action: 54AC: The Chief Operating Officer to amend the Audit Committee meeting schedule to reflect that the meeting on 14 March 2018 will be held in Glasgow. (November 2017)

21. Any other business

There was no other business raised.

22. Review of meeting

The Chair of the Audit Committee invited members to comment on the standard of the papers submitted to them and on the meeting itself. Members were satisfied with the papers and the meeting.

23. Date of next meeting

The next meeting will be held at 10.00am on 14 March 2018 in the offices of Audit Scotland, Nelson Mandela Place, Glasgow.

The internal and external auditors left the meeting

The Chair returned to items 5 and 10 on the agenda

Item 5 - Actions tracker item 35AC:

The Chief Operating Officer informed the members that she had been in discussions with the Parliament on the role of the Audit Committee in providing feedback on the external auditor's performance and value for money. The members were informed that feedback would be given around September/October each year. After discussion the members agreed that the Chair of the Audit Committee would, after discussion with the Chief Operating Officer, provide feedback to the SCPA.

Item 10 - Internal Audit Procurement 2018

There was a report submitted by the Corporate Governance Manager on the procurement of internal audit services with effect from April 2018, which had previously been circulated to members only.

The members agreed to proceed with the procurement of internal audit services for 2018/19 – 2020/2021.

Action: 50AC: The Corporate Governance Manager to proceed with the procurement of internal audit services for 2018/19 – 2020/2021. (March 2018)

AUDIT SCOTLAND BOARD ACTION TRACKER 2017/18

Ref	FORUM	Agenda Item No	Item Title	Action Description	Meeting Date	Due Date	Responsible	Assigned to	Complete/Ongoing	Reported Yes/No	Progress Notes
ASB49	Board	18	Making a Difference: Public Engagement Work with Young Scot	Diane McGiffen, Chief Operating Officer, to schedule an update report in March 2018.	31/03/2017	01/03/2018	Diane McGiffen	Tricia Meldrum	Ongoing		A verbal update will be provided at the meeting on 28 March 2018 with a report scheduled for May 2018.
ASB58	Board	18	2016/17 Annual report on international work and international strategy 2017-20	Antony Clark, Chair of International Steering Group to consider the longer term impact of international work in future reporting.	06/06/2017	01/06/2018	Antony Clark	Sarah Pollock	Ongoing		A report will be scheduled by June 2018.
ASB64	Board	5	Accountable Officer's Report	An update report on developments within the Appointments and Assurance and Professional Support teams to be scheduled.	29/11/2017	28/03/2018	Diane McGiffen/Fiona Kordiak	Diane McGiffen/Fiona Kordiak	Ongoing		A verbal update will be provided at the meeting on 28 March with a report to be scheduled later in the year.
ASB66	Board	10	Q2 Corporate performance report	An update on the BVAR audit days to be reported to the next meeting of the Audit Committee.	29/11/2017	14/03/2018	Martin Walker	Martin Walker	Ongoing		This item will form part of the report under ASB71 at the meeting on 2 May 2018.
ASB67	Board	10	Q2 Corporate performance report	The annual report on international work to expand on the engagement with the Canadian Comprehensive Auditing Foundation in developing the performance audit work.	29/11/2017	06/06/2018	Antony Clark	Antony Clark	Ongoing		This item is scheduled for the meeting on 6 June 2018.
ASB70	Board	11	2018 Audit Scotland staff conference update	A discussion on audit quality and reputational risk to be scheduled following consideration of the Annual Audit Quality report.	31/01/2018	22/08/2018	Diane McGiffen	Elaine Boyd	Ongoing		A report will be scheduled to come to the Board meeting on 22 August 2018.
ASB71	Board	11	2018 Audit Scotland staff conference update	A review of Best Value to be scheduled for the Board once it has been reported to the Accounts Commission.	31/01/2018	02/05/2018	Diane McGiffen	Fraser McKinlay	Ongoing		A report is scheduled to come to the Board meeting on 2 May 2018.
ASB72	Board	11	2018 Audit Scotland staff conference update	Ongoing updates on the implications for public audit in light of the new financial powers and Brexit to be scheduled, as appropriate.	31/01/2018	02/05/2018	Diane McGiffen	Mark Taylor	Ongoing		A report is scheduled to come to the Board meeting on 2 May 2018.
ASB73	Board	12	Publications schedule: January to June 2018	A copy of the Openness and transparency briefing paper to be circulated to members.	31/01/2018	30/04/2018	Diane McGiffen	Joy Webber	Ongoing		A copy of the briefing paper will be shared on publication in April 2018.

Purpose

1. This report presents Audit Scotland's proposed operational budget for 2018/19 to the Board for approval.

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:

    - additional income of £236k
    - an increase in approved auditor fees of £90k
    - an increase in management contingency budget of £146k

3. Appendix 1 provides an analysis of the proposed budget compared to the SCPA approved budget by subjective heading.

Background

4. The proposed 2018/19 budget is based on the one approved by the SCPA and included in the 2018/19 Scottish Budget Bill.

5. The detail of the original budget was discussed and approved at the Audit Scotland Board meeting held on 25 October 2017 and was presented to the SCPA on 20 December 2017.

6. In total the funding provided by Scottish Parliament remains at £7.148m with £6.973m revenue and £0.175m capital funding.

Budgetary Assumptions

7. The main budget assumptions used in preparing the 2018/19 SCPA approved budget have been reviewed with no changes proposed to the assumptions underpinning the operational budget at this stage.

8. The assumptions are subject to change following further discussion and agreement at Remuneration Committee of a proposed Audit Scotland pay award policy for 2018/19.

Additional Income

9. The initial budget proposal was based on estimates of work for 2016/17 audits. Following completion of the audit work it was identified that the new Integrated Joint Board bodies needed more time allocated to the audits than initially planned and this has led to an increase in the base fee being applied to these bodies. Fee letters have been issued to audited bodies in respect of 2017/18 audits and the revised income budget is based on the recovery of this increased work.

Approved Auditors

10. The increase in the baseline fee leads to the fee payment due to external audit firms increasing with the budget requiring an uplift of £90k to reflect this additional commitment.

Management Contingency

11. The balance of the increase in income budget of £146k has been allocated to management contingency at this stage. Potential changes to the budget assumptions in respect of a pay award policy will have implications on the management contingency budget.

Recommendation

12. The Board is invited to note the contents of this paper and approve Audit Scotland's revised budget for 2018/19 in the knowledge that this is subject to further change based on 2018/19 pay award policy decisions.

AUDIT SCOTLAND BUDGET: 2018/19

£(000)'s	SCPA Approved 2018-19	Proposed Budget 2018-19
Basic Salaries	11,372	11,372
Employer's On costs	3,439	3,439
Agency Staff	70	70
Payroll provisions	730	730
Former AGS pension	25	25
Pension Adjustments	100	100
Accounts Commission Members	164	164
	15,900	15,900
Approved Auditors	3,991	4,081
Rent & Rates	525	525
Accommodation Costs	410	410
Travel & Subsistence	894	894
Legal & Professional Fees	615	615
Printing & Stationery	148	148
Training	528	528
Recruitment	105	105
Communications (telephone, postage)	46	44
Insurance	79	79
Information technology	456	458
Internal Audit	30	30
External Audit	30	30
Other	65	65
Depreciation	384	384
Management Team Contingency	150	296
	8,456	8,692
GROSS ADMINISTRATIVE COSTS	**24,356**	**24,592**
Corporation Tax	-	-
Bank Interest	-	-
Secondment Income	-	-
Other Income	-	-
OTHER INCOME	**-**	**-**
NET EXPENDITURE	**24,356**	**24,592**
FEES & CHARGES INCOME	**(17,383)**	**(17,619)**
NET OPERATING COST	**6,973**	**6,973**
Capital	**175**	**175**
TOTAL RESOURCE REQUIREMENT	**7,148**	**7,148**

Agenda

Wednesday 2 May 2018, 10.15am

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

1. Welcome and apologies

2. Declarations of interest

3. Decision on items to be taken in private   For approval

Standing items

4. Chair's report – verbal update

5. Accountable Officer's report – verbal update

6. Accounts Commission Chair's report – verbal update

7. Review of minutes: For approval
- Board meeting, 28 March 2018

8. Review of action tracker   For information

Strategy and planning

9. New financial powers and constitutional change update   For information

10. Review of the new approach to auditing Best Value   For information

11. Work programme and publication schedule   For information

12. Engagement with young people   For information

13. Data Protection Policy   For approval

14. Information Security Management Policy   For approval

Business management

15. Any other business

16. Review of meeting

17. Date of next meeting: 6 June 2018

Items to be taken in private

18. Corporate plan 2018-21

For approval

[Item to be taken in private to support the effective conduct of business –
information intended for future publication]

Items to be taken in private

Minutes

Wednesday 28 March 2018, 10.15am

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

Present:

I Leitch (Chair)
C Gardner
G Sharp
H Logan
R Griggs

Apologies:

None

In attendance:

D McGiffen, Chief Operating Officer
M Walker, Assistant Director, Corporate Performance and Risk
S Dennis, Corporate Finance Manager (items 9 – 13)
J Gillies, Communications Manager (item 13)
B Stoddart, Senior Graphic Designer (item 13)
J Webber, Senior Executive Assistant

1. Welcome and apologies

The Chair welcomed members and attendees to the meeting of the Audit Scotland Board, the agenda and papers for which had been published on Audit Scotland's website on Monday 26 March 2018.

2. Declarations of interest

There were no declarations of interest.

3. Decision on items to be taken in private

The members agreed that Items 13, 14 and 15 would be considered in private.

4. Chair's report

Ian Leitch provided a verbal update on meetings since the previous Board meeting with Diane McGiffen on general business matters.

The members welcomed the update.

5. Accountable Officer's report

Caroline Gardner advised the Board of recent parliamentary engagement including; the evidence sessions to the Public Audit and Post Legislative Scrutiny (PAPLS) Committee on 8 March and the Education Committee on 21 March 2018 on the Early Learning and Childcare report. Caroline advised of the PAPLS session on 29 March 2018 on NHS Tayside and of the session on the Scotland Act Report which was scheduled with PAPLS for 19 April 2018. Caroline also invited the Board to note that a series of events were being arranged by the Finance Committee to promote the recommendations of the Budget Process Review Group in May 2018.

Caroline advised the Board that during the severe weather disruption Audit Scotland's investment in technology and the Time, Place Travel policy had enabled colleagues to continue to work, reducing the impact of disruption to the organisation.

Caroline invited the Board to note she had joined the Accounts Commission Strategy Seminar and of her recent speaking engagement at the CIPFA Conference Scotland on 23 March 2018, and a further speaking engagement at the Women in Banking and Finance Dinner on 12 April. Caroline also advised she would be the keynote speaker at the first PSAA Local Quality Audit Forum meeting in April 2018.

Caroline advised the Board that the external quality assurance work by ICAS was on track to report its final conclusions.

Caroline also invited the Board to note that Diane McGiffen, Chief Operating Officer, was presenting a paper at an international conference at the University of Tampere in Finland on the retention of women in the public sector workforce in April 2018.

Following discussion, the Board welcomed the update.

6.   Accounts Commission Chair's report

Graham Sharp advised the Board that the Accounts Commission had approved the joint performance audit work programme at its meeting on 8 March 2018 and this was due to be approved by the Auditor General of Scotland by 30 March 2018.

Graham provided a summary of the outcomes from the Accounts Commission Strategy Seminar which focussed on engagement with stakeholders, public sector risks and how auditors can best provide assurance on the areas of interest for the commission.

The Board discussed the different types of audit currently performed and noted the arrangements underpinning the Code of Audit Practice would evolve over the course of the current appointment term to ensure they provide assurance for the Auditor General of Scotland and the Commission.

Graham invited the Board to note the publication of the statutory report on Dundee City Council and the forthcoming publication of the City of Edinburgh Schools statutory report.

Graham advised the Commission would be considering the Local Government Framework and a performance audit report on ALEOs at its next meeting on 12 April 2018.

The Board welcomed the update.

7.   Review of minutes

Board meeting, 28 February 2018

The Board considered the minutes of the Board meeting on 28 February 2018, which had been previously circulated, and agreed these were an accurate record of the meeting subject to minor amendment at item 6, paragraph 3.

Audit Committee meeting, 15 November 2017

The Board considered the minutes of the Audit Committee meeting on 15 November 2017, which had been approved by the Audit Committee on 14 March 2018. The Board noted the minutes.

8.   Review of actions tracker

The Board noted the updates provided by the action tracker.

Diane McGiffen provided a verbal update on ASB49, advising the Board on the developments to build on previous work with Young Scot and to mark the Year of Young People. She advised that Tricia Meldrum would be reporting to the Board on 2 May 2018 specifically about the partnership with Young Scot.

Diane McGiffen also provided a verbal update on ASB64 on the work of and developments within the Appointments and Assurance and Professional Support teams advising a report would be scheduled to come to the Board following the quality reporting scheduled for May and June 2018.

9.   Audit Scotland budget 2018/19

Stuart Dennis, Corporate Finance Manager, joined the meeting.

Stuart Dennis, Corporate Finance Manager, introduced the Audit Scotland budget 2018/19 report, which had been previously circulated.

Stuart invited the Board to approve the proposed operational budget for 2018/19.

The Board noted there was no change to the total budget resources approved by the Scottish Commission for Public Audit.

Heather Logan asked how additional income was reflected in the indicative and actual fees. Stuart advised the audit fees for Integrated Joint Boards had been based on 2016/17 audit fee levels and that the first full year of the audits had highlighted complex governance arrangements and that more time needed to be allocated to these audits in 2017/18. He also advised that this was reflected in the fees and the revised income budget.

Heather also asked about changes to Communications and Digital Services teams. Stuart advised this related to a small adjustment to the budget.

Following discussion, the Board welcomed the report.

10.   Any other business

There was no further business.

11.   Review of meeting

The members agreed the meeting had been conducted effectively and the Chair thanked everyone for their contribution.

12.   Date of Next Meeting

It was noted that the next Audit Scotland Board meeting was scheduled for 10.15am on Wednesday 2 May 2018 in the offices of Audit Scotland, 102 West Port, Edinburgh.

The Board then moved into private session.

Items taken in private

13.   Audit Scotland draft annual report and accounts

James Gillies, Communications Manager and Bruce Stoddart, Senior Graphic Designer, joined the meeting.

James Gillies and Bruce Stoddart introduced the Audit Scotland draft annual report and accounts report, which had been previously circulated.

James invited the Board to consider the proposed layout and Bruce presented the refreshed design for the report.

The Board welcomed the proposed format and content and discussed the visuals to be used noting that these continue to be developed and would appear in the next draft to be shared with the Board in May 2018.

The Board welcomed the report.

Stuart Dennis, James Gillies and Bruce Stoddart left the meeting.

14. Draft Corporate plan 2018-21

Martin Walker, Assistant Director, Corporate Performance and Risk introduced the Draft Corporate plan 2018-21 report, which had been previously circulated.

Martin invited the Board to consider and comment on the first draft of the Corporate Plan.

The Board discussed the need to bring the purpose and influence of public audit forward in the report together with the audit priorities for the Auditor General of Scotland and the Accounts Commission. Heather Logan welcomed the refinement to, and the articulation of, the strategic priorities.

Following discussion, the Board welcomed the emerging themes, structure, proposed content and design.

15. Internal audit services procurement

The Board considered the report and approved the appointment of BDO LLP as the supplier of internal audit services to Audit Scotland.

Heather Logan, Chair of the Audit Committee, introduced the Internal audit services procurement report, which had been previously circulated.

Heather invited the Board to approve BDO LLP as the supplier of internal audit services to Audit Scotland.

Following discussion, the Board approved the appointment of BDO LLP.

AUDIT SCOTLAND BOARD ACTION TRACKER 2018/19

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New Financial Powers and Constitutional Change update

Assistant Director, ASG and PABV

Purpose

1. This paper provides an update on key developments surrounding financial devolution and constitutional change, including Audit Scotland's response and organisational arrangements.

Background

2. We provided an update to the Board in November 2017 on the new financial powers and constitutional change. Significant developments since then include:

    - We are building capacity for additional work in 2018/19 in response to financial devolution, and have established two new teams with responsibility for auditing social security and public financial management.

    - We published the latest in a series of performance audits on managing the implementation of the Scotland Acts on 28 March 2018. The report was considered by the Public Audit and Post-Legislative Scrutiny Committee (PAPLSC) on 19 April and is due to be considered by the Social Security Committee on 3 May.

    - The Scottish Government published its draft budget for 2018/19 on 14 December 2017. The Scottish Fiscal Commission published its first set of five-year forecasts alongside the budget. The budget was passed on 21 February 2018 and included a new five-band income tax system.

    - The Social Security (Scotland) Bill continues to progress through Parliament and is expected to be passed into law by summer 2018. Recruitment for Social Security Scotland, the agency that will deliver devolved social security payments, started in March 2018.

    - The UK and EU agreed a transition period for the UK's withdrawal from the EU, which will last until the end of 2020. The Scottish Parliament passed an emergency piece of legislation on 21 March 2018, which is intended to ensure continuity of EU legislation in Scotland after March 2019. This will be enacted if no agreement is reached between the Scottish and UK Governments over the UK's EU Withdrawal Bill. The UK Government has asked the Supreme Court to rule whether the legislation is within devolved powers.

Scottish budget

3. The Scottish Government's 2018/19 budget was passed by Parliament on 21 February 2018. This included a new five-band income tax system and introduced marginal changes in tax rates across the five bands. This policy is forecast to fund an additional £219 million in the Scottish budget. The Scottish Fiscal Commission forecast income tax revenues of £12.2 billion in 2018/19.

4. The Scottish Fiscal Commission (SFC) published its first set of five-year forecasts of tax revenues, social security spending and onshore GDP on the same day as the draft budget (14 December 2017). These economic forecasts, on which the budget is now based, predicted lower growth than other forecasters such as the Fraser of Allander Institute (FAI) and Office for Budget Responsibility (OBR). The FAI set out the following as the most significant reasons for the lower SFC forecasts:

    - The SFC views the Scottish economy as operating at capacity, with a narrow gap to potential capacity, and therefore little room to grow into.

    - Working age population is falling and forecast migration is lower as a result of the implications of EU withdrawal.

    - Productivity levels are low because there is high employment and low growth.

5. We will continue to inform and support the Parliament and others as they establish new arrangements to help ensure transparency, accountability and financial sustainability in relation to the Scottish public finances. Our programme of work on public financial management will continue to look at the management and reporting of the new devolved powers. It will also consider the implementation of the recommendations of the Budget Process Review Group (BPRG) and the transparency of the budget, which is particularly important given its increasing complexity. We are building capacity across the organisation for this increasing programme of work.

6. We are working with colleagues in the Scottish Parliament and others to help communicate and support implementation of the BPRG's recommendations. This includes briefing parliamentary committees and hosting awareness-raising events in May with stakeholders from the Parliament, Scottish Government and public bodies. The revised budget process recommended by the BPRG introduces a full-year approach, with a continuous cycle of budget scrutiny. The new process will be in place for the 2019/20 budget, starting with the publication of the Scottish Government's first medium-term financial strategy before summer recess. The BPRG recommendations have implications for Audit Scotland, and we are engaging with parliamentary committees and colleagues to ensure our audit work helps support the new budget process and improved scrutiny.

EU withdrawal

7. The UK Government and the European Commission are currently in stage two of negotiating the terms of the UK's withdrawal from the EU. The EU has stated that these terms need to be agreed by October 2018, so that they can be ratified by the member states and the European Parliament by 29 March 2019. On 19 March 2018 the EU and UK agreed a transition period, which will last until the end of 2020. The key points of this agreement are:

- EU citizens arriving in the UK during the transition period will receive the same rights and guarantees as those who arrive before 29 March 2019.

- The UK will still be party to existing EU trade deals with other countries, but will also be able to negotiate, sign and ratify its own trade deals during the transition period.

- The UK will effectively remain part of the Common Fisheries Policy until the end of 2020, although it will not have a direct say in the rules of the policy.

- Northern Ireland will effectively remain in parts of the single market and the customs union, in the absence of other solutions, to avoid a 'hard border' with the Republic of Ireland.

8. The EU (Withdrawal) Bill is currently progressing through the House of Lords. It completed the committee stage (line by line examination of the Bill) without amendment, and entered the report stage on 18 April. The Scottish Government has expressed concerns that the EU Withdrawal Bill in its current form is "incompatible with the devolution settlement" and Ministers have indicated they may not give consent to the Bill unless it is amended. The Scottish Parliament passed an emergency piece of legislation on 21 March 2018 - the UK Withdrawal from the European Union (Legal Continuity) (Scotland) Bill. This is intended to ensure there is continuity of EU legislation in Scotland after March 2019, in case no agreement is reached between the Scottish and UK Governments over the UK's EU Withdrawal Bill. The UK Government has asked the Supreme Court to rule whether the legislation is within devolved powers.

9. We are continuing to monitor issues as they develop, identify associated audit risks, and ensure they are reflected in the public sector audit risk register and our work programme. The audit planning guidance for 2017/18 audits asks auditors to consider the extent to which public bodies are working to understand, assess and prepare for the UK leaving the EU. Our latest work programme also includes potential performance audits in this area from 2021, looking at issues such as development of Scotland's agricultural and fishing policy and replacing European funding streams following EU withdrawal.

10. We are also identifying the implications of EU withdrawal for Audit Scotland and assessing any business risks. Management Team held a summit with colleagues from across the organisation in January 2018, to discuss the potential implications for our audit work, our organisation and our priorities. Audit Scotland's Audit Committee is planning a 'deep dive' into the business risks associated with EU withdrawal at its meeting on 23 May. Failure to assess and respond to the impact of EU withdrawal

could influence other risks in the corporate risk register, such as the quality and impact of our work and our reputation.

11.   We have identified a professional lead for EU withdrawal, who is leading our programme of engagement in this area. They will work with colleagues across the organisation to develop our audit work programme and manage any organisational implications. This is being coordinated through the new financial powers and constitutional change programme, with dedicated resources committed to this work. We will continue to review our resource needs and build capacity for our work in this area (see paragraphs 21-22).

Social security powers

12.   Parliamentary consideration of the Social Security (Scotland) Bill is progressing to the planned timetable, and it is expected to receive Royal Assent in spring / early summer 2018. The Bill sets out an overarching approach to delivering the devolved social security benefits, setting out key principles and arrangements. The Bill proposes that the specific details for each benefit will be set out in regulations once the Bill has passed into law, rather than being in the primary legislation itself. An amended version of the Bill was published on 6 March 2018, following stage 2 consideration at the Social Security Committee. This includes the establishment of a Scottish Commission on Social Security, which would be responsible for scrutinising the new social security system including any secondary legislation to the Bill.

13.   The Scottish Government's social security programme is responsible for establishing all the necessary arrangements to deliver the devolved benefits. This includes setting up Social Security Scotland, the executive agency that will deliver devolved benefit payments, and the required operational and IT systems. This is a complex and wide-ranging programme of work. Our latest performance audit on the implementation of the Scotland Acts found that the Scottish Government's social security programme has made good early progress. It is now at a critical point as it moves into its initial phase of delivering devolved benefits, the first of which are due to be delivered by summer 2019. Recruitment for Social Security Scotland started in March 2018, and at least 1,900 jobs are expected to be created by the time the agency is fully operational. The appendix provides a timeline of the devolution of social security powers.

14.   Audit Scotland is the appointed auditor for Social Security Scotland and the payments that it administers. The Auditor General for Scotland (AGS) will also appoint the auditor for the Scottish Commission on Social Security. We have now established a team that will be responsible for all our financial and performance audit work on social security, including our existing housing benefit performance audit work. We will continue to review our resource needs for this work and build additional capacity as more social security benefits are devolved through to 2021. Given the scrutiny role of the Scottish Commission on Social Security, we will be engaging with it to discuss our respective roles and responsibilities.

Audit arrangements

15.   Discussions are continuing between the Scottish Government and HM Treasury on audit and accountability arrangements for devolved services provided by UK public bodies (such as HMRC and DWP). The Scottish Government has formally consulted with Audit Scotland on a draft framework, and HM Treasury consulted with the NAO. We are continuing to engage with the Scottish Government, to help ensure the arrangements are fit for purpose and meet the needs of the Scottish Parliament.

16.   At its meeting on 8 February 2018, PAPLSC took evidence on the draft framework from the AGS and the Scottish Government. The AGS provided a written submission to the committee, suggesting areas where the framework could potentially be strengthened to better support the interests and responsibilities of the Scottish Parliament.[1] PAPLSC agreed to invite views from other committees on the proposed audit and accountability arrangements. On 5 April, PAPLSC wrote to the Cabinet Secretary for Finance and the Constitution and the Chief Secretary to the Treasury setting out the views

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[1] http://www.parliament.scot/S5_Public_Audit/Meeting%20Papers/Agenda_and_Papers_-_8_Feb_2018.pdf

of the committees.**2** This letter highlights concerns that the draft framework does not fully satisfy the Parliament in its scrutiny of devolved matters. Ultimately, the framework will be agreed by the Scottish and UK Governments at a Joint Exchequer Committee.

Audit reporting

17. We published the fourth in the series of performance audits on managing the implementation of the Scotland Acts on 28 March 2018. This looked at how effectively the Scottish Government is managing the implementation of the new financial powers, with a particular focus on the devolved social security powers. The report was considered by PAPLSC on 19 April. The key messages from the report include:

    - Implementing the financial and social security powers from the Scotland Acts is a large and highly complex programme. The Scottish Government needs to develop the capacity and capability to deliver these changes alongside delivering its continuing responsibilities and preparing for the implications of the UK's withdrawal from the EU. It has taken some important steps to assess its workforce and priorities, and now needs to finalise an overall plan and processes to make sure it has the people it needs. It will be challenging to recruit and deploy all the necessary people and skills in time.

    - The Scottish Government has not estimated the total cost of implementation, or the extent to which this will exceed the UK Government's agreed contribution. The excess will require funding from the wider Scottish budget. Greater transparency and a better understanding of overall implementation costs are needed to support financial planning and decision-making.

    - A significant amount of work is required during 2018 if planned timescales are to be met in the Scottish Government's social security programme. This relies on effective working with others such as DWP, and the development and integration of a number of IT systems. Plans need to be fully developed to reflect interdependencies, assurance activities, contingency arrangements and key decision points. The Scottish Government is currently developing a five-year financial plan to refine the implementation and operational costs of the social security programme. More detailed estimates of costs need to be developed and refined as decisions are made about service delivery and long-term IT solutions.

    - The Scottish Government has established a new role of Director General Scottish Exchequer, with responsibility for fiscal autonomy and financial sustainability. Governance and organisational arrangements now need to be established to manage the new fiscal risks and opportunities in the budget. Work is under way within the Scottish Government to support agreed changes to the Scottish budget process. This provides the opportunity for it to be clearer about its overall approach to financial management over the medium term.

18. The National Audit Office (NAO) reported on its 2016/17 audit of HMRC's implementation of the Scottish Rate of Income Tax in November 2017. It found that HMRC's processes for identifying Scottish taxpayers operated appropriately in 2016/17, but maintaining accurate address records remains a risk. As in the previous two years, the AGS published a report alongside this, providing additional assurance to the Scottish Parliament on the NAO's audit work in this area. PAPLSC took evidence from the AGS and Comptroller and Auditor General at its meeting on 11 January 2018. The committee wrote to HMRC and the Comptroller and Auditor General about issues arising from the report, including the impact of the Scottish Government's new income tax bands on:

    - tax avoidance and HMRC's compliance activity

    - the administrative costs of collecting Scottish income tax

    - HMRC's IT systems for processing income tax.

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2 http://www.parliament.scot/S5_Public_Audit/Inquiries/20180405_Letter_to_Cab_Sec-Chief_Secretary_to_the_Treasury.pdf

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Organisational arrangements

19. Business risks in this area are identified in the corporate risk register and the risk register for the new financial powers and constitutional change programme. The immediate priorities of the programme reflect the three most significant risks - EU withdrawal, building capacity, and developing an effective audit and accountability framework. Our work monitoring issues in this area also helps to inform the public sector audit risk register.

20. The SCPA approved proposals for growth in Audit Scotland's budget for 2018/19, to accommodate additional work in response to financial devolution and constitutional change. We have identified what specific work we will undertake in 2018/19 and what people and skills will be required. We have put in place the initial capacity we need for this additional work by establishing two cross-organisation teams, with responsibility for the audits of social security and wider public financial management work. We are identifying the particular skills that are needed in these two teams, and for our wider work, and will be targeting learning and development activity in these areas.

21. The corporate risk register identifies the risk of failing to recruit, retain, develop and deploy people with the skills, experience and capability we need, leading to reduced quality of work and inability to deliver our audit commitments. We are continuing to review our resource needs and increase capacity in a managed way, to ensure resources are available at the right time and in the right place to allow us to respond effectively as the demands on us grow. This includes managing any resourcing implications in a way that allows us to continue to deliver our existing work effectively and provides opportunities for people across the organisation.

22. We will be bringing more people into the organisation to provide backfill for the people who have moved into the two new teams and to continue to build capacity as our work in this area grows. Detailed planning for significant recruitment during 2018 is well advanced, and our professional trainee scheme will continue to play a key role in bringing talented people into Audit Scotland. We will be looking to fill vacancies for audit staff across bands 1 to 3. We are also capitalising on opportunities presented by BaBO, such as Career Development Gateways and taking a 'one organisation' approach, to ensure we continue to retain and develop our existing staff and provide opportunities for new and innovative ways of working.

23. The AGS has appointed the auditors for the Scottish Fiscal Commission (Audit Scotland) and Crown Estate Scotland (Grant Thornton), which were both established on 1 April 2017. Planning for the first annual audits (2017/18) is complete and audit work will continue over the summer.

24. Our programme of work in this area continues to grow. We made good progress against our three main priorities for 2017/18 – supporting the AGS's participation in the Budget Process Review Group (BPRG), engaging with the Scottish Government and NAO to progress the audit and accountability framework, and workforce and recruitment planning.

25. During 2018/19, we will focus on continuing to deliver and manage our increased capacity; mainstreaming elements of our work on the new financial powers across the organisation; working with the Scottish Parliament and others to support the implementation of the BPRG's recommendations; and developing our programme of engagement and audit work in response to EU withdrawal. We are continually monitoring the audit and business risks in this area and reviewing our priorities, to ensure we can respond effectively to the fast-changing environment.

Conclusion

26. The Board is invited to note the contents of this report.

Timeline of the social security powers being devolved through the Scotland Act 2016

2017

○ Programme spaces available
● Recipients

The Bill

Introduced to Scottish Parliament
June 2017

Stage 1 concluded with debate
19 December 2017

Stage 2
1 February 2018 – 1 March 2018

Stage 3 expected to be concluded with debate
spring 2018

The Bill is expected to receive Royal Assent
Spring/early summer 2018

Executive competence

Responsibility and accountability for the devolved benefits due to pass to the Scottish Government
No later than 1 April 2020

The agency

Scottish social security agency
To be launched in line with the Carer's Allowance Supplement and intended to be in place to deliver the devolved benefits by the end of the current parliamentary term.

2021

Transitional employability services[1]
from April 2017 — £18m — up to 4,800

Discretionary Housing Payments
April 2017 — £52m — 113,000

Full employability services[2]
from April 2018 — £96m — >38,000

Benefits[3]

Wave 1 benefits		
Universal Credit Scottish Choices October 2017		
Carer's Allowance Supplement from summer 2018	£35m	71,977
Best Start Grant by summer 2019	£2m + £17m	5,800
Funeral Expense Assistance by summer 2019	£3m + £3m	4,300 + 2,000

Post wave 1 benefits		
Attendance Allowance	£487m	126,534
Carer's Allowance	£234m	71,977
Disability Living Allowance	£1.2bn	237,431
Personal Independence Payment	£550m	162,535
Industrial Injuries Disablement Benefit	£84m	25,830
Severe Disablement Allowance	£22m	2,850
Cold Weather Payments	£1m	30,000
Winter Heating Assistance	£178m	1 million

Notes:
1. Scottish Fiscal Commission's forecast expenditure for the programme in 2017/18 and 2018/19. Providers are paid according to the number of people that move into sustained employment.
2. This is the total contract value of this programme and will be paid into 2023.
3. The benefits figures are 2016/17 spend and recipient numbers taken from *Social Security for Scotland: Benefits being devolved to the Scottish Parliament*, Scottish Government, December 2017. Carer's Allowance Supplement and the additional amounts for the Funeral Expense Assistance and Best Start Grant relate to the Scottish Government's intended expansion of these benefits, as set out in the Financial Memorandum to the Social Security (Scotland) Bill (June 2017). Cold Weather Payments can vary significantly year on year depending on the severity of the winter. Approximate number of payments shown instead of recipient number.

Source: Audit Scotland, using data from the Scottish Government and the Scottish Fiscal Commission

Review of the new approach to auditing Best Value

Item 10

Assistant Director, Audit Services

2 May 2018

Purpose

1. On 8 February 2018 the Accounts Commission discussed a report on the review of the new approach to auditing Best Value (BV). The purpose of this report is to provide the Board with an opportunity to discuss the results of this review.

Background

2. Local authority bodies have a statutory duty, under the Local Government (Scotland) Act 1973 and associated statutory guidance, to make arrangements to secure Best Value through the continuous improvement in the performance of their functions. In June 2016, the Accounts Commission agreed the framework for a new approach to auditing Best Value (BV) duties in councils. The new approach has been used by auditors since October 2016 for the 2016/17 annual audit year.

3. It was agreed that the new approach would be reviewed after its first year to:

   • ensure it is fit for purpose, and

   • to identify learning points for making improvements to the approach and for sharing good practice with auditors.

Results of the review

4. The results of this review were reported to the Accounts Commission on 8 February 2018. The report is attached at appendix 1.

5. The key findings of the report say that the review demonstrates that the new approach to auditing BV is fit for purpose and meets the Commission's objectives for the new approach. However, the approach continues to evolve and improve and lessons learned from this review are reflected in improvement actions which are included in the report.

6. The report has also been discussed by Audit Scotland's management team prior to the February Commission meeting and again on 17 April 2018.

7. The Accounts Commission endorsed the BV review report. The Commission noted the effectiveness of the new approach in meeting much of the Commission's expectations and the generally positive experience articulated by councils. They endorsed the recommended areas of improvement in the report. The minute of the Commission's discussions is at appendix 2.

8. The Commission agreed to engage directly with councils on the outcome of the review.

9. The improvement actions from the review are being progressed for the year two BV audit work. Auditors have been supported to implement the improvements through a number of forums:

   • the BV audit manual has been updated and issued to auditors

   • a Guidance Note has been issued to auditors

   • work on Words held a training session that was attended by the year 2 BVAR auditors

- the approach to reporting service performance has been refined and is being applied consistently across the year 2 BVAR teams.

10. Progress with the improvement actions will be monitored through the Account Commission's Best Value Working Group. The working group will take forward the conclusions of the review and report to the Commission as appropriate.

Recommendations

11. The Board is invited to consider the results of the review and offer feedback.

Review of the new approach to auditing Best Value in councils

AUDIT SCOTLAND

Contents

Summary

1. The new, integrated approach to auditing the effectiveness of Best Value (BV) arrangements in councils has provided good coverage of the Accounts Commission's objectives and principles. The new approach has provided assurance on all councils in 2016/17, through the suite of reports consisting of the Best Value Assurance Reports (BVARs), the Annual Audit Reports (AARs) and the Annual Assurance and Risks Report (AARR).

2. Councils, in general, expressed strong support for the new approach. They feel it involves a proportionate investment and matches well with current needs.

3. All 32 auditors prepared five year BV audit plans in 2016/17 and reported findings on BV audit work in their AARs.

4. The Controller of Audit's Annual Assurance and Risks Report includes a summary of the findings reported by auditors in their AARs and Best Value Assurance Report. It covers the Commission's five strategic audit priorities and provides a summary of the pace, depth and continuity of improvement in the councils that received a BVAR in 2017/18. This intelligence will continue to be built up across Scotland in line with the five year BV audit approach.

5. In line with the five year programme, six BVARs have now been presented to the Commission. All BVARs follow a consistent framework, although the scope of the audit work and the nature of the findings reported is different in each council to reflect their local risks and priorities. The BVARs have been welcomed by Commission members. They have noted that all BVARs include areas for improvement for councils to address, which demonstrates that the audits have impact. They also value the positive assurance provided on the councils where things are working well. They feel the BVARs are important to demonstrate to local citizens that the councils are being held to account for how effectively they demonstrate BV in delivering services.

6. Councils have said that, overall, the BVARs are a fair reflection of their activities and areas for improvement. All councils said they appreciated the clarity and readability of the reports. The majority say that overall, the experience of the process and its outcomes was positive, and it delivered reports which were appreciated and considered useful. There are also clear areas for improvement.

7. The BVARs have been the subject of discussion across the public sector and local media have reported on them. Councils are now progressing improvement actions from the reports. Progress will be reported by auditors in their 2017/18 AARs.

8. Auditors found the first year of the BV approach rewarding and challenging. They say the knowledge they have gained about their councils in the early stage of the audit will be invaluable for the rest of their audit work. Whilst the BVARs have been a steep learning curve

for some colleagues, auditors have demonstrated they have the skills required to deliver the audits effectively. Quality assurance arrangements are in place to cover all BV audit work.

9. BVAR audit teams were integrated, with PABV staff and local auditors working together. The integration of audit teams carrying out annual BV audit work will be more of a focus going forward. Councils say they recognise and welcome the benefits of the integrated approach to auditing BV.

10. The integrated audit approach is visible when audit teams present BVARs to Commission meetings. Commission members feel the BVAR teams answered questions well and gave assurance on the judgements reported.

11. In conclusion, this review demonstrates that the new approach to auditing BV is fit for purpose and meets the Commission's objectives for the new approach. As we anticipated, the approach continues to evolve and improve and lessons learned from this review are reflected in improvement actions which are included at Appendix A to this report.

12. We always knew that the first year of delivering the new approach would be challenging, given that it was the first year of the new audit appointments and we had to manage the impact of the council elections in May 2017. Our priority was to ensure that the reports were delivered on time, and that they met the expectations of the Commission, councils and other stakeholders. BVARs were very comprehensive, covering a wide range of topics in each council.

13. The scope of the first BVARs was ambitious and wider than we had anticipated, meaning that the time taken to produce the first six BVARs has exceeded our planning assumptions. We remain on track to complete the full five year BVAR programme by the end of 2021, although it will be challenging. Whilst future BVARs should take less time due to learning the lessons from year one of the process, we also believe we can tighten the scope of the work and produce more concise reports.

14. In future years, we will rebalance the pattern of audit resources applied between the BVARs and the local annual BV audit work in each council. This will ensure follow up findings from early BVARs are reported in AARs and should reduce the input required to publish BVARs later in the five year programme.

15. It is important that the proportionate and risk based audit approach for each BVAR is clearly explained to councils at the start of each audit. Reporting on service performance based on a range of evidence is a key part of the BV assessment. How this information is used by auditors needs to be more clearly explained to councils and in BVARs. Auditor judgements on the effectiveness of a council's self evaluation and its self awareness could also be clearer in future BVARs.

Introduction

Objectives of the new approach

16. Local authority bodies have a statutory duty, established under the Local Government in Scotland Act 2003, to make arrangements to secure best value through the continuous improvement in the performance of their functions. In June 2016, the Accounts Commission agreed the framework for a new approach to auditing Best Value (BV) duties in councils. The new approach has been used by auditors since October 2016 for the 2016/17 annual audit year.

17. The Commission agreed principles to underpin the development and implementation of the new arrangements for BV. These are that:

- the essential elements of Best Value remain as relevant and critically important today as when it was first established, although there is some need for the statutory guidance on BV to be reviewed

- there is a need for the pace, depth and continuity of improvement to increase across local government and driving improvement will be at the core of the audit process for Best Value

- there can be no compromise on the importance of good governance in councils, including the need for effective scrutiny arrangements that contain the checks and balances which lie at the heart of our system of government.

18. The Commission has stated its objectives for the new approach, to provide:

- a proportionate and risk-based audit approach, but with more frequent assurance on BV across all 32 councils   *(see consideration of this at page 11 and page 19)*

- a common framework and consistent layout for reports   *(see page 17)*

- audit work reflecting the statutory BV characteristics but with an emphasis on

  – the quality of service and outcomes (less on processes)   *(see page 20)*

  – demonstration of pace and depth of continuous improvement   *(see page 18)*

  – quality of a councils self-evaluation (including a councils ability to compare its performance to benchmarks)   *(see page 21)*

- to provide greater synergy and an improved experience for councils. Achieved through integrated audit processes across the range of audit work applied in local government, alongside continued joined up working with other scrutiny bodies*.*   *(see page 29)*

19. It was agreed that the new approach would be reviewed after its first year to:

- ensure it is fit for purpose, and

- to identify learning points for making improvements to the approach and for sharing good practice with auditors.

The results of this review are reported here.

How the review was carried out

20. The review considered a wide range of documentation including audit planning and monitoring information, the Best Value Assurance Reports (BVARs), Annual Audit Reports (AARs), the Annual Assurance and Risk Report (AARR) and Accounts Commission agenda papers. Feedback from a number of stakeholders was also obtained and has been summarised and reflected throughout this report.

21. Auditor feedback was gathered from:
- Meetings with Audit Scotland colleagues, including two workshops with around 60 people and meetings with managers
- Feedback requested and provided via Yammer (Audit Scotland's internal social media network), the corporate intranet and emails from all Audit Scotland staff and appointed auditors
- Post audit review meetings for the teams who produced the first five BVARs.

22. Council feedback was provided from:
- Accounts Commission meetings with council officers and elected members
- A report compiled by an external consultancy, Rocket Science, summarising telephone feedback discussions held with Chief Executives and senior councillors from the six BVAR councils (Annexe 1).

23. Feedback from Accounts Commission members was discussed at two separate meetings in November 2017.

24. Feedback on the BVARs was provided by Work on Words, a company which has worked with Audit Scotland for a number of years to improve the clarity and readability of performance audit and BV reports.

Launching the new audit approach

Accounts Commission engagement events

Councils found the engagement about the new approach very helpful and a useful discussion that had helped to clarify expectations.

26. The Commission held three engagement events with councils covering its strategy and the new approach to auditing BV. The events included presentations on the Commission's strategy and expectations and the new approach to auditing BV. All councils were represented across the three meetings, with most representatives being chief executives, senior officers or council leaders. All events saw a good level of discussion between council representatives and Commission members. Rocket Science have reported that all the BVAR councils had found the November 2016 engagement about the new approach very helpful and a useful discussion that had helped to clarify expectations.

The development of the new approach

Governance arrangements have been effective in providing support and challenge throughout the implementation of the new approach to auditing BV.

27. An Accounts Commission Best Value Working Group has been active through the development and implementation of the new approach. It met on several occasions to discuss proposals for the new approach with the Director of PABV and the BV development team. Items discussed included the BV timetable, the BVAR template, the scope of the Annual Assurance and Risks Report (AARR) and the scope of this review.

28. An Audit Scotland Steering Group has also been in place to oversee the development, implementation and resourcing of the new audit approach. It met several times over the last year and scrutinised the work of the BV development team in developing the new audit approach. It was agreed that as auditors were now working to the new approach, future progress would be reported via business groups, the Management Team and the Commission as appropriate.

29. A BV development team is in place to support the new BV audit approach across Scotland. The current team was put in place in October 2016, to oversee the implementation phase of the new approach. The team reports directly to the Controller of Audit and consists of staff who have experience in Best Value work from both Audit Services Group (ASG) and Performance Audit and Best Value (PABV):

- Fiona Mitchell-Knight, Assistant Director ASG

- Mark Ferris, Senior Audit Manager ASG

- Kathrine Sibbald, Audit Manager PABV

- Peter Worsdale, Audit Manager PABV

The BV development team works closely with the Secretary to the Accounts Commission.

30. The Director has presented a number of reports, compiled by the BV development team, to the Commission during the year to give updates on the progress made with the new audit approach. The Commission also endorsed the BVAR timetable, and the approach to reporting BV findings, prior to the first BVAR being discussed in May 2017.

31. Integrated audit teams delivered the BV audit work, made up of auditors from local audit teams (ASG or the firms) and PABV auditors of different grades with different levels and areas of expertise. The work of each team is overseen by the appointed auditors (ASG Assistant Directors and firm partners) and audit managers. PABV Senior Managers have been designated as link managers to each of the appointed auditors to coordinate BV activities and PABV resources for all councils, working with the local audit teams.

The statutory BV guidance

32. Fraser McKinlay, Director of PABV and Fiona Mitchell-Knight, Assistant Director, have been participating in the Scottish Government Steering Group tasked with updating the statutory BV guidance. The Scottish Government is currently preparing the draft revised guidance for public consultation. We do not yet have a clear timetable as to when the draft guidance will be issued for consultation.

33. The audit approach and guidance described in this section is designed to be consistent with both the current and the revised guidance (based on our knowledge of how it is likely to change). When revised guidance is issued, the BV development group will review the audit approach and support materials to ensure they are consistent with the new guidance.

Delivery of the programme

The new integrated approach to auditing the effectiveness of Best Value arrangements is meeting the Accounts Commission's aims by providing some assurance on all councils each year.

In general, councils have expressed strong support for the new approach. It is felt to involve a proportionate investment and is matched well with current needs.

34. All 32 council auditors prepared five year BV audit plans in 2016/17 and reported findings on their BV audit work in their annual audit reports (AARs). BVARs have been published on six councils, described below.

35. The Controller of Audit's Annual Assurance and Risks Report (AARR), presented to the Accounts Commission in February 2018, includes a summary of the findings reported by auditors in their AARs and BVARs.   It includes findings reported on the Commission's five strategic audit priorities and also a summary of the pace, depth and continuity of improvement in the BVAR councils. This intelligence will continue be built up across Scotland in line with the five year BV audits approach.

36. The Rocket Science report says that in general, councils have expressed strong support for the new approach. It is felt to involve a proportionate investment and is matched well with current needs.   They say that overall, the experience of the process and its outcomes was positive, and it delivered reports which were appreciated and considered useful. There was a consensus that the process was clearly described, and described effectively at each stage of the audit. Feedback has also highlighted clear areas for improvement, which are covered throughout this report and summarised as improvement actions at Appendix A.

Best Value Assurance Reports (BVARs)

In line with the year one programme, six BVARs have been presented to the Accounts Commission.

We remain on track to deliver a BVAR on each council by the end of 2021, although it will be challenging to achieve.

37. A five year approach to auditing BV in each council was introduced from October 2016. As part of this, the Controller of Audit will provide a BVAR to the Commission for each council at least once in a five year period. The scheduling of the BVARs considers the risk profiles of councils, the length of time since the last BV report and provides a spread of councils by size and demographics in each year. The programme is reviewed each year to reflect new audit intelligence from auditors and from the annual shared risk assessments. The second year BVAR programme is discussed below.

38. To ensure a proportionate audit which reflects the local context and risks of each council, the coverage of each BVAR is unique. The audit approach for each BVAR was scoped to reflect local priorities and risks. Scoping letters were sent to each Chief Executive, describing at a high level the areas of work to be carried out. The scope was discussed with each Chief Executive and senior officers prior to the letter being issued.

Scheduling of the BVARs

39. The first BVAR, on Inverclyde Council, was discussed at the Accounts Commission meeting in May 2017. The last of the six first year BVARs, Clackmannanshire, was discussed at the January 2018 meeting. The Commission's preference is that only one BVAR be discussed at any meeting. This was achieved in 2017 as follows:

	Commission Meeting date:
Inverclyde Council	11 May 2017
Renfrewshire Council	10 August 2017
East Renfrewshire Council	12 October 2017 (revised from 14 September 2017 at the request of the auditors and to reflect council feedback)
West Lothian Council	9 November 2017
East Dunbartonshire Council Follow up CoA report	9 November 2017
Orkney Council	7 December 2017
Clackmannanshire Council	11 January 2018
Falkirk Council Follow Up CoA report	11 January 2018

40. The order of the BVARs and scheduling of the dates was discussed between the BV Development Group and auditors, prior to it being agreed with the Secretary to the Accounts Commission. The programme was then endorsed by the Commission.

41. The scheduling reflected the late start for the year one BVARs, due to the new audit appointment. It was also influenced by the timing of local government elections in May 2017. The original timetable also avoided the auditors peak month for signing off local government accounts at the end of September.

42. Auditors have commented on the pressures of the BVAR programme where work has to be carried out by the audit teams at the same time as the local auditor peak workload period (May to the end of September).

43. We continue to develop our approach to resourcing and scheduling the BVAR programme. We need to balance the needs of the Accounts Commission, the workload of audit teams, as well as local circumstances and the preferences of councils. We also recognise that the BV audit is part of a wider programme of work delivered on behalf of the Accounts Commission. We are therefore developing a more integrated approach to resource planning, ensuring that BVAR plans are aligned with annual audit sign off deadlines, performance audit work, statutory reports, How Council's Work projects, the AARR and overview reporting. The resource planning for the BV audits is discussed further from paragraph 96.

44. The proposed year two BVAR timetable currently shows:

Commission meeting date	BVAR to be considered
May 2018	Fife Council
June 2018	West Dunbartonshire & East Ayrshire Councils (tbc)
August 2018	Glasgow City Council
Oct 2018	East Lothian Council
Nov 2018	Dumfries & Galloway Council

45. The timetable reflects discussions held between auditors and council Chief Executives. We have been unable to schedule any of the BVARS before May 2018. We recognise that asking the Commission to consider two BVARs in one meeting is not ideal. It remains our aim to only have one BVAR reported to any Commission meeting, and in future better programming will allow BVAR audit work to start sooner and report earlier in the year.

46. The five year BVAR programme achieves the objective for a BVAR to be published on each council by the end of 2021. In years three and four, seven BVARs are to be published, with the remaining six published in 2021.

47. The year three BVAR programme, for 2019, is currently in draft and will be confirmed when the next Local Scrutiny Plans and Annual Audit Plans are published in March 2018. We are currently in discussion with audit teams, after which the programme will be presented to the Commission for endorsement.

Improvement Action 1 & 7

BV findings in the Annual Audit Reports

The new approach provides assurance on aspects of the BV arrangements for all councils each year. All AARs include an explanation of the new BV approach and audit conclusions.

48. The annual audit planning guidance lays out the requirement for all auditors to report the conclusions of BV audit work in their AARs. The BV development group provided auditors with some suggested text to introduce the new BV approach to readers. This was used by auditors and all AARs include appropriate comment.

49. All annual audit reports include comment on some of the BV characteristics. The results of this 2016/17 audit work are summarised in the first Annual Assurance and Risks Report (AARR) presented to the Commission in February 2018. This demonstrates how the integrated approach has been successful in providing more regular assurance on BV audit work through the suite of reports made up of the BVARs, AARs and the AARR.

50. Commission members said they were pleased to see an example of how follow up of BV recommendations will be reported by local auditors in future, under the new approach. They feel this was demonstrated effectively in the East Dunbartonshire Council AAR.

Guidance Note for auditors

The Annual Assurance and Risks Report (AARR)

Pace, depth and continuity of improvement across Scotland

51. In its strategy and annual action plan 2017-22, the Commission says 'our over-riding aim is holding councils to account for their pace, depth and continuity of improvement, facilitated by effective governance. It is for councils to make choices in where they focus their improvement work but they need to be able to show how they have arrived at such choices'.

52. The AARR includes a summary of the audit judgements reported In BVARs and BV follow up reports on pace and depth of continuous improvement. Auditors have reported a mixed picture on the pace and depth of continuous improvement across Scotland.

Coverage of the Commission's Strategic Audit Priorities (SAPs)

The AARR includes commentary on council performance in the SAP areas.

53. The planning guidance directs auditors to consider the SAPs as part of their risk assessments, five year BV and annual planning processes. It says that AARs are to provide an assessment of the council's performance in the SAPs across the five year audit appointments.

54. Auditors have reported findings on the SAPs in the 2016/17 annual audit reports and the BVARs. The findings have been summarised in the AARR which provides the Commission with assurance on the progress made by councils against these priorities. The evidence on

these priorities is being gathered and reported by auditors as part of their five year approach to auditing BV and through annual audits. When these are covered will depend on the risk assessments carried out by auditors as part of their annual planning processes. Not all SAPs will be reported on in every council every year.

55. The AARR includes findings on all SAPs, however, there are some areas where auditors could provide more detail and clearer judgements. For example, whilst auditors included a judgement on each council's arrangements for publishing performance information, there was limited commentary on the quality of the reporting. Auditors have been reminded that they should provide more detail on the quality of performance information published by councils in 2017/18.

Guidance Note for auditors

56. Commission members have heard from auditors that they find the landscape for auditing councils complicated, due to the need to consider the statutory BV characteristics, the audit dimensions from the Code of Audit Practice and the Commission's SAPs. The Commission has said it will consider how the SAPs fit with other priorities for local and national audit work in local government.

57. Commission members have also said that their next review of the SAPs should consider whether they remain the right priorities, now that they have evidence from the BVARs and the AARR on the key areas of risk and concern in councils. Future SAPs will clearly be a key factor in shaping the plans and audit approach of auditors.

Quality of the BVAR process

Commission members have welcomed the BVARs being presented for discussion, providing more regular assurance on all councils.

Councils have said that, overall, the BVARs are a fair reflection of their activities and areas for improvement. All councils said they appreciated the clarity and readability of the reports.

Auditors found the first year of the BV approach challenging but feel the knowledge they gained will be invaluable for the rest of their audit work. They feel the BVARs are good reports which fairly reflect the story for each council.

Feedback on the BVARs

58. Commission members have welcomed the BVARs. The reports give a rounded picture of how effective a council is at demonstrating BV in how it delivers services. They welcome the auditors making bolder judgements on a councils pace, depth and continuity of improvement.

59. Commission members have said that the BVARs set out clearly the scope for improvement in each council. All reports have identified areas for improvement for councils to address, which demonstrates that the audits have value. The Commission also values the positive assurance provided on areas where things are working well. They feel the BVARs are important in demonstrating to local citizens that councils are being held to account for how effectively they demonstrate BV in delivering services.

60. Feedback from auditors is that they are delighted to have delivered the first six BVARs on time. Auditors found the first year of the BV approach challenging but say the knowledge they have gained about their councils in the early stage of the audit appointment will be invaluable for the rest of their audit work. They feel the BVARs are good reports which fairly reflect the story for each council. They also feel that the constructive relationships built with most senior officers in councils are stronger as a consequence of the work.

61. Councils have said that the BVARs are a fair reflection of their activities and areas for improvement. All councils said they appreciated the clarity and readability of the reports. The feedback received from councils on how the audits were conducted includes a wide range of comments. The feedback on five of the BVARs includes some very positive comments, as well as some useful suggestions for improvements, which are reflected throughout this report. For example:

   • One Chief Executive commented on the "measured and proportionate nature" of the audit, stating that it was "challenging but professional", meeting the advised timescales.

He stated that this experience compared very well to that of previous audits elsewhere in which he was involved.

- Council officers stated that the relationship between the council and the audit team had been 'professional, mutual and helpful'.

- The relationship between team and council was an 'open' one, with the team being open to suggestions from the council about areas of audit focus; monthly meetings with the corporate management team; and an openness to dialogue around the draft report.

- The audit felt proportionate, but it felt like a steep learning experience on both sides, with time devoted by the council in familiarising the team with the council and its context.

- The timing of the audit, in particular its proximity to the local government elections, was unhelpful to the Council in terms of pre-election tensions between political groups and workload issues for the council

- One council said the audit team, sometimes displayed some 'naïveté' in discussions around strategy and politics, whilst another said the reports took into account and displayed a good understanding of the local context.

62. The feedback on one of the BVARs, provided to both the Accounts Commission and Rocket Science, was much less positive than the other five. This council has been critical about how the audit was carried out and its lack of positive impact. We take this feedback very seriously and are already learning the lessons of what happened. It is acknowledged by the audit team that aspects of the audit process had not gone well. There were a number of unforeseen staff absences that affected how the audit was carried out, and the timetable for producing the BVAR, which initially coincided with the May elections and later with the financial statements audit period, compounded the impact of this. That said, the auditors and the council agree that the published BVAR fairly reflects the council's position and the council has accepted the recommendations in the report.

The Best Value Assurance Report

All BVARs follow a consistent framework, but the scope of the audit work and the nature of the conclusions are different in each council to reflect local risks and priorities.

63. The Accounts Commission asked for a consistent framework for reporting BV audits. To ensure this is the case, a consistent structure and layout for reporting was developed in conjunction with the Commission's BV Working Group. Whilst reports are structured around a common framework, the scope of the audit work and the nature of the conclusions are different in each council to reflect local risks and priorities. Some teams said they had to think hard about what to include and where in each section of the report to reflect the scope of their work, but they recognise the benefits of a standard approach for consistent reporting across the councils.

64. Commission members have said they like the format of the BVARs, and generally find them easy to read. They welcome the consistency of the reporting structure; it makes it easier to find their way around the reports and to compare arrangements across councils. But the reports are longer than had been anticipated and some were easier to read than others.

65. Commission members feel the BVAR format successfully sets out clear improvement actions for councils in the audit recommendations section of the reports. They hope this will help to promote implementation of the actions and allow auditors to report clearly on progress made by councils in the future.   They feel the reporting approach also allows them space in their Findings to report their own conclusions and to emphasise any areas of particular concern or good practice they may have identified.

66. The common report structure will continue to be used for year two BVARs, with auditor discretion on how the audit conclusions are reflected within that.

Auditor judgements recorded in BVARs reflect the audit evidence gathered. Councils have commented that the BVARs are a fair reflection of their activities and areas for improvement.

67. Auditors are responsible for forming and reporting audit judgements on their BV audit work based on the audit evidence gathered and recorded. Auditors conduct their audit work on BV to comply with the International Standards of Auditing, the Code of Audit Practice and annual planning guidance. The Local Government Audit Manual - Auditing Best Value provides guidance for auditors in making audit judgments on their BV audit work.

68. In forming their audit judgements, auditors consider a range of written documentation, including council reports and reports from other scrutiny bodies. They also hold discussions with council officers and elected members. The scope of the audit work determines who the auditors feel it is appropriate to speak to. For example, the Orkney team spoke to community groups to support their evidence on how the council operates. This will not necessarily be a priority for all audit teams.

69. Under the new approach all BVARs include overall judgements on the pace, depth and continuity of improvement. Auditors form these judgements based on the evidence available to demonstrate improvement by the council in the BV characteristics and service performance. Auditors are forming these judgements for the first time and have commented that this is challenging. They say it is easier to do in councils where the last BV report was very critical. The judgements are not so straightforward in the majority of councils which have performed well for some time or where the improvement story is more nuanced. Future BVARs are to include an explanation on how the overall judgement is reached.

Improvement Action 2

70. When emerging BVAR findings are being documented for discussion with officers, they should include the proposed judgements on pace and depth of continuous improvement. These can then be discussed with councils at the earliest stage of the clearance process. This avoids

surprises for councils, and assists in acceptance of audit findings. To help with this, the Controller of Audit and the lead of the BV development team discuss the emerging findings from each audit with the audit teams at key stages of the audit. This provides a constructive challenge process for teams to ensure the judgements reported are supported by their evidence. It also assists in the calibration of audit judgements between councils. Auditors say they find these discussions helpful in improving their BVARs.

Guidance note for auditors

71.   Auditors have commented that more examples of 'good practice' and benchmarks to set councils against would help them assess the pace and delivery of continuous improvement for their BVARs. Auditors should consider the AARR, previous BVARs and Local Government Overviews to help in making judgements and reporting recommendations.

Audit coverage

The scope of the first BVARs was ambitious and wider than we had anticipated, meaning that the time taken to produce the first six BVARs has exceeded our planning assumptions. We can tighten the scope of future BVARs and produce more concise reports.

The proportionate and risk based audit approach needs to be more clearly explained to councils at the start of each BVAR.

72.   Feedback from councils included comments that an 'inconsistent' approach was used by auditors and that the approach to evaluating and reporting audit conclusions varied. These comments suggest that not all councils are aware of the proportionate and risk based audit approach we adopt. The scope of each audit was determined locally, reflecting the specific context, risks and priorities in each council. Auditors considered the results of their annual audit planning and discussions with their Local Are Network (LAN) in determining their audit approach. We can communicate our approach more effectively in future and BVARs can more clearly explain how auditors determined the scope of the audit.

Improvement Action 3

73.   The scope of the first BVARs was ambitious and wider than we had anticipated, meaning that the time taken to produce the first six BVARs has exceeded our planning assumptions. We remain on track to complete the full five year BVAR programme by the end of 2021, although it will be challenging. Whilst future BVARs should take less time due to learning the lessons from year one of the process, we also believe we can tighten the scope of the work and produce more concise reports. Auditors feel that the scope of future BVARs can and should be sharpened without affecting the overall judgements on each council.

Improvement Action 4

74.   Some Accounts Commission members commented that they are particularly interested in seeing audit judgements reported on:

- the ability /capacity of councils to manage the level of change required

- the effectiveness of community engagement and community empowerment and the difference that it makes to citizens

- judgements on partnership working with clear comment on when it doesn't work well/ progress as planned. They would welcome examples of where partnership working has led to better outcomes for service users

- how the new local outcome improvement plans (LOIPS) impact on the council's activities and outcomes

- equalities

- a council's level of self awareness / self evaluation / public performance reporting.

These are all areas covered by the statutory guidance on BV and the audit approach being used in compiling BVARs. We will take all of these on board, recognising the need to balance the Commission's areas of interest alongside the risk areas identified in each council based on the local issues. For example, auditor judgements on the effectiveness of a council's self evaluation and its self awareness could be clearer in future BVARs.

Guidance Note for auditors

Reporting on service performance

Reporting on service performance, using a range of evidence, is a key part of the BV assessment. How this information is used by auditors needs to be more clearly explained to councils and in BVARs.

75. The Commission's strategy says 'It is for councils to make choices in where they focus their improvement work but they need to be able to show how they have arrived at such choices.' The Commission therefore recognises that in times of financial pressures, under its assessment of BV, it is not expecting to see continuous improvement in all services, all of the time. Instead, auditors look for councils to demonstrate

- improvements in their priority services (through the direction of activities and resources to these areas) and

- a clear understanding of the impact on other services of the decisions made to pursue their priorities.

76. Councils have said they would welcome more explicit comment in BVARs that the Commission does not expect continuous improvement in all service areas, but it does expect to see improved outcomes in the council's strategic priority areas.

Improvement Action 5

77. The BVARs include an assessment of each council's service performance. This includes consideration of the council's own self assessment and performance reporting information. Auditors use other sources of information to test the council's self evaluation and to add a more rounded picture across services where council information may be more partial. In

making these assessments, auditors use reports from other scrutiny bodies and nationally produced data, particularly the Local Government Benchmarking Framework (LGBF).

78. Commission members and councils can see there has been a shift from reporting less on process and more on outcomes but they feel the BVARs could go further to comment more on the outcomes that are being achieved by councils.

79. Some councils have commented on the audit approach used to report on their service performance, using LGBF indicators and comparing them to others. Some feel the approach has lacked sophistication, with the use of indicators being inconsistent across councils and not sufficiently reflecting on the council's priority services. They have expressed surprise that some BVARs included analysis over time and between family groups when others did not. They feel that auditors should make less reference to LGBF indicators and should rely more on the council's own assessment of its performance.

80. Some auditors have found that the service performance information reported by councils is comprehensive on its priority services, but does not provide an assessment of the impact on other services. Without this, auditors have questioned how elected members can be satisfied that they understand the full impact of decisions they are making, when directing improvement activity and resources. An analysis of a range of benchmarks is therefore appropriate in the BVARs, not just those of service priority areas. We also feel that in reaching conclusions on service performance, it is necessary for auditors to consider trends over time and comparisons between council family groups.

81. Having considered this feedback, the BV development team and auditors are of the view that teams should continue to report on:

- the council's own assessment of its performance and in particular the impact this has on outcomes (including an review of performance over time to assess its pace of improvement)

- the councils position compared to the national picture based on key published indicators. We support the continued use of a core set of indicators for all BVARs. This year we again propose to follow the indicators published in the 2018 Local Government Overview, as the basis for the national comparisons.

- the LGBF data, as an appropriate source of nationally published comparable information. Auditors should use 'benchmarking' and report comparisons between a council's position compared to national and family group averages where it contributes to the judgements being made. Comparing a council's performance over time will also be a useful source of evidence for measuring improvement in its priority service areas.

82. We recognise, however, that we need to more clearly articulate our approach to councils. This should include why we are reporting these indicators, reflecting on the national picture that they are painting, and then interpreting this data locally in a way that supports the conclusions and judgements being reported on each council. A small team is preparing the service

performance assessment data for all six BVAR councils in 2018. This will help ensure consistency and further develop skills in the interpretation of the data for future BVARs.

Using focus groups to gather audit evidence

83. Some auditors have said that focus groups made up of a selection of officers and elected members have been a useful source of audit evidence, providing useful information to reinforce audit judgements. However, other auditors have found them less useful, due to their timing (around the elections) and the make up of the groups. We have provided some guidance notes for auditors to increase the impact of focus groups for future audits. These are shown in Appendix B of this report.

Sharing examples of good practice

84. Councils have commented that they would like to be provided with examples of good practice in any areas of suggested improvement included in BVARs. To date, audit teams have not always been able to provide this when asked. As the body of BV evidence is built up on more councils, auditors will be in a better position to do this.

Guidance Note for auditors

Discussion of emerging findings and draft BVARs with councils

85. Auditors discuss their findings with councils as their conclusions and judgements start to take shape. They discuss 'emerging messages' to confirm that the key facts on which they make judgments are considered accurate and complete by council officers. This gives councils an opportunity to discuss where they feel auditors may be missing part of the evidence 'jigsaw' or to explain the context of some issues. Auditors will then consider and evaluate this further evidence before preparing the draft report. The draft report is then shared with the council to check for factual accuracy. Comments received at this draft report stage will be considered by auditors and where they feel it is appropriate, changes will be made to the final report before being signed off by the Controller of Audit. It is usual practice for the emerging messages to evolve and the draft report findings to change over this period as the report is finalised.

86. A number of councils have commented on the helpful openness of the dialogue around the key messages in reports, which contributed to their views that overall the BVARs are a fair reflection of their activities. Rocket Science have reported that all councils appreciated the opportunity to have detailed discussions (sometimes 'intense' discussions) in response to emerging messages and the draft report, although some noted there was little connection between the emerging messages and the final report. The process of refinement of the report was felt to be a very open and constructive part of the process.

Quality assurance arrangements for audit work

Quality assurance arrangements are in place to cover all audit work on BV.

Auditor quality arrangements

87.   The Controller of Audit is accountable for the quality of his BVARs reported to the Commission. Appointed auditors are responsible for ensuring the quality of audit work on BV carried out by the audit teams and reported in AARs and BVARs. The auditor prepares the draft BVAR, which is used as the basis of the Controller of Audit reports to the Commission.

88.   The Controller of Audit and the lead of the BV development team discuss the emerging audit findings with the teams at key stages of the audit. This helps to ensure the BV framework is being applied in a consistent manner, to share lessons learned and to assist in the calibration of audit judgements. The key stages of discussion include the scoping letter, the emerging messages and draft BVAR, all before they are issued to the council. The results of these reviews are documented and filed by audit teams as part of their audit evidence.

89.   After each BVAR has been published a post audit review meeting is held. This is attended by the audit team, the Controller of Audit and a member of the BV development team. The discussions are documented and lessons learned shared with other BVAR teams. The results from the post audit reviews completed to date are reflected throughout this report as feedback from auditors.

Independent assurance

90.   Audit Scotland's Audit Quality Framework covers all audit work on BV. The framework, which has been approved by the Accounts Commission, describes Audit Scotland's approach to achieving world-class audit quality across all audit work, including BV. The framework sets out how Audit Scotland provides the Auditor General and the Accounts Commission with robust, objective and independent quality assurance over all audit work referred to in this report. Reports are presented to the Accounts Commission on the quality reviews carried out on audit work. ICAS has chosen to carry out an independent review of the East Renfrewshire BVAR audit as part of their 2018 review programme. Improvement areas identified through this process will be considered by the local auditors and the BV development team, to improve the approach in future.

91.   The quality assurance process will also cover the work done by appointed firms, providing an assessment of the quality of all aspects of the audit work carried out, including BV work.

Clarity and readability of BVARs

92.   We are committed to presenting audit reports that are clearly written and easily understood by a wide range of audiences. To help with this, Audit Scotland works with Work on Words, a company specialising in effective communications and report writing. Audit teams received

feedback on their draft reports before they were published. Auditors valued this feedback and made many of the changes suggested to improve their BVARs.

93. Work on Words have provided detailed feedback as part of this review, which has been shared with auditors. They acknowledge that it can be challenging to write reports that are accessible and relevant to the public when needing to use the language built into the BV statutory guidance. That said, they also highlight some common areas for improvement, such as:

- Reducing the use of jargon and technical terms

- Being clear who the audience is for BVARs, beyond the Accounts Commission

- Considering developing standard definitions for commonly used terms such as strategic direction, pace and depth of change, financial sustainability

- Continue to use good practice 'plain language' techniques such as average sentence length and avoiding passive sentences.

Improvement Action 6

Guidance Note for auditors

94. Work on Words are continuing to provide support to BV auditors in 2018:

- They are running a training course for the 'Editors' of the year two BVARs. This is being focussed on learning lessons and sharing good practice from the first six BVARs. Fifteen auditors have been invited to attend.

- They will provide comment to auditors on draft BVARs produced during 2018.

Resources used to deliver the BV programme

The new approach to auditing BV always recognised that the year one BVARs would require more resource input than in subsequent years. Our approach to resourcing year one BVARS recognised the importance of delivering the first six reports on schedule.

In future, we will rebalance the pattern of audit resources applied between the BVARs and the local annual BV audit work in each council. This will ensure follow up findings from early BVARs are reported in AARs and should reduce the input required to publish BVARs later in the five year programme.

95. The five year approach to auditing BV across councils requires audit work to be carried out each year, reported in the AAR, and includes publication of one BVAR during this period. The pattern of resource requirement should change over the five year BV plan as more intelligence is built up and risk areas identified in councils across Scotland. The audit intelligence built up on each council prior to the BVAR being published should contribute to the BVAR judgements. As a result, it is anticipated that BVARs produced later in the five year audit appointment will take fewer resources than those in year one and year two of the programme.

96. In year one of the new audit appointments and the new BV audit approach, we always recognised that we would need to align resource plans for BV work with the existing work programme and annual audit requirements. We anticipated that the majority of audit resources would be needed to produce the BVARs and recognised that there would be a steep learning curve in producing the year one BVARs under the new audit approach, particularly as it was also the first year of the audit appointments. This was one of the reasons we asked local audit teams to focus on financial sustainability and use of resources in year one.

97. Nonetheless, the time required to deliver all six BVARs exceeded our planning assumptions. The range of additional input required varies from 18% to 103% of the budgeted input days. However, the additional input to the BVARs was offset by fewer audit days being spent on BV work in the other, non-BVAR, councils. Therefore, there were no knock on effects on the resource available for other areas of the Accounts Commission's work programme.

98. Auditors have said that resourcing of all BV audit work has been a challenge. Resource planning of the integrated team needs to be progressed earlier each year to enable the audit work to be scheduled and carried out more effectively alongside other audit work.

Improvement Actions 1 & 7

99. Time recording data suggests we need to be more consistent in how teams record their time spent on BV audit work. There is currently a project ongoing in Audit Scotland looking at how staff spend their time and the coding of audit inputs is being considered as part of this work.

Improvement Action 8

100. We have allocated a similar amount of resource overall to deliver the 2017/18 local BV annual audit work and the year two BVARs. However, the pattern of resource use needs to change. Our priority is to shift the balance of resources towards local BV work, while still delivering six or seven high quality BVARs each year. This will ensure audit teams are able to follow up findings from early BVARs and should reduce the input required to publish BVARs later in the five year programme. The skill mix of auditors preparing BVARs will also need to be kept under review to ensure it can be sustained.

Pre and post report publication

101. In commenting on the pressures in each BVAR audit, colleagues have said that the time taken to draft the Controller's report, prepare for the Commission meeting and then publish and promote the final report can be protracted and take up significant resources . It also increases the risk that findings are out of date and lose credibility with councils. One council leader commented that the period between completion of the onsite audit phase and the publication of the report is too long. Auditors recognise a balance needs to be struck between the quality of finish of the BVARs, with the time input to this process from the communications team and the auditors. We will review the reporting process to identify any areas where efficiencies can be made.

Improvement Action 9

102. As part of the new approach to auditing BV, we have developed a more detailed and considered approach to publication and promotion. Each BVAR has a communications plan which is a useful tool to enable auditors, the communications team and the Secretary to the Accounts Commission to prepare for publication of each BVAR. It is important to agree how each BVAR will be publicised to increase the readership and impact of each BVAR. However, a number of auditors have commented on the relatively significant amount of time that is used to feed into this part of the process. A meeting is planned between members of the BV development team, the Commission Secretary and the communications team to review the approach used for the first six BVARs and to identify any areas for improvement.

Improvement Action 10

The integrated audit approach

All BVAR audit teams were integrated, with PABV staff and local auditors working together. More needs to be done to integrate teams carrying out annual BV audit work.

Whilst the BVARs have been a steep learning curve for some staff, the review demonstrates that auditors have the skills required to deliver the audits.

104. A key feature of the new audit approach is the integration of the BV work with the annual audit. Local auditors and PABV auditors work together on scoping, planning, evidence recording, making audit judgements and reporting on all BV audit work.

105. Auditors say that developing and delivering the new approach in councils as part of their year one audits was challenging. Colleagues felt that they had gained a better understanding of the councils than they would normally have done in year one without carrying out the BV work. They also felt the audit would benefit in future years from this knowledge and the relationships built with officers. BVAR teams were pleased that they had been involved with producing a BVAR. They enjoyed it and felt they had learnt a lot, despite it being challenging.

106. Auditors have said that incorporating BV fully into the external audit remit and within the AARs has been welcomed by the councils. Having a framework/guidance to provide challenge on the BV areas has been helpful and feedback from the councils is that they have appreciated the view on non-financial BV areas, and particularly the case study approach taken in reporting on BV.

107. Audit Scotland colleagues working on audits where the local auditors are firms have said that a different approach needs to be taken to ensure they are actively involved in audit planning discussions and integrated working for BVARs. How they record audit findings for BV work will also be different in each audit and needs to be agreed locally at an early stage. The West Lothian Council BV audit team are an example of how it can work. The lessons learned from this audit have been shared amongst audit teams.

Attending the Commission Meetings to discuss the BVARs

The integrated audit approach is visible when BVAR teams present the reports to Commission meetings. The BVAR teams answered questions well and gave assurance on the judgements reported.

108. Audit teams met prior to the Commission meeting at which their BVAR was being discussed to prepare. The communications team attended these meetings together with key audit team members. The audit team decided who would answer questions on each area of the BVAR depending on their areas of expertise in carrying out and reporting the audit work.

109. The Controller of Audit presented a summary of each report to the meeting and team members assisted him on answering questions on the report and audit work carried out. The team members who accompanied the Controller varied between teams but all included PABV and local audit staff. This highlights the integrated nature of the work

110. Commission members have said that the integrated audit approach is visible with BVAR teams when they attended the Commission meetings. The teams answered questions well and seemed knowledgeable in Commission meetings. This gave them assurance on the judgements reported.

111. Some Chief Executives have commented on their frustration at not being able to address the Commission at the meeting at which the BVAR on their council is being discussed.

Skills of the auditors

112. The number of auditors required to carry out the audit of BV in all councils each year has increased from those who worked on the focussed audit work under the previous BV audit approach (BV2). As a result, many team members had not been involved with BV audit work before. It was a steep learning curve in applying their audit skills to the new type of work.

113. Tools were developed to support auditors in this work to help them apply their audit skill to the specific aspects of BV. Audit teams were also encouraged to share their experiences to learn from each other.

114. BVAR teams were all integrated teams, made up of auditors from local audit teams (ASG or the firms) and PABV auditors of different grades with different levels and areas of expertise. The work of each team is overseen by the appointed auditors (ASG Assistant Directors and firm partners) and audit managers. Local auditors carried out most of the BV audit work reported in the AARs and more integration of this work needs to be a focus in 2017/18.

115. PABV Senior Managers have been designated as link managers to each of the appointed auditors to coordinate BV activities and PABV resources for all councils, working with the local audit teams. Auditors reported this as a positive step in integrating their audit teams.

116. The BVAR auditors have said how much they enjoyed working in mixed teams. However they felt the roles of BVAR team members were initially unclear. Agreeing the roles of all team members at the start of the BV work is important to reflect the strengths of the team members based on their experience and taking account of their availability. The BVAR project plan needs to be shared and understood by all team members. This point is echoed in the feedback from council chief executives.

Guidance Note for auditors

117. There is a range of support activities in place to assist auditors in carrying out their BV work, recognising there is no substitute for on the job experience and sharing experiences between colleagues. To facilitate this the BV development group organised:

- two meetings in October 2017, where staff shared their BV audit experiences. These were attended by approximately sixty Audit Scotland staff

- a PABV managers meeting on 7 December.

Auditors should now continue to speak to colleagues from other BVAR teams to learn about their experiences and share good practice. For example, the Orkney audit team will have useful approaches to share with other island audit teams.

118. Skill gaps and training needs for auditors are monitored and addressed through the staff performance development programmes in place in Audit Scotland, and in each firm involved in the BV audits. Development discussions held between Audit Scotland auditors should be used to identify and address any training needs on BV and any other audit work.

119. Some council officers commented that some audit staff showed political naivety and did not sufficiently reflect the challenges of working with a coalition administration in their findings. Others felt the context of their council had been well reflected in their BVAR. The fact that the majority of BVARs have been well received and the councils have accepted their findings, indicate that auditors overall have the skills and experience required to deliver the audits. It also indicates that the skill mix of audit teams has in most instances been effective. Auditors will continue to develop their skill base as they are involved in more BV audit work over time. Post project reviews of BVARs will continue to identify areas where auditors feel more support is required, which will be addressed by the BV development group.

120. The Guidance notes for auditors compiled from this review will be shared with all appointed auditors, PABV link mangers and BV audit teams. They will also be built into the Local Government Audit Manual - Auditing Best Value, discussed below.

Improvement Action 11

Support for auditors

121. The BV development team provides ongoing support to the BV teams through discussions in team meetings, targeted discussions with managers, and having an 'open door' approach to queries. A Local Government Extranet for sharing information and intelligence amongst auditors is in place and is accessible to all Audit Scotland staff and to the firms with local government appointments.

122. The Local Government Audit Manual - Auditing Best Value provides guidance for auditors carrying out work as part of the annual audits and for BVARs. The manual includes a menu of audit tests that can be used by auditors in carrying out their work. The tests are structured to include coverage against the BV characteristics prescribed in the Statutory BV guidance. The tests are also mapped to the Commission's Strategic Audit Priorities. The BV framework is built into the annual audit planning guidance.

123. Audit teams have said that they used the Local Government Auditing BV Manual and found it helpful. They are pleased that it has been updated to reflect lessons learned from year one. Auditors said the assessment toolkits worked really well as a basis to form audit questions and gave structure to the areas looked at.

124. The teams working on the first BVARs developed tools for use by future teams, including the BV scoping letter, a detailed project timeline and some exhibits used in the BVARs.

125. All audit work carried out for local audits is recorded on the electronic working paper system, known as MKI. There was therefore a need to ensure that all members of integrated BVAR teams had access to, and were trained to use, MKI. Teams need to agree at the start of each BV project how they will structure their MKI files. They need to decide how they will record 'matters arising' to provide summary points for reporting key judgements, areas of improvement and good practice examples. We will continue to support colleagues and teams as they familiarise themselves with how MKI works.

Guidance Note for auditors

Five year BV audit plans (BVAP)

All auditors have prepared five year BV audit plans and the results of the 2016/17 work are reported in the AARs.

126. In 2016/17 all auditors prepared a five year BV audit plan (BVAP) showing their scheduling of coverage of the BV characteristics. The 2016/17 audit planning guidance, said that 'if no specific risks are identified auditors should complete, in the first instance, the guide areas covering Financial and Service planning, Financial Governance and Resource Management.' There is no similar central steer on what aspects of BV audit work should be covered as part of the 2017/18 audits. It is now the case that the BVAP, which reflects local audit risk priorities, determines the work carried out each year.

127. Auditors are required to report findings and judgements on BV audit work in their 2017/18 AARs. Follow up on all BV audit findings reported in 2016/17 (in the annual audit report and BVAR) should also be reported. The follow up should reflect on the council response to the findings and progress with improvement actions.

128. Additional follow up work may be required by auditors where the Commission decides to use its powers to instruct further audit work or to hold a hearing in response to a BVAR.

Link to the shared risk assessment (SRA) process

129. The risks identified in local scrutiny plans influence the BVAR scope and timing for each council. The five year BVAR programme for the year 1 and year 2 BVARs was reviewed to reflect intelligence from the shared risk assessment process concluded in May 2017. The

timing of the BVARs for the other councils will be reconsidered when the current SRA process is concluded in March 2018.

130. Local area networks consider the scope of BV audit work for their five year BVAP as part of their shared risk assessment discussions. If the BV audit covers areas where scrutiny partners could provide useful information or contribute to audit work this should be considered by the LAN and reflected in local scrutiny plans.   There is a review of the SRA process underway which will more clearly align the new audit of BV approach, into the process.

Impact of the BVARs

The BVARs have been the subject of discussion across the public sector and local media have reported on them. All councils have accepted the findings of the BVARs and are progressing improvement actions in response to them. Follow up of the improvement actions will be reported by auditors in 2017/18.

131. Councils have said the BVARs are a fair reflection of their activities and areas for improvement. Feedback is more mixed on whether the input to the BVARs from staff and auditors added value to the council. Rocket Science have reported the following feedback from councils:

- In general, there was strong support for the new approach. It was felt to involve a proportionate investment and matched well with current needs.

- The Final Best Value Assurance Reports were felt to be fair and balanced, with useful content and recommendations that were helpful to take forward improvement.

- There were significant variations in the experience of Local Authorities, ranging from 'extremely demanding' to 'less demanding than we were expecting', with related variations in perceived value.

This feedback has been considered in the assessment of the audit approach reported earlier in this report, paragraphs 62-63 are particularly relevant.

132. Statutory provisions ensure BVARs are subject to public discussion by each council. This raises the profile of any agreed improvement actions and as a result they are more likely to be implemented. Councils must consider the Commission's findings reported in the BVAR at a meeting within three months of receiving them or within such longer period as the Commission may specify in writing. This duty must be discharged by the full Council and not by a committee, sub-committee or officer. The meeting must be publicised and decisions made at the meeting minuted and published. After the Council has met, the Commission must be notified of any decisions made relating to the BVAR.

133. Auditors have commented on the fact that all audit reports on councils, other than the BVARs, are presented to the elected members of each council by the audit team. This is an effective

way to draw the conclusions and recommendations of audit work to the attention of councillors, helping to secure the implementation of the improvement recommendations. This has not been the approach taken with BV reports in the past as they are published as Accounts Commission reports. However, this should not necessarily be a barrier to the local audit team presenting the BVAR, if it is felt that this would achieve more impact. Presentation of each BVAR to full council by the engagement lead on behalf of the Commission could be part of the standard timeline. We propose to discuss this option with the Secretary, recognising the important differences in the roles of the Commission, the Controller of Audit and the appointed auditor.

Improvement Action 12

134. Accounts Commission members welcome the fact that the profile of BV has risen due to the new approach and the BVAR programme in particular. They are keen for the BVARs to be accessible to local communities and that they are read by citizens. The number of BVAR report downloads is monitored and reported to the Commission. Per the Secretary to the Commissions Paper to the Accounts Commission 11 January 2018, downloads to 15 December 2017 were:

	Publication date	Downloads	Podcasts
Inverclyde BVAR	1 June 2017	1336	307
Renfrewshire BVAR	31 August 2017	1257	0
East Renfrewshire BVAR	7 November 2017	855	158
East Dunbartonshire BV follow up	16 November 2017	363	79
West Lothian BVAR	23 November 2017	664	94
Orkney BVAR	14 December 2017	366	0
Clackmannanshire BVAR	25 January 2018	713	0

135. Members of the BV development group have discussed the new approach to auditing BV in a number of public sector forums e.g. the Public Service Improvement Framework (PSIF) learning group, the Scottish Performance Management Forum and with staff from the Improvement Service. These discussions have identified that the new approach to auditing BV has increased the amount of self assessment and improvement activity in some councils in anticipation of the auditors visits. The new approach is therefore having a positive impact in the local government sector.

Looking forward

The overall conclusion from this review is the new approach to auditing BV is fit for purpose and it meets the Commission objectives. A number of areas for improvement have been identified which will be actioned in 2018.

136. The audit approach has not stood still since its launch. Lessons learned from the work as it progressed have been shared amongst auditors and built into the support materials in real time.

137. A number of areas for improvement have been identified from this review, which require further consideration and action. These are summarised in Appendix A of this report. The good practice and learning points identified from this review have also been pulled together in Guidance Notes for Auditors at Appendix B.

Accounts Commission engagement events

138. The Commission is planning to hold some events to discuss its priorities with councils in spring 2018. The audit of BV and this review will be part of these discussions.

Year two BVAR programme

139. The national five year BVAR programme is updated each year and shared with auditors. The update reflects changes to risk assessments identified from the SRA process or annual audits. As part of the 2017/18 audits, BVARs are to be reported for East Ayrshire, Fife, West Dunbartonshire, Glasgow City, East Lothian and Dumfries and Galloway Councils. The BVARs will be reported by the Controller of Audit to the Accounts Commission during 2018/19.

2017/18 planning guidance

140. The 2017/18 planning guidance section on auditing BV was updated by the BV development team. It requires auditors of councils to report findings and judgements on BV audit work in the 2017/18 annual audit report, including following up previous BV audit findings reported in 2016/17 (in both the AAR and BVAR). The follow up is to reflect on the council's response to the findings and progress with improvement actions.

141. Auditor BVAPs will be updated to cover the remaining four years of the audit appointment. They will reflect the actual work completed in 2016/17 and the latest intelligence on the council. Scheduling of work will reflect on the local risk assessment, from the Shared Risk Assessment and annual planning processes. The BVAPs will include audit work to be carried out as part of the annual audit, the timing of the BVAR and follow up of BV findings reported in prior years.

Audit of BV in Integrated Joint Boards

142. The Code of Audit Practice sets out how BV duties apply to organisations across the public sector, not just councils. The 2017/18 planning guidance includes for the first time a reference to auditing BV in IJBs. The requirements reflect the statutory duty on IJBs, in the context of the small budget available to audit each IJB. Auditors have been directed to include in their 2017/18 annual audit reports comment on how the IJB demonstrates that it is meeting its BV duties. Auditors are to report on the IJBs own arrangements for doing this but not expected to carry out detailed audit work against the BV characteristics.

143. The 2017/18 AARs for councils and IJBs will then be used by the Controller of Audit to report on BV in both councils and IJBs in the Annual Assurance and Risk Report (AARR) in early 2019.

144. The national performance audit programme also includes work on IJBS in 2018. In December 2015, the Accounts Commission and Auditor General published the first of three national reports looking at the integration of health and social care. A second audit is scheduled in 2018 to look at progress and to follow up on the risks reported in 2015. This will also examine changes to the system, including evidence for shifts in service delivery from acute to community-based and preventative services, and for impact on the lives of local people.

Support for auditors

145. The Local Government Extranet Auditing Best Value Manual was updated in September 2017 to reflect the lessons learned to date from year one.

146. Work on Words are working with auditors on the 2018 BVARs.

Areas for improvement

	Improvement Area	Improvement Action	Responsibility and timescale	Para Number
1	The BVAR reporting timetable needs to be effectively coordinated with other work programme and annual audit pressures. BV audit work needs to be planned as early as possible. To facilitate this the year 3 BVAR programme is to be discussed with auditors as soon as possible.	A draft year three BVAR programme is in place. The scheduling of reports will be discussed with auditors, councils and the Secretary to the Commission when the next Local Scrutiny Plans and Annual Audit Plans are published in March 2018.	Lead of BV development group to coordinate – May 2018	Para 48 & 99
2	All BVARs include overall judgements on the pace, depth and continuity of improvement. Auditors form these judgements based on assessment of the improvement made in the BV characteristics and service performance.	Future BVARs are to include more explanation on how the overall judgements are reached.	Auditors – 2018 BVARs	Para 70
3	The scope of each BVAR is designed to reflect the specific risks and context for each council. There is evidence that not all councils understand this.	Communication of the BV audit approach should explain the five year approach and the proportionate and risk based nature of each BVAR to councils. How the auditor selected areas for coverage is to be included in BVARs.	Accounts Commission Spring engagement events Auditors as part of their ongoing engagement with council officers	Para 73

	Improvement Area	Improvement Action	Responsibility and timescale	Para Number
4	The time taken to produce the first six BVARs has exceeded our planning assumptions. We can scope future BVARs more tightly and deliver more concise reports.	The 2018 BVAR audit teams have agreed that the scoping of the 2018 BVARs will be tightened up and more concise reports published.	Auditors – 2018 BVARs	Para 74
5	Reporting on service performance based on a range of evidence is a key part of the BV assessment. How this information is used by auditors needs to be more clearly explained to councils and in BVARs.	Future BVARs are to include: - explanation that improved performance is not expected in all services at all times - comment on how service performance is evaluated by auditors.	Auditors – 2018 BVARs Auditors also to discuss as part of their ongoing engagement with council officers.	Para 77
6	Work on Words say that the impact of the BVARs would increase if some commonly used BV terms e.g. strategic direction are explained to readers.	Consideration is to be given to how best to do this in the 2018 BVARs. Training is being provided to BVAR auditors.	BV development group and BVAR Auditors –2018 BVAR 'editors' to attend an event in Feb 2018	Para 94
7	Auditors have said that the resourcing of BV audit work has been a challenge and delays in confirming team members have hindered the start and scheduling of work.	Coordinated resource planning covering BVARs, the annual audit and the PABV work programme needs to be progressed sooner.	Auditors & PABV link managers – Immediate	Para 48 & 99
8	The range of time spent in both ASG and PABV on each council for BV work, indicates audit teams are inconsistent in their approach to recording time spent on the local BV work.	There is currently a project ongoing in Audit Scotland which is looking at how staff spend their time. Coding of audit inputs is being considered as part of this work	Associate Director PABV - 2018	Para 100
9	Auditors have said that the reporting, publication and promotions process can take	The BVAR reporting process is to be reviewed in an attempt to streamline it and make it more	BV development team and Communications	Para 102

Improvement Area	Improvement Action	Responsibility and timescale	Para Number
too long can take up a relatively significant amount of resource. It also increases the risk that findings are out of date and lose credibility with councils.	effective.	Manager - May 2018	
10 A communications plan is useful to prepare for publication of each BVAR. However, auditors have commented about the amount of time that is currently being used to feed into this part of the audit.	A meeting is planned in February between members of the BV development team, the Secretary to the Commission and the communications team, to review the approach used for the first 6 BVARs and to identify areas for improvement.	BV development team, Secretary to the Commission and Communications Manager - May 2018	Para 103
11 The areas of good practice and areas for improvement identified from this review need to be incorporated into the 2018 BV audit approach.	The Guidance Notes for Auditors compiled from at Appendix B, will be shared with all appointed auditors, PABV link mangers and BV audit teams. They will also be built into the Local Government Audit Manual - Auditing Best Value.	BV development group – March 2018	Para 121
12 BVARs are not presented to Council meetings by the audit team. The impact of the reports could increase with their presentation to members.	Presentation of each BVAR to full council by the auditor on behalf of the Commission could be part of the standard reporting process. This is to be discussed with the Accounts Commission.	Controller of Audit and Commission Secretary, March 2018	Para 134

Guidance notes for auditors

1.   The Local Government Audit Manual - Auditing Best Value provides guidance and should be used by auditors. These notes supplement this guidance with good practice and learning points from the February 2018 review of the BV audit approach.

Working effectively in integrated teams

2.   For integrated teams to work well the roles and tasks assigned to team members need to be clear from the start of each BVAR project. The roles of team members should reflect the strengths of the team members based on their experience and taking account of their availability.

3.   The profiling of your BVAR work needs to be discussed with the PABV and ASG resourcing groups as early as possible to reflect the project plans.

4.   Each BVAR project plan should be discussed with all team members.

5.   Weekly catch up telephone calls for team members worked well for some teams. They can to keep everyone involved and up to date with the audit and are good for sharing intelligence and reaching collective judgements.

Audit Scotland audits

6.   PABV staff found using MKI a steep learning curve. Some teams recorded audit evidence outwith MKI first and then copied it into MKI later but found this problematic and inefficient. Teams are advised to record all evidence straight into MKI. PABV staff found using MKI as steep learning curve. Teams need to agree at the start of each BV project how they will structure their MKI files. They need to decide how they will record 'matters arising' to provide summary points for reporting key judgements, areas of improvement and good practice examples. Speak to previous BVAR teams for tips on how best to do this. PABV staff should seek support from their ASG colleagues if they need help on using MKI.

Firm audits

7.   Integrated teams consisting of firm local auditors and PABV staff need to discuss their risk assessments and plans each year. The teams need to agree their approach to recording their audit work at the start of each BVAR project. The West Lothian Council BVAR team prepared tools that may assist other teams.

8.   Councils should not be charged additional fees for audit work on BVARs. Audit Scotland may in some circumstances pay firms for additional work on BVARs. The firm needs to establish

what work is required, who's going to do it (between PABV colleagues/ firm, staff) and what additional costs (if any) over and above the fee are to be discussed. The starting point is to have that conversation with the Audit Scotland link manager as part of the planning process.

Resourcing all BV audit work

9. The pattern of audit resources applied needs to change, to balance the needs of the local BV audit work with BVARs more effectively. This is needed to resource follow up of findings from early BVARs and annual audit BV work. It should also reduce the input required to publish BVARs later in the five year programme.

10. Resource planning of the integrated team needs to be progressed sooner each year to enable the audit work to be scheduled and carried out more effectively alongside other audit work. The audit team members for the BVARs have all been identified. The profiling of BVAR work needs to be agreed by each audit team and discussed with the PABV and ASG resourcing groups as early as possible to reflect the project plans. PABV link managers are to work with the local auditors and the PABV programme resourcing group to secure BV audit resources earlier each year.

BVARs

Planning for BVARs

11. The scope of future BVARs can be tightened, with the aim of producing more concise reports.

12. Auditors should speak to colleagues from other BVAR teams to learn about their experiences and share good practice. For example the Orkney audit team will have useful approaches to share with other island audit teams.

13. Local area networks consider the scope of BV audit work for their five year BVAP as part of their shared risk assessment discussions. If the BV audit covers areas where scrutiny partners could provide useful information or contribute to audit work this should be considered by the LAN and reflected in local scrutiny plans.

Drafting BVARs

14. BVARs are to include an explanation of the proportionate and risk based nature of the approach and an explanation on how the scope of the audit was decided i.e. using the intelligence from annual audit and LANs.

15. Auditors need to include overall judgements on the pace and depth of continuous improvement in all BVARs. Comment needs to be included in BVARs for councils on how these judgements are reached.

16. When emerging findings/ areas for discussion are being documented for discussion with officers, they should include the overall judgements on pace and depth of continuous improvement. This enables them to be discussed with councils at the earliest stage of the clearance process. This avoids surprises for councils, which are not conducive to acceptance of audit findings. A number of audit teams presented their key messages in a slide show format which they found worked well in discussing them with council officers prior to the draft reports being issued.

17. The BVAR template is to be used for year 2 reports but sections and content will vary in length in different audits. Exhibits should only be included if they support the story being told on the council. The only compulsory exhibits are :

    - Appendix 1 the BV audit timeline

    - table showing the BV judgements in the last BV report and today ('exhibit 12' in Inverclyde)

    - standard performance data (to be advised by the PABV link managers group).

18. A link to the latest Annual Audit Report is to be included in each BVAR.

19. When auditors report on an area, judgements should be clear. For example it is felt that auditor judgements on the effectiveness of a councils own self evaluation and its self awareness could be clearer in future BVARs.

20. Councils have commented that they would like to be provided with examples of good practice in any areas of suggested improvement included in BVARs. Auditors should consider the AARR, Local Government Overview reports and previous BVARs to identify and report on 'good practice' in areas where they are making improvement recommendations.

21. All audit recommendations should include cross references to the relevant paragraphs in the BVAR.

22. When drafting reports, auditors are to use plain language techniques such as average sentence length and avoiding or explaining jargon.

Using focus groups to gather audit evidence

23. Focus groups are useful for gathering evidence and triangulation. Some issues for audit teams to consider:

    - Ensure the purpose of the focus group is clear and the questions are clearly focussed around what you want to know / emerging judgements you want to test out

    - Timing - often it is useful if focus groups are timed towards the end of the fieldwork as they can be used to test judgements but also gives time to react to any new issues raised

    - Focus groups can be useful where senior officers tend to run to a corporate script but middle managers often provide more useful input

- The political make up of elected members groups - they can work best if political groups are not mixed

- Trade union focus groups can work well to gain a different, non management perspective

- Community groups can be challenging and should only be used with a clear purpose and careful planning. Not appropriate for all audits.

- The need to ensure the council's input to who attends each focus group does not unduly influence the likely outcome of the discussions.

Reporting on Service Performance / outcomes in BVARs

24. The Accounts Commission's strategy says 'Our overriding aim is holding councils to account for their pace, depth and continuity of improvement facilitated by effective governance. It is for councils to make choices in where they focus their improvement work but they need to be able to show how they have arrived at such choices.'

25. All BVARs are to explain that the Commission does not expect continuous improvement in all service areas, but it is looking for improved outcomes in a councils strategic priority areas. Having said that councils also need to understand the impact that their decisions are making on all services. E.g. if they identify education as a priority service and target resources to it, do they understand the impact on the quality of roads. An analysis of a range of wide reaching benchmarks is therefore appropriate in the BVARs, not just those of service priority areas.

26. Auditors should include comment in BVARs on:

- the councils own assessment of its performance and in particular the impact this has on outcomes (its performance over time is reviewed to identify its pace of improvement)

- the council position compared to the national picture based on key published indicators. We support the continued use of a core set of indicators for all BVARs. This year we will base this on those published in the 2018 Local Government Overview, as the basis for the national comparisons.

- the LGBF data is considered to be an appropriate source of nationally published comparable information. Auditors should use 'benchmarking' and report comparisons between a councils position compared to national and family group averages where it contributes to the judgements being made. Comparing a councils own performance over time, 'trend analysis' will also be a useful source of evidence for measuring a councils improvement in its priority service areas.

27. We need to clearly articulate in the BVARs why we are reporting these indicators , reflecting on the national picture that they are painting, and then interpret this data locally in a way that supports the conclusions and judgements we are reporting on each council.

28. A small team of PABV auditors is being coordinated to prepare the service performance assessment date for all six BVAR councils in 2018. This will help ensure consistency and further develop skills in the interpretation of the data for future BVARs. Auditors should liaise with their PABV link managers regarding this work.

2017/18 Council Annual Audits

29. When making and reporting BV judgements, auditors should consider the AARR, Local Government Overview reports and previous BVARs to identify and report on 'good practice' in areas where they are making improvement recommendations.

Reporting on the SAP: Reporting performance in a way that enhances accountability to citizens and communities

30. Whilst auditors reported in their AARs a judgement on each councils arrangements for publishing performance information relating to the two SPIs, there was limited commentary on the quality of the reporting. Auditors are to provide more detail on the quality of performance information published by councils in 2017/18.

Annual Audit Reports

31. The planning guidance says that 'Auditors should report findings and judgements on BV audit work in the 2017/18 annual audit report, including following up previous BV audit findings reported in 2016/17 (in the annual audit report and BVAR). The follow up should reflect on the council response to the findings and progress with improvement actions.'

Councils where a year one BVAR has been published

32. The 2017/18 AARs are to include the council's overall response to their BVAR and a clear judgement on the progress made against each recommendation included in the BVAR and any additional recommendations made by the Accounts Commission in their findings.

33. Auditors should make reference to the judgement on the pace and depth of continuous improvement included in the BVAR together with an updated overall judgement based on the results of 2017/18 follow up work.

2017/18 IJB Annual Audit Reports

34. 'The Code of Audit Practice sets out how BV duties apply to organisations across the public sector, not just councils. 2017/18 IJB AARs are to include comment on how the IJB demonstrates that it is meeting its BV duties. Auditors are to report on the IJBs own arrangements for doing this it does not require detailed audit work against the BV characteristics.

![Accounts Commission logo]

MEETING: 8 MARCH 2018

MINUTES OF PREVIOUS MEETING

Minutes of the 443rd meeting of the Accounts Commission held in the offices of Audit Scotland at 102 West Port, Edinburgh, on Thursday 8 February 2018, at 10.15am

PRESENT: Graham Sharp (Chair)
                  Alan Campbell
                  Sandy Cumming
                  Sophie Flemig
                  Sheila Gunn
                  Ronnie Hinds
                  Tim McKay
                  Christine May
                  Stephen Moore
                  Pauline Weetman
                  Geraldine Wooley

IN ATTENDANCE: Paul Reilly, Secretary to the Commission
                  Fraser McKinlay, Controller of Audit and Director of Performance Audit and Best Value (PABV)
                  John Gilchrist, Appointments and Assurance Manager [Item 10]
                  Fiona Mitchell-Knight, Assistant Director, Audit Services Group (ASG) [Items 8 and 9]
                  Tommy Yule, Senior Auditor, ASG [Items 8 and 9]

Item No   Subject

1.   Apologies for absence
2.   Declarations of interest
3.   Decisions on taking business in private
4.   Minutes of meeting of 8 December 2017
5.   Audit Scotland Board update
6.   Update report by the Secretary to the Accounts Commission
7.   Update report by the Controller of Audit
8.   Annual Assurance and Risks Report
9.   New approach to auditing Best Value: review
10.   Proposed change of audit appointment
11.   Commission business matters

1. Apologies for absence

    It was noted that no apologies for absence had been received.

2. Declarations of interest

    The following declarations of interest were made:

    - Christine May, in item 8, as a former member of Fife Council, in relation to references to Dunfermline Flood Prevention Scheme.

3. Decisions on taking business in private

    It was agreed that the no items needed to be taken in private.

4. Minutes of meeting of 11 January 2018

    The Commission approved as a correct record the minutes of the meeting of 11 January.

5. Audit Scotland Board Update

    The Commission considered a verbal report by the Chair and Secretary to the Commission.

    During discussion, the Commission agreed that the Secretary discuss with Audit Scotland the profile of the Commission in Audit Scotland's Digital Services Strategy.

    Following discussion, the Commission agreed to note the report.

6. Update report by the Secretary to the Accounts Commission

    The Commission considered a report by the Secretary to the Commission providing an update on significant recent activity relating to local government and issues of relevance or interest across the wider public sector.

    During discussion, the Commission:

    - In relation to paragraph 13, in response to a query from Ronnie Hinds, noted advice from the Director of PABV that references to the Commission's performance audit on early learning and childcare, to be published on 15 February, in the Scottish Government's report *The Expansion of Early Learning and Childcare: Evaluation Report 2017*, did not contradict or compromise the messages of the performance audit.

    - In relation to paragraph 24, in response to a query from Sandy Cumming, that a representative of the Scottish Crown Estate be part of the Commission's programme of lunchtime speakers.

      Action: Secretary

    - Further in this regard that the Secretary share with members for comment a list of proposed speakers.

      Action: Secretary

    - In relation to paragraph 25, in response to a point by Sophie Flemig, agreed that the issue of homelessness and vulnerable people be considered by the Commission as part of its consideration of its work programme and at its Strategy Seminar.

      Action: Secretary

- Further in relation to paragraph 25, in response to a query from Pauline Weetman, it was agreed that equalities related issues in relation to homelessness in Scotland be considered by Audit Scotland's Health, Care and Communities Policy Cluster and the Diversity and Equalities Steering Group as appropriate.

Action: Director of PABV and Secretary

Following discussion, the Commission noted the report.

7. Update report by the Controller of Audit

The Controller of Audit provided a verbal update on his recent activity including meetings and discussions with stakeholders.

During discussion, the Commission:

- In relation to a query from Christine May, noted advice from the Controller of Audit that Audit Scotland was monitoring the implications of recent problems associated with large-scale outsources service providers, and he would report further to the Commission as appropriate.

- Further in this regard, in relation to a query from Stephen Moore, noted advice from the Controller of Audit about the role of the new audit quality framework in reporting the performance of audit service providers.

- In relation to a point by Sophie Flemig, agreed that monitoring by the Controller of Audit in relation to recent issues arising in the care home sector include associated wider maters in relation to support for older and vulnerable people.

- In relation to a query from Tim McKay, agreed that further information be provided on the General Data Protection Regulation.

Actions: Controller of Audit

Following discussion, the Commission noted the update.

8. Annual Assurance and Risks Report

The Commission considered a report by the Controller of Audit introducing the Annual Assurance and Risks Report (AARR).

During discussion, the Commission agreed:

- In relation to paragraph 30, in response to a query from Tim McKay, that details of the 270 registered charities within 91 sets of charity accounts be provided for information to members via the members' extranet portal.

Action: Secretary

- In response to a point by Ronnie Hinds, that it consider further at its forthcoming Annual Strategy Seminar how reporting of outcomes is reflected in its strategic audit priorities and associated work.

- That consideration be given by the Commission and the Controller of Audit to how its strategic audit priority in relation to the reporting by councils of performance to citizens be reported more prominently.

- Further in this regard, to note advice from the Secretary that such consideration will include the Commission's commitment to reviewing, by the end of 2018, its statutory performance information Direction.

- In relation to paragraph 104, in response to queries from Tim McKay and Sheila Gunn, that further consideration be given by the Commission and the Controller of Audit to the reporting the effectiveness of shared services, including skills of elected members in this regard.

- In relation to paragraph 129, in response to a point by Sophie Flemig, that it consider further at its Strategy Seminar how community empowerment is reflected in its strategic audit priorities.

- In relation to paragraph 159, in response to a query from Tim McKay, that it further consider how to engage with health and social care integration authorities.

Action: Secretary

- In relation to paragraph 191, that the suggestions made by the Controller of Audit in relation to refining its strategic audit priorities be considered further at its Strategy Seminar.

- In relation to paragraph 157, in response to a point by Pauline Weetman and in relation to paragraph 4 of the minutes of the Financial Audit and Assurance Committee of 30 November 2017, noted its previous agreement of the Committee's recommendation that it advise council chief executives to stress to them the importance of councils ensuring the highest quality final accounts process.

Following discussion, the Commission agreed:

- To endorse the Annual Audit and Assurance Report and thereby the assurance provided by the Controller of Audit on how matters arising in audit work is reported to the Commission.

- Agreed that the Chair write to all councils advising of the Commission's endorsement of the AARR and including reference to the point set out above in relation to paragraph 157 of the AARR.

- Agreed that further development of the report, in advance of next year's report, include consideration of:
    o A greater degree of reporting of risk issues.
    o A greater degree of coverage of matters beyond the Commission's strategic audit priorities.

Actions: Secretary & Controller of Audit

9. <u>New approach to auditing Best Value: review</u>

The Commission considered a report by the Secretary introducing the Director of PABV's review of the first year of the new approach to auditing Best Value.

The Chair welcomed Richard Scothorne, Director, Rocket Science, who had as part of the review undertaken independent engagement with the councils who had been subject of the first six Best Value Assurance Reports.

During discussion, the Commission agreed:

- To note advice from Richard Scothorne on general observations that he had drawn from his engagement with council stakeholders on their experience of the process.

- To note advice from the Director, in response to a query from Christine May, that he would continue to monitor the robustness of auditors' annual audit

plans in order to provide the Commission with assurance about the coverage of Best Value across the five years of auditors' appointments.

- To note that further feedback and review of the audit will be reported to the Commission in the annual audit quality report, to be considered by the Commission at its April meeting.

- In relation to paragraph 93, that the feedback from consultants on accessibility and plain language issues associated with audit reports, be shared with members via the extranet portal.

Action: Secretary and Director of PABV

Thereafter, the Commission agreed:

- To endorse the Director's report on his review of the first year of auditing Best Value, thereby noting the effectiveness of the new approach in meeting much of the Commission's expectations and the generally positive experience articulated by councils.

- Thereby endorsing the recommended areas of improvement in the Director's report, subject to:
  - o Including the following areas of improvement:
    - Considering further how to introduce more responsiveness in individual audits where ongoing feedback from councils on their experience is not positive.
    - Considering how the Commission's strategic audit priorities are defined and reflected in audit work and associated guidance.
    - Considering the effectiveness of the reporting of outputs to the public.
    - Considering the relationship between Commission findings and subsequent press releases and other promotion material.
    - Ensuring more testing of councils' approaches to benchmarking.
    - Improvement in relation to the integrated audit approach (i.e. paragraphs 104 to 107)
    - Engagement between the Commission, auditors and councils around audit reporting.
  - o Giving further consideration to improvement action 12, in relation to how the conclusions of audit work are presented to audited bodies.

Actions: Director of PABV and Secretary

- To continue the role of the Commission's Best Value Working Group, to allow it to take forward the conclusions of the review and report to the Commission as appropriate.

- To engage directly with councils on the outcome of the review, to follow the model of the engagement events undertaken in late 2016 following the agreement of the auditing framework.

- As part of this, to advise stakeholders in advance of the Commission's endorsement of the review.

Actions: Secretary

- To note advice from the Director that he would write to auditors advising of the outcome of and matters arising from the review.

10.   Proposed change of audit appointment

The Commission considered a report by the Assistant Director, Appointments and Assurance Team recommending a change of the appointment to audit the East of Scotland European Consortium (ESEC) from KPMG to the Director of Audit Services, Audit Scotland.

Following discussion, the Commission agreed to:

- Accept KPMG's withdrawal from the appointment to audit ESEC.
- Appoint Fiona Kordiak, Director of Audit Services, Audit Scotland, to audit ESEC.

11.   Commission business matters and closing remarks

The Chair, having advised that there was no business for this item, closed the meeting.

Work programme and publication schedule	Item 11
Director of Performance Audit and Best Value	2 May 2018

Purpose

1. This report updates the Board on the reports and other outputs that we plan to publish during 2018/19 and 2019/20 on behalf of the Auditor General and the Accounts Commission. It also provides a summary of the longer-term five year rolling work programme.

Background

2. The Auditor General for Scotland (AGS) and Accounts Commission (AC) recently agreed the refreshed rolling work programme for the next five years. This includes a two year programme of confirmed work and a further three years of indicative work. Further information on the programme including the high level scope of the audits planned for 2018/19 and 2019/20 can be found on our website: www.audit-scotland.gov.uk/our-work/future-work/our-work-programme

Rolling work programme 2018/19 to 2022/23

3. The programme includes overview reporting, performance audit, Best Value, How Councils Work, impact reporting, statutory reporting and the Shared Risk Assessment of councils. All of these pieces of work either build on or complement the core local annual audit work that takes place in each audited body every year. Flexibility has been built into the programme to allow Audit Scotland to undertake investigatory work and respond quickly to new and emerging audit risks on behalf of the AGS and AC, working where appropriate with our audit partners in the audit firms.

4. In developing and refreshing the programme, careful consideration has been given to ensure that the audit work reflects:

- the Auditor General and Accounts Commission strategic audit priorities

- Audit Scotland's four audit dimensions as outlined in the Code of Audit Practice: value for money; governance and transparency; financial management; financial sustainability

- significant changes in the public sector policy environment, such as changes to education governance and the decision to leave the European Union

- new and emerging risks and issues informed by our audit intelligence and monitoring of public sector audit risks

- the need to balance ongoing areas of interest (including follow-up work) with potential new pieces of audit work.

5. Within the programme we have sought to provide a balance of work that provides coverage across the areas outlined in paragraph 4. This Includes a mixture of one-off pieces of work (e.g. Forth replacement crossing), longer-term audit programmes (e.g. new financial powers; health and social care, early learning and childcare), thematic work (e.g. digital; workforce) and audit activity to follow up on the impact of previous audits.

6. The programme includes several additional outputs linked to the ongoing programme development work undertaken by our three policy clusters – Health, care and communities (HCC), Justice, education and lifelong learning (JELL) and Public finances, investment and economic development (PIE). These are being taken forward during 2018/19 and 2019/20 and take the form of internal briefings, published public briefings, and round tables. This programme development work covers areas such as:

    -   potential impact of Brexit for Scotland's public services;

    -   reducing child poverty, including early progress toward Child Poverty Bill 2017 improvement goals;

    -   Housing, including a Round Table with key external stakeholders to inform the scoping of the Housing performance audit which is scheduled to take place in 2019/20; and

    -   potential impact on local authorities of benefit changes and devolved social security powers.

7. The five year rolling programme is set out within appendix 1. Arrangements are in place for regular engagement with both the AGS and AC to ensure the programme is in line with their expectations. The AGS and AC consult with key stakeholders as part of the annual refresh of the programme, with this engagement informing the final proposals. Audit Scotland also consults its Equality and Human Rights Advisory Group (EHRAG) to ensure that equality considerations are taken into account appropriately when planning and delivering our audit work. Ongoing engagement with the EHRAG will take place with individual audit teams as audits are scoped to ensure that equality issues are reflected in the delivery of the work programme. The feedback from the most recent consultation and engagement process was positive, providing assurance that the programme is proportionate and focussed on the right areas.

Publication schedule 2018/19 through 2019/20

8. Audit Scotland plans to publish in the region of 60 outputs over the course of the next two years on behalf of the AGS and AC, plus any additional statutory reports as required. The outputs are listed in appendix 2 along with indicative publication dates. The list does not include any corporate publications, impact reports or Annual Audit Reports arising from the financial audit of public bodies. It does not at this stage include any public outputs arising from our programme development work, such as the areas listed at paragraph four of this report. Should any of this work progress to public facing published outputs they will be added into the overall publication schedule as appropriate.

Recommendations

9. The Board is invited to note the approved five year work programme and indicative publication schedule for the next two years.

Prepared by Audit Scotland | March 2018

Rolling work programme
2018/19 to 2022/23

AUDITORGENERAL ✓   **ACCOUNTS** COMMISSION ✓

AGS – Auditor General for Scotland   AC – Accounts Commission   Joint – Auditor General and Accounts Commission Audit

Overview reports	2018/19	2019/20	2020/21	2021/22	2022/23
	• NHS in Scotland (AGS)	• NHS in Scotland (AGS)	• NHS in Scotland (AGS)	• NHS in Scotland (AGS)	• NHS in Scotland (AGS)
	• Scotland's colleges (AGS)	• Scotland's colleges (AGS)	• Scotland's colleges (AGS)	• Scotland's colleges (AGS)	• Scotland's colleges (AGS)
	• Local government financial overview (AC)	• Local government financial overview (AC)	• Local government financial overview (AC)	• Local government financial overview (AC)	• Local government financial overview (AC)
	• Local government overview: challenges and performance (AC)	• Local government overview: challenges and performance (AC)	• Local government overview: challenges and performance (AC)	• Local government overview: challenges and performance (AC)	• Local government overview: challenges and performance (AC)

Cont

	2018/19	2019/20	2020/21	2021/22	2022/23
Performance audit reports	• Broadband update (AGS)	• A9 dualling (AGS)	• New financial powers and constitutional change (AGS)	• Development of Scotland's new agriculture and fishing policy post Brexit (AGS)	• New financial powers and constitutional change (AGS)
	• Digital progress in central government & health (reporting early19/20-AGS)	• HE (finances) (AGS)	• NHS workforce (3) (AGS)	• New financial powers and constitutional change (AGS)	• Digital progress across government (cross cutting) (Joint)
	• Forth replacement crossing (AGS)	• New financial powers and constitutional change (AGS)	• Supporting economic growth: impact of enterprise and skills review (AGS)	• Progress against digital strategy – five years on (reporting 2022/23) (AGS)	• Mental health 3 (to be agreed)
	• New financial powers and constitutional change (AGS)	• Skills planning and investment (AGS)	• Commonwealth Games legacy – six years on (Joint)	• Social security (AGS)	• Progress in addressing child poverty (Joint)
	• NHS workforce(2) – community based workforce (AGS)	• Digital progress in local government (reporting early 2020/21) (AC)	• Digital services (learning or justice) (reporting 2021/22) (to be agreed)	• Community justice (Joint)	• Replacing structural funds (Joint)
	• Scottish fire and rescue service (AGS)	• Supporting economic growth: the role of local authorities (reporting early 2020/21) (AC)	• Flood risk management (Joint)	• Early learning and childcare series (Joint)	
	• ALEOs (AC)	• Community assets (Joint)	• Health & social care integration: part 3 (Joint)	• Housing (2) (Joint)	
	• Children & young people's mental health (Joint)	• Educational outcomes (Joint)	• Improving outcomes for looked after children (Joint)	• Innovative Financing - City Deals (2) (Joint)	
	• Health & social care integration: part 2 (Joint)	• Housing (Joint)	• Teacher workforce planning (NEW) (Joint)	• Outcomes for children with additional support needs (Joint)	
	• Value for money of NPD projects (reporting early 2019/20) (Joint)	• Innovative Financing: City Deals (Joint)	• Youth justice (Joint)		
		• Waste management (Joint)			

Cont

	2018/19	2019/20	2020/21	2021/22	2022/23

Best Value reports	• **6 Best Value Assurance Reports (BVARs):**
	  – **Dumfries and Galloway Council**
	  – **East Ayrshire Council**
	  – **East Lothian Council**
	  – **Fife Council**
	  – **Glasgow City Council**
	  – **West Dunbartonshire Council**
	
	Best Value assessments featured in the annual audit reports for the other 25 councils.
		• **7 BVARs**
		To be confirmed following the 2018/19 shared risk assessment process.
		
		Best Value assessments featured in the annual audit reports for the other 25 councils.
			• **7 BVARs**
			To be confirmed following the 2019/20 shared risk assessment process.
			
			Best Value assessments featured in the annual audit reports for the other 25 councils.
				• **7 BVARs**
				To be confirmed following the 2020/21 shared risk assessment process.
				
				Best Value assessments featured in the annual audit reports for the other 25 councils.
					End of five-year audit appointment cycle.
					
					Next steps to be confirmed in 2021.

How councils work report	The Commission has committed to publishing a How Councils Work output during 2018/19. The topic will be confirmed during spring 2018.	It is assumed that one HCW audit will take place in 2019/20.			

Cont.

	2018/19	2019/20	2020/21	2021/22	2022/23
Impact reports	• Efficiency of Sheriff Courts (AGS)	• NHS workforce (1) (AGS)	• Forth replacement crossing (AGS)	• A9 dualling (AGS)	• Youth justice (AGS)
	• Higher education (AGS)	• Transport Scotland's ferry services (AGS)	• NHS workforce (2) (AGS)	• Digital in central government & health (AGS)	• Digital in local government (AC)
	• Modern Apprenticeships (AGS)	• Equal pay in Scottish Councils (AC)	• Scottish fire and rescue: follow-up (AGS)	• HE finances (AGS)	• Supporting economic growth – role of local authorities (AC)
	• The role of Scotland's Enterprise Agencies (AGS)	• Early learning and childcare (Impact Update) (Joint)	• ALEOs (AC)	• Skills planning and investment (AGS)	• City Deals (2) (Joint)
	• Social work in Scotland (AC)	• Self-directed support follow-up (Joint)	• Children and young people's mental health (Joint)	• Community assets (Joint)	• Flood risk management (Joint)
	• Community planning: an update (Joint)		• Innovative financing: City Deals (Joint)	• Educational outcomes (joint)	• Improving outcomes for looked after children (Joint)
	• Roads maintenance (Joint)			• Housing (1) (Joint)	
				• VFM of NPD projects (Joint)	
				• Waste management (Joint)	

Further information on our work programme is available at www.audit-scotland.gov.uk/our-work/future-work/our-work-programme

Impact report publication dates may change in response to significant policy developments that impact on audit recommendations and the final scheduling of the original audit work / report publication.

Appendix 2- Indicative publication schedule 2018/19 through 2019/20

The table below summarises reports we plan to publish during the next two years. Indicative publication timescales are included.

Publication	AGS / AC / Joint	Indicative publication
National Scrutiny Plan and 32 Local Scrutiny Plans	AC	4 April 2018
S102 City of Edinburgh Council	AC	3 April 2018
Local government in Scotland 2018 – challenges and performance	AC	5 April 2018
Health and social care integration briefing	Joint	April 2018
Further education s22s statutory reports	AGS	April 2018
Openness and transparency briefing paper	Audit Scotland	April / May 2018
Are ALEOs improving public services?	AC	17 May 2018
Best Value Assurance Report – Fife Council	AC	24 May 2018
Best Value Assurance Report – East Ayrshire Council	AC	29 May 2018
Scottish Fire and Rescue Service – an update	AGS	31 May 2018
Housing benefit annual update	Audit Scotland	15 June 2018
Scotland's colleges 2018 overview	AGS	21 June 2018
Best Value Assurance Report – West Dunbartonshire Council	AC	28 June 2018
National Fraud Initiative in Scotland	Audit Scotland	5 July 2018
Forth replacement crossing	AGS	2 August 2018
Best Value Assurance Report – Glasgow City Council	AC	23 August 2018
Children and young people's mental health	Joint	13 September 2018
S22 Scottish Government Consolidated accounts	AGS	September 2018
Provisional – Health s22 statutory reports	AGS	October 2018
NHS in Scotland 2018 overview	AGS	25 October 2018

Publication	AGS / AC / Joint	Indicative publication
Best Value Assurance Report – East Lothian Council	AC	30 October 2018
Health and social care integration – update on progress	Joint	15 November 2018
Best Value Assurance Report – Dumfries and Galloway Council	AC	November 2018
Local government in Scotland – a financial overview	AC	November 2018
S22 Scottish Police Authority	AGS	December 2018
How Councils Work – topic to be agreed	AC	Spring 2019
NHS Workforce – community based workforce	AGS	
Digital in central government and health	AGS	
Local government in Scotland 2019 – challenges and performance	AC	
New financial powers and constitutional change – next in series of audits	AGS	
Provisional – Further education s22 statutory reports	AGS	
Provisional – Local government s102 statutory reports	AC	
National Scrutiny Plan and 32 Local Scrutiny Plans	AC	
Housing benefit annual update	Audit Scotland	Summer 2019
Innovative financing – value for money of non-profit distributing models	Joint	
National Fraud Initiative in Scotland	Audit Scotland	
Scotland's colleges overview	AGS	
A9 Dualling	AGS	Autumn 2019
Community assets	Joint	
S22 Scottish Government Consolidated accounts	AGS	
Provisional – Health S22 Statutory reports	AGS	
NHS in Scotland overview	AGS	
Early learning and childcare – update and impact	Joint	Winter 2019/20
Educational outcomes	Joint	
Innovative financing – City Deals	Joint	
Local government in Scotland – a financial overview	AC	
Skills planning and investment	AGS	
Waste management	Joint	

Publication	AGS / AC / Joint	Indicative publication
Digital progress in local government	AC	Spring 2020
Housing	Joint	
Higher education finances	AGS	
How Councils Work	AC	
New financial powers and constitutional change – next in series of audits	AGS	
Supporting economic growth – the role of local authorities	AC	
Provisional – Further education S22 statutory reports	AGS	
7x Best Value Assurance Reports – councils to be agreed	AC	Throughout 2019/20
Provisional Central government S22 Statutory reports	AGS	
Provisional Local government S102 Statutory reports	AC	

Engagement with young people	Item 12
Senior Manager, Performance Audit and Best Value	2 May 2018

Purpose

1. This report updates the Board on progress implementing the actions agreed following pilot work with Young Scot, future plans for engaging with young people and plans to mark the Year of Young People 2018.

Background

2. Following a pilot with Young Scot and a group of young people, the Board received a briefing on 31 March 2017 on the pilot, what we learnt from it, and plans to build on this work. This paper provides an update on progress against these actions, both specific to our work with young people and how we have applied some of the broader learning in relation to other audit work.

3. Following the pilot, we agreed the following actions:

    - Introduce a Youth Advisory Panel, and through the Panel

        o consider how to involve young people in our monitoring work

        o consider opportunities for young people to be involved in audits.

    - Involve young people when tailoring our outputs

        o highlight what it really means to them

        o use real stories to create greater impact.

    - Tell people what we have done and how we used their feedback and suggestions.

4. Appendix 1 sets out the commitments that we made at the end of the pilot project in full, and gives an update on progress.

Working with young people

5. At the start of May we will be issuing an invitation to tender for a partner to establish a standing panel of young people to work with us. The panel will be in place for two years, involving young people aged 14 to 18 at the start. Knowledge transfer to Audit Scotland staff is part of the requirements. The expected outcomes from this engagement with young people are:

    - young people are able to influence and participate in all stages of our audit work

    - our audit work has more impact among young people

    - young people are able to provide us with advice on a range of issues

    - young people are involved in some of our audits

    - the young people involved gain valuable experience and skills

    - increased skills and capacity among Audit Scotland staff to do more direct engagement with young people.

6. We will evaluate the cost and impact of this arrangement, including the cost of internal staff time. We are continuing to developing our broader approaches to community engagement, and will draw on the learning points for engaging with other groups of the population.

7. One of the first areas that we will want the panel to consider is school education. We recently held a round table on educational outcomes involving a range of stakeholders, including third sector organisations that work with young people. We plan to have a different type of event with young people to increase our understanding of the key issues as they affect pupils and former pupils. This will help us plan for an audit on educational outcomes in 2019/20. We will also engage with the panel on our planned audits on improving outcomes for looked after children, youth justice, outcomes for children with additional support needs, and child poverty.

8. As part of the audit of Children and young people's mental health (CYPMH), the team worked with a group of young people affected by mental health at the scoping stage of the audit. They will be working with that group again as they develop and refine the key messages, and will tell the group how they have used their suggestions.

9. A member of the Scottish Youth Parliament is a member of the external advisory group for the CYPMH audit, and we will consider the learning from this experience to inform future audits.

Communicating and promoting our messages

10. One of the recommendations coming out of the pilot project was about better communicating the messages in our report to people who may be interested or affected. Our actions include:

- using real people's stories to explain and highlight our messages in a way that people can more easily relate to

- communicating our messages using different methods.

11. We put this into practice in our recent reports for the Auditor General and Accounts Commission on Early learning and childcare (ELC) and on Self-directed support (SDS). The ELC team commissioned research with parents and used their stories throughout the ELC report. The SDS team carried out their own research with people supported by SDS and their carers, and their stories were included to illustrate points in the report. The team also worked with the Scottish Commission for Learning Disability to produce an easy-read version of the report aimed at people with learning disabilities. The Communications team commissioned a short video on ELC aimed at parents, which has been promoted on our website as part of a parent's hub, and using social media. We have had positive feedback on the use of people's stories in both reports, and on the easy-read version of the report for people who use SDS. The ELC video has been viewed over 3,000 times since it was launched on 26 February.

12. We are planning to work with young people on how best to communicate the messages from the report on CYPMH so that they are more accessible to young people. Communicating our messages will be a key area of focus for the standing panel of young people.

Year of Young People 2018

13. The Scottish Government has designated 2018 as the Year of Young People, defined as people aged 8 to 26. We see this as an opportunity to fully implement our Young Scot pledges and also to widen out activity and focus across the organisation and more widely promote our work with young people. This will help to make activity more sustainable and part of our working practices in the long term. We are coordinating a range of activity to address this, and an action plan is outlined in Appendix 2. This includes:

- developing a page on our external website to highlight how we are working with young people, both at a corporate level and on audits

- improving our external engagement with young people, as set out in this report

- raising awareness among staff of the issues that affect young people, the work that young people are doing themselves and opportunities to work with them, by inviting external speakers such as members of the Scottish Youth Parliament and other youth organisations

- agreeing plans to open up recruitment to more school leavers

- using the new page on the external website to promote and share audit work that we are already doing that is of particular relevance to young people.

14. We will be working with a group of members of staff aged 26 and under throughout the year to harness their ideas and put agreed actions into practice.

Recommendation

15. The Board is invited to note the report and to support these actions going forward.

Appendix 1. Update on our commitments from the pilot with Young Scot

Commitment	Update
To consider opportunities for young people to be on our audit teams	This will be considered by the standing panel.
More work experience and modern apprenticeships at Audit Scotland	This is already happening and we will develop this further as one of the actions in the Year of Young People.
Involving young people when tailoring our outputs - podcasts, videos, highlighting what it really means to them	This is already happening on the audit of CYPMH and will be taken forward by the standing panel.
Provide support by funding their involvement	We have committed to pay expenses, ethical incentives and possible payments to young people who are involved in the standing panel and in our audits, depending on the extent of their involvement.
Consider how to involve young people in the justice, education and lifelong learning (JELL) cluster, which is a way we use to monitor what's happening in these areas	This will be considered by the standing panel.
To introduce standing or ad hoc young person's panels or advisory groups	We are issuing a tender for a partner to work with us to set up a standing panel for a period of two years.
Have more person centred recommendations – find the real stories	We are already doing this in a number of audit reports and we will continue to do this.
Use real stories for creating greater impact	We are already doing this in a number of audit reports and we will continue to do this.
To tell people what we have done and how we used their feedback and suggestions	We will do this when we work with people on our audits and on the standing panel.
Provide travel expenses to audit contributors	We have committed to pay expenses to young people who are involved in the standing panel and in our audits.
To have smaller audits looking at issues young people care about	This will be considered by the standing panel and will feed into our programme development activity.

Appendix 2: Year of Young People 2018 action plan

Actions	Who	When
Set up a page on our external website to set out our commitment to YOYP and bring together relevant work and corporate developments	Communications Team Diane McGiffen to talk to Comms initially Gemma Diamond/Tricia Meldrum to follow-up with Comms and write a blog for the website	April 2018
Set up a Yammer group to promote developments internally and involve staff across the organisation	Communications Team DMcG to talk to Comms initially GD/TM to follow-up	April 2018
Invite staff members aged 26 and under to join a group to develop and take forward our plans (trainees, MA) – this is the age group targeted for YOYP	TM / GD	April 2018
Establish a programme inviting up to 3 external speakers to talk to staff over the rest of the year, e.g. • Members of Scottish Youth Parliament • Members of Girl Guides Scotland • Members of First Minister's Advisory Council on Women and Girls • Care experienced young people	TM / GD	To start May/June
Establish and promote standing panel of young people, working with an external partner. The expected outcomes from this engagement with young people are: • Young people are able to influence and participate in all stages of our audit work • Our audit work has more impact among young people • Young people are able to provide us with advice on a range of issues • Young people are involved in some of our audits • The young people involved gain valuable experience and skills • Increased skills and capacity among Audit Scotland staff to do more direct engagement with young people.	TM	Tender for external partner issued in May; Appoint partner end of June
Agree and implement plans to open up recruitment to Audit Scotland to more young people, particularly school leaver trainees	HR: DMcG to talk to HR	TBC
Agree and implement our approach to managing work experience opportunities for young people so that they are of most value	Group of younger staff members, working with HR	May/June
Take up opportunities for presentations at schools, colleges etc. to raise understanding of who we are and what we do, tailored at a young audience	Work with Comms, group of younger staff members, and staff	As opportunities arise

Actions	Who	When
• Prepare presentation • Identify a small number of potential opportunities	experienced in presenting to schools etc.	
Use the new external page to promote and share audit work that we are already doing that is of particular relevance to young people, e.g. • Audit of children and young people's mental health • Round table for young people on school education, to help scope audit in 2019/20 • Audits on further education and higher education • Examples of good engagement with young people highlighted in BVARs • Others – think about our work through a young person's lens	TM /GD / Comms, working with group of younger staff members	From April
Consider opportunities to build on the actions above to further support young people, such as opportunities for staff to volunteer to mentor young people.	DMcG/GD/TM	Ongoing

Data Protection Policy

Corporate Governance Manager

Item 13

2 May 2018

Purpose

1. This report invites the Audit Scotland Board to approve a revised data protection policy.

Background

2. The EU General Data Protection Regulation 2016/679 (GDPR) will replace the existing UK Data Protection Act 1998 (DPA) on 25 May 2018. As a Regulation, all EU member states will have to implement it in the same way. Member states can introduce supplementary and/or specific data protection requirements to support the GDPR.

3. The UK government is doing this through the Data Protection Bill which is currently going through parliament (awaiting the reporting and third reading in the House of Commons before going back to the House of Lords, then royal assent). The Bill fully encompasses the Regulation and areas that the regulation does not cover, such as other general processing, Law Enforcement processing, Intelligence Service processing, derogations and the powers of the Information Commissioner.

4. The GDPR goes much further than the DPA and introduces new and significantly changed data protection concepts. There is a wide range of new rights for individuals in respect of their personal data. These include the right to be forgotten, the right to request the porting of one's personal data to a new organisation, the right to object to certain processing activities and also to decisions taken by automated processes.

5. Our data protection policy has been rewritten to account for the changes to data protection legislation, and is appended to this report.

6. The Knowledge, Information and Technology Governance Group and Management Team have reviewed the policy and are recommending the Audit Scotland Board approve it.

Policy changes

7. The policy has been rewritten to reflect the language and concepts in the regulation. It is meant to be a high-level document and will be support by a suite of additional guidance, procedures and arrangements.

8. The GDPR says the controller (Audit Scotland, the Accounts Commission and the Auditor General) is **accountable** for, and must be able to demonstrate compliance with, the principles for processing personal information. The data protection policy, approved by the Board, is a key document in demonstrating accountability for the personal information we process in undertaking our work.

Progress update towards GDPR compliance

9. The information Commissioner in May 2017 published 12 steps that organisations should take to ensure compliance with the GDPR by 25 May 2018. The following table shows our progress against the 12 steps as at 18 April 2018.

10. Guidance still awaited from the Information Commissioner's Office (ICO) on some of the interpretation of the Regulation as to the Bill progresses through the parliamentary process.

Step	ICO Description	Current position
1	**Awareness** You should make sure that decision makers and key people in your organisation are aware that the law is changing to the GDPR. They need to appreciate the impact this is likely to have.	Awareness raising was covered in: • The Data Protection update newsletter to everyone in June 2016 and 2017, data protection day newsletter January 2017, • The 2015/2016 & 2016/17 annual information governance and security report to Management Team and the Audit Committee. • The eight GDPR Essential newsletters to everyone from August 2017 to January 2018. • Our Data Protection Policy May 2018 approved by the Board and communicated to all staff. Communication will continue throughout 2018. .
2	**Information you hold** You should document what personal data you hold, where it came from and who you share it with. You may need to organise an information audit.	A personal information inventory was conducted by each business group in August 2017. This was used for identifying suppliers that required a data processing agreement and general personal information handling and security arrangements for our work.
3	**Communicating privacy information** You should review your current privacy notices and put a plan in place for making any necessary changes in time for GDPR implementation.	Our privacy notice is being updated to ensure compliance. The Data Protection Bill may impact our notice, we remain vigilant on this.
4	**Individuals' rights** You should check your procedures to ensure they cover all the rights individuals have, including how you would delete personal data or provide data electronically and in a commonly used format.	The exclusions in the Data Protection Bill will influence what we need to tell people and what rights they may have. The Bill has exclusions for Audit Functions which limits individual's rights. However, staff will have rights and a guide to individual's rights is being prepared.
5	**Subject access requests** You should update your procedures and plan how you will handle requests within the new timescales and provide any additional information.	Our data subject access request procedure has been updated and is GDPR compliant.
6	**Lawful basis for processing personal data** You should identify the lawful basis for your processing activity in the GDPR, document it and update your privacy notice to explain it.	A personal information processing register is being prepared which will identify each lawful basis for processing personal information. Our draft privacy notice contains our lawful basis.
7	**Consent** You should review how you seek, record and manage consent and whether you need to make any changes. Refresh existing consents now if they don't meet the GDPR standard.	We do not rely on consent for processing personal information in most cases therefore this will have only a limited impact on our arrangements. Where we will rely on consent we are making the necessary adjustments and gathering the evidence that consent has been freely given.

Step	ICO Description	Current position
8	**Children** You should start thinking now about whether you need to put systems in place to verify individuals' ages and to obtain parental or guardian consent for any data processing activity.	This aspect is mainly focussed towards online service providers such as Facebook, snapchat, online games providers, etc. We are currently examining whether this will impact our audit work.
9	**Data breaches** You should make sure you have the right procedures in place to detect, report and investigate a personal data breach.	Our new data breach reporting arrangements came into affect in January 2018.
10	**Data Protection by Design and Data Protection Impact Assessments** You should familiarise yourself now with the ICO's code of practice on Privacy Impact Assessments as well as the latest guidance from the Article 29 Working Party, and work out how and when to implement them in your organisation.	Our Privacy Impact Assessment (PIA) process has been updated to the new requirement to conduct Data Protection Impact Assessments (DPIA). Assessment will be conducted when there are major changes to how we do our work and store personal information.
11	**Data Protection Officers** You should designate someone to take responsibility for data protection compliance and assess where this role will sit within your organisation's structure and governance arrangements. You should consider whether you are required to formally designate a Data Protection Officer.	The Corporate Governance Manager is our Data Protection Officer. The role is now mandatory in public bodies and the duties they are required to undertake has been expanded.
12	**International** If your organisation operates in more than one EU member state (i.e. you carry out cross-border processing), you should determine your lead data protection supervisory authority. Article 29 Working Party guidelines will help you do this.	Not applicable to us. However, we have been reviewing where we store personal information to ensure it remains in the EU or in the USA if our supplier has signed up to the Privacy Shield.

Next steps

11. Work continues apace and some of the main focus going forward will be:

- GDRP e-learning for all staff

- personal information processing register

- completion of our privacy notice and data handling notice for staff

- completing detailed guides for audit staff on personal information handling during audits.

Recommendation

12. This report invites the Audit Scotland Board to approve the revised data protection policy.

Data Protection Policy

Owned and maintained by:	Corporate Governance Manager				
Approved from:	May 2018	Next review:	April 2019	Version:	13

Introduction

1. This Data Protection policy applies to the Auditor General, the Accounts Commission and Audit Scotland. Throughout this policy the terms 'we' and 'us' are used to refer to the Auditor General, the Accounts Commission and Audit Scotland collectively.

2. As Data Controllers, we are committed to processing personal data (information) lawfully, fairly and in a transparent manner.

3. To discharge our statutory functions we collect, process, store and delete personal information covered by data protection legislation. Examples include information on current, past and prospective employees, Accounts Commission members' and previous Auditor Generals, clients, suppliers, correspondents, complainants, people covered by the audit process and others with whom we communicate.

4. We recognise the benefits of protecting an individual's fundamental rights and freedoms and in particular their right to the protection of their personal information. We also recognise the seriousness of failing to comply with data protection legislation and the resulting risk to our reputation. Therefore, we are committed to:

    4.1. ensuring that all personal information is processed lawfully and in compliance current data protection legislation

    4.2. ensuring that our digital systems are secure and that personal information will be stored securely

    4.3. implementing effective systems for ensuring the rights of individuals, such as systems for handling and responding to data subject access requests within one month or receipt (requests from individuals to access their personal information)

    4.4. designing systems, processes and methods of working that protect personal information entrusted to us (privacy by design and default)

    4.5. undertaking data protection impact assessments as necessary for major new projects or when considering new software

    4.6. full awareness of and on-going training in data protection legislation, its implications for our work, our data protection arrangements and our data loss/incident process

    4.7. implementing effective systems for handling security breaches and data loss.

5. Data-matching exercises as part of the National Fraud Initiative are subject to a detailed Code of Data-Matching Practice which complies with this policy.

Definition

6. Personal data is defined as *'any information relating to an identified or identifiable natural person (data subject); an identifiable natural person is one who can be identified, directly or indirectly, in particular by reference to an identifier such as a name, an identification number, location data, an online identifier or to one or more factors specific to the physical, physiological, genetic, mental, economic, cultural or social identity of that natural person'*.

7. It applies only to living individuals and covers their personal information held on physical or digital medium.

Data protection principles

8. The EU 2016/679 General Data Protection Regulation (GDPR) contains six principles for processing personal information. They specify the standards that must be met when obtaining, handling, processing, transporting and storing personal information. We will only process personal information where we have a lawful purpose for doing so.

9. To comply with the six data protection principles we will:

9.1. process personal information lawfully, fairly and in a transparent manner in relation to the data subject

9.2. only collect personal information for specified, explicit and legitimate purposes and not further process it in a manner that is incompatible with those purposes

9.3. ensure that the personal information we collect is adequate, relevant and limited to what is necessary in relation to the purposes for which they are processed

9.4. ensure the accuracy of personal information and, where necessary, keep the information up to date; personal information that is inaccurate will be erased or rectified without delay

9.5. only keep personal information in a form which permits identification of data subjects for no longer than is necessary for the purposes for which the personal data are processed; personal data may be stored for longer periods insofar as the personal data will be processed solely for archiving purposes in the public interest, scientific or historical research purposes

9.6. ensure personal information is only processed in a manner that ensures appropriate security of the personal information, including protection against unauthorised or unlawful processing and against accidental loss, destruction or damage, using appropriate technical or organisational measures ('integrity and confidentiality').

Disclosure of personal information

10. We will only disclose personal information to:

    10.1. those who are entitled to the information

    10.2. any authority we are required to do so by law eg HMRC

    10.3. anyone to whom we are required to disclose it, such as individuals seeking to access their own personal data.

Data protection officer

11. The Corporate Governance Manager is our designated data protection officer. He is to be involved, properly and in a timely manner, in all issues which relate to the protection of personal information.

Personal responsibility

12. Data protection is the responsibility of everyone and this principle is embedded in our Code of Conduct. We are all expected to ensure that we collect, process, store, share and dispose of personal data in a fair and lawful manner, in accordance with this policy and data protection legislation, and to under go training as required.

Training and awareness

13. We are committed to full staff awareness and training in Data Protection, Information Security, Freedom of Information and Environmental Information Regulations legislation and its implications for our work. We are committed to maintaining effective systems for handling personal data to meet our obligations under this legislation.

14. Guidance on the application of data protection is available on ishare.

Misuse of personal information

15. Failure of staff to comply with this policy and the data protection principles may result in action under Audit Scotland's disciplinary policy.

Change log

Version	Date	Author	Description
13	12/04/2018	Corporate Governance Manager	Data protection policy changed to include GDPR requirements and the commencement of this change log.

Purpose

1. This report invites Board to review and approve the updated Information Security Management Policy.

Background

2. The Information Security Management Policy is the overarching policy for the management of the Information Security Management System (ISMS) and sets out the commitments and responsibilities of Audit Scotland colleagues, contractors and consultants, in relation to how information security is managed.

3. The policy was reviewed and updated by the Knowledge, Information, Technology, Group (KITGG) on 12 April 2018, as part of an annual effectiveness process, and by Management Team on 17 April 2018. The policy was last approved by the Board on 5 May 2017.

4. The policy clearly outlines Audit Scotland's continued commitment to ISO 27001:2013 certification.

5. The diagram in Appendix 1 describes the documentation within the Information Security Management Environment which supports the function of the ISMS. Minor updates were made by KITGG, a new commitment has been added for GDPR and the diagram in Appendix 1 has been updated to include the Risk Treatment Plan. The changes have been highlighted in the attached policy.

Recommendations

6. The Board is invited to review and approve the Information Security Management Policy, as part of the annual effectiveness review of the Information Security Management System.

Information Security Management Policy

Version:	1.4	Status:	For Board review
Author/Owner:	Digital Services Manager	Approval/Review:	Audit Scotland Board
Approval Date:		Review Date:	2 May 2018

Introduction

1. This policy sets out that Audit Scotland will:

    1.1. ensure the confidentiality, integrity, quality and availability of all the information it holds and processes

    1.2. ensure all the information it holds and processes will meet its contractual, legal and regulatory obligations.

2. This policy is supported by supporting policies, standards, procedures and guidance and these are shown in the diagram at Appendix 1.

Scope

3. This policy is mandatory for all employees, contractors and consultants employed by Audit Scotland. Failure to comply with this policy and supporting information security policies may result in disciplinary action.

Commitments

4. Audit Scotland will:

    4.1. produce, maintain and test business continuity plans to ensure the availability of its information and information systems

    4.2. treat information security as a business-critical issue

    4.3. ensure that its information is open and not restricted by financial or legal agreements

    4.4. ensure legislative and regulatory requirements are met (including intellectual property rights)

    4.5. ensure compliance with the General Data Protection Regulation and implement privacy by design in all information systems

    Comment [NP1]: New commitment added for GDPR

    4.6. identify and implement appropriate controls for information assets proportionate to levels of risk

4.7. communicate all appropriate information security policies to all employees, contractors, consultants, clients and other stakeholders

4.8. allocate individual accountability for compliance with all appropriate information security policies, standards, guidance and procedures

4.9. continue to improve its information security management

4.10. develop, implement and maintain an Information Security Management System (ISMS) in accordance with best practice contained within ISO/IEC 27001:2013 and ISO/IEC 27002:2013.

Responsibilities

5. Audit Scotland's Board through its Audit Committee has oversight of risks, including information risks.

6. Audit Scotland's Accountable Officer, with support from the Management Team, has overall responsibility for ensuring this policy is effectively implemented and delivered.

7. Audit Scotland's Senior Information Risk Officer (SIRO) is the Chief Operating Officer, who is responsible for the overall management of the organisation's information risks.

Comment [NP2]: SIRO acronym added

8. Audit Scotland's Management Team will implement and manage appropriate controls to enable conformance to information security policies within their own areas of responsibility and will ensure individual accountability for control performance.

9. The Knowledge, Information and Technology Governance Group (KITGG) will support the Accountable Officer, Senior Information Risk Officer and Management Team by assessing and mitigating information security risks and providing assurance.

10. The KITGG will maintain this policy and associated information security policies ensuring they are communicated, reviewed and updated in response to changes in risks faced by Audit Scotland, legislation, and internal operational working practices.

11. The KITGG will ensure all information security policies and our performance in meeting their requirements is monitored and reviewed on an annual basis.

12. The Digital Services Management Team (DSMT) will maintain information security standards, guidance and procedures ensuring they are communicated, reviewed and updated in response to changes in risks faced by Audit Scotland, legislation, and internal operational working practices.

13. The Corporate Governance Manager is responsible for updating Audit Scotland's Data Protection Policy, managing data subject access requests and providing advice to staff.

Comment [NP3]: Changed from data protection notification to Data Protection Policy

14. Information Asset Owners must understand what information is held by their business area, and approve the permissions required to access it.

15. All Managers will be responsible for implementing and communicating appropriate information security policies, guidance and procedures.

16. All employees, contractors and consultants employed by Audit Scotland are required to play an active role in the protection of Audit Scotland's assets and treat information security appropriately in order that this purpose can be achieved.

Change Log

Version	Date	Author	Description
1.0	22/03/16	IT Manager	Information Security Management policy drafted for KITGG approval.
1.1	05/04/16	IT Manager	Some minor changes suggested by the KITGG and policy approved. For submission to the Audit Scotland Management Team for approval.
1.2	15/04/16	IT Manager	Minor changes to reflect Audit Management Team comments. Approved by Management Team and for submission to the Audit Scotland Board.
1.2	05/03/16	IT Manager	Approved by the Audit Scotland Board.
1.3	04/04/17	Digital Services Manager	Minor changes made by KITGG and approved. For submission to Management Team and the Board for final approval.
1.3	05/05/17	Digital Services Manager	Approved by Management Team and Audit Scotland Board.
1.4	12/04/18	Digital Services Manager	Annual effectiveness review and updates made and approved by KITGG. Approved by Management Team on 17/04/18.

Appendix 1 - Information Security Management System Environment
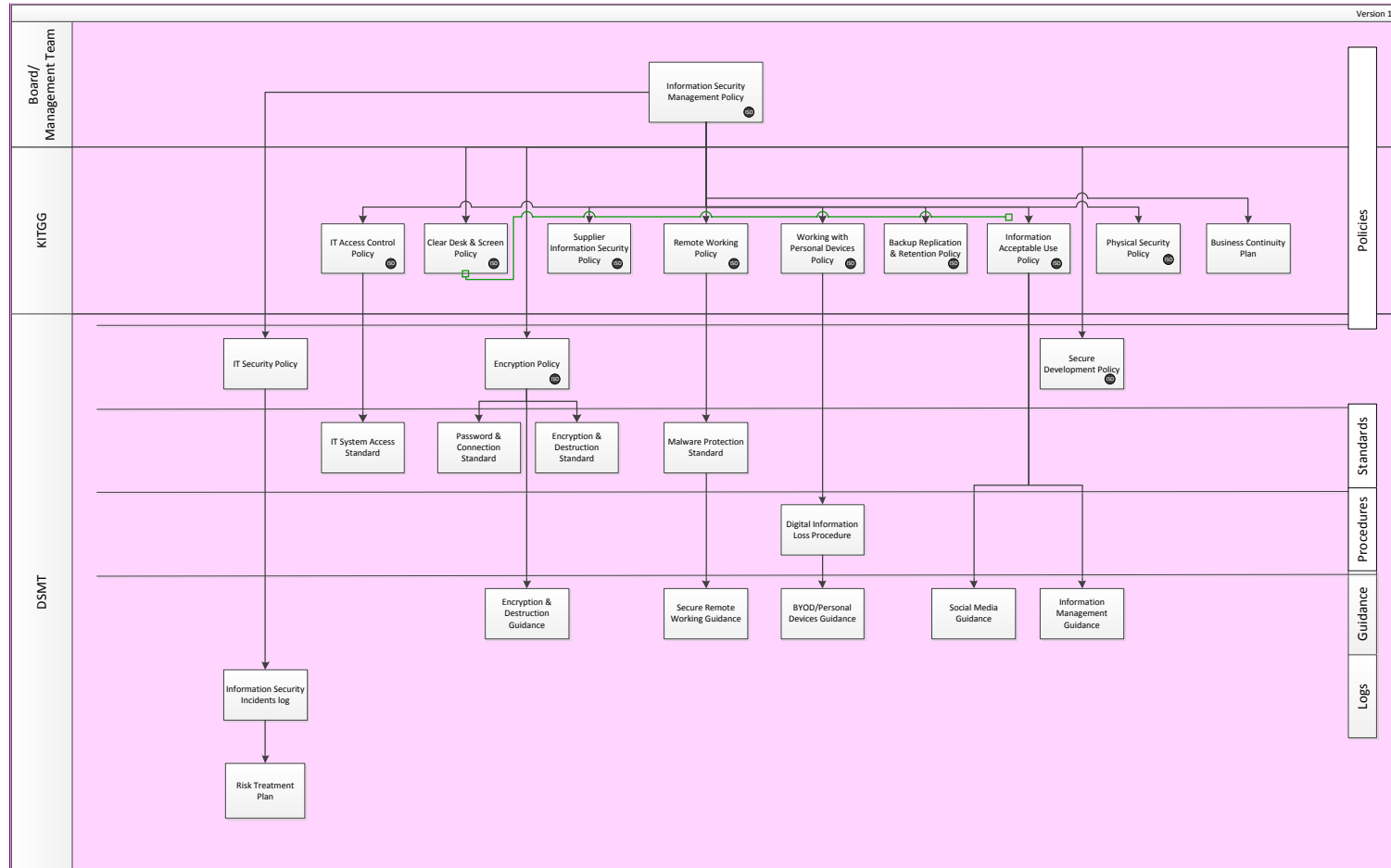
Comment [NP4]: Risk Treatment Plan added

Agenda

AUDIT SCOTLAND

Wednesday 6 June 2018, 11.30am

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

1.	Welcome and apologies	
2.	Declarations of interest	
3.	Decision on items to be taken in private	For approval

Standing items

4.	Chair's report – verbal update	
5.	Accountable Officer's report – verbal update	
6.	Accounts Commission Chair's report – verbal update	
7.	Review of minutes: • Board meeting, 2 May 2018 • Audit Committee, 14 March 2018	For approval For information
8.	Review of action tracker	For information

Business performance

9.	Q4 Financial performance report	For information
10.	Q4 Corporate performance report	For information
11.	Q4 Becoming world class improvement programme	For information
12.	Data Protection update	For information

Governance

13.	2017/18 Annual report on freedom of information and environmental information	For approval
14.	2017/18 Annual report on complaints	For approval
15.	2017/18 Annual report from the Chair of the Audit Committee	For approval
16.	2017/18 Annual report from the Chair of the Remuneration and Human Resources Committee	For approval
17.	2017/18 Governance statement on internal control and certificate of assurance	For approval
18.	Policy on the provision of non-audit services by Audit Scotland's external auditor	For approval

19. Any other business

20. Review of meeting

21. Date of next meeting: 22 August 2018

Items to be taken in private

Governance continued

22. 2017/18 Annual report on Audit quality   For approval

    [Item to be taken in private to support the effective conduct of business –
    information intended for future publication]

23. 2017/18 Annual report on International work   For approval

    [Item to be taken in private to support the effective conduct of business –
    information intended for future publication]

24. 2017/18 Draft annual report and accounts   For approval

    [Item to be taken in private to support the effective conduct of business –
    information intended for future publication]

Minutes

Wednesday 2 May 2018, 10.15am

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

Present:

I Leitch (Chair)
C Gardner
G Sharp
H Logan
R Griggs

Apologies:

None

In attendance:

D McGiffen, Chief Operating Officer
M Walker, Assistant Director, Corporate Performance and Risk
M Taylor, Assistant Director, Audit Services (item 9)
R Seidel, Audit Manager, Performance Audit and Best Value (item 9)
M Roberts, Senior Manager, Performance Audit and Best Value (item 9)
F Mitchell-Knight, Assistant Director, Audit Services (item 10)
A Clark, Assistant Director, Performance Audit and Best Value (item 11)
F McKinlay, Assistant Director, Performance Audit and Best Value (item 12)
T Meldrum, Senior Auditor, Performance Audit and Best Value (item 12)
A Devlin, Corporate Governance Manager (item 13)
J Webber, Senior Executive Assistant

1. Welcome and apologies

The Chair welcomed members and attendees to the meeting of the Audit Scotland Board, the agenda and papers for which had been published on Audit Scotland's website on Monday 30 April 2018.

2. Declarations of interest

There were no declarations of interest.

3. Decision on items to be taken in private

The members agreed that item 18 the draft Corporate Plan would be considered in private as it is intended for future publication.

4. Chair's report

Ian Leitch provided a verbal update on meetings with Diane McGiffen and Caroline Gardner on general business matters.

The members welcomed the update.

5. Accountable Officer's report

Caroline Gardner advised the Board of a busy period for parliamentary engagement which included evidence sessions with the Public Audit and Post Legislative Scrutiny (PAPLS) Committee on NHS Tayside. Caroline advised that she and Mark Taylor were giving evidence

to the Social Security Committee on Thursday 3 May and invited members to note forthcoming events being hosted by the Budget Process Review Group.

Caroline also advised of the forthcoming publication of the early learning and childcare report, two section 22 reports on New College Lanarkshire and Edinburgh College and the Colleges Overview report.

Caroline advised she was taking part in a meeting of the Scottish Parliament's Women's Development network and was speaking at a conference of the College Development Network on 15 May 2018.

Caroline invited the Board to note the forthcoming recruitment campaign primarily for the new financial powers and social security work and to note the comparison for Audit Scotland in the gender median pay gap report published on 30 March 2018, reflecting the commitment to fairness and gender balance across the organisation.

Following discussion, the Board welcomed the update.

6.   Accounts Commission Chair's report

Graham Sharp advised the Board that the Accounts Commission had considered the forward programme of performance audit work and had heard from the Improvement Service on the Local Government benchmarking framework at its meeting on 12 April 2018. At that meeting the Commission had a useful session on the strategic planning priorities for Audit Scotland led by Diane McGiffen, a report on the how council's work programme and a report on the principles of effective scrutiny.

Graham advised of a forthcoming meeting with Dundee City Council on a recent statutory report and that the May Accounts Commission meeting will consider two Best Value reports, review the draft annual quality report and discuss the Commission's strategic priorities.

Graham updated the Board on the recruitment of new Commission members.

The Board welcomed the update.

7.   Review of minutes

Board meeting, 28 March 2018

The Board considered the minutes of the meeting of 28 March 2018, which had been previously circulated, and agreed these were an accurate record of the meeting, subject to the insertion of 'benchmarking' in the reference to the Local Government Benchmarking Framework at item 6, and the correction of the reference to the 2018/19 proposed operational budget at item 9.

8.   Review of actions tracker

The Board noted the updates provided by the action tracker. The Chair asked for clarification in relation to actions ASB66 and ASB71 and Martin Walker, Assistant Director, Corporate Performance and Risk, confirmed both actions related to the report at item 10 of the agenda.

9.   New financial powers and constitutional change update

Mark Taylor, Assistant Director, and Rebecca Seidel, Audit Manager and Mark Roberts, Senior Manager, joined the meeting.

Mark Taylor, Assistant Director introduced the New Financial Powers and Constitutional Change report, which had been previously circulated.

Mark advised the Board that Audit Scotland was building capacity for the additional work on new financial powers with two teams established for auditing social security and public financial

management. Mark also welcomed Mark Roberts to the team and advised that he would be leading on work relating to EU withdrawal.

Mark advised that the Social Security Bill had passed through Parliament and the Audit and Accountability Framework (AAF) remained under development by the UK and Scottish governments.

Russel Griggs asked how Audit Scotland would interface with the Department of Work and Pensions (DWP), noting the respective responsibilities of Audit Scotland and the National Audit Office (NAO). Mark advised that the draft AAF set out the basis of what would be reported and will include elements of devolved social security, including the extent of interaction with DWP. He advised that an appropriate AAF would be needed to ensure the audit could operate effectively in such areas, and that a Memorandum of Understanding with the NAO covers Scottish Income Tax arrangements.

The Board discussed other aspects of the report and Rebecca Seidel advised the Board of engagement with Committee clerks and the Scottish Parliament's Information Centre (SPICe) on the revised budget process, with drop-in sessions for MSPs and workshops on offer. She provided assurance about handling potential conflicts of interest.

The Board reflected on the work underway, the challenges around resources, skills and timing and Russel Griggs asked whether there were any in-year budget implications. Diane McGiffen advised that there were no in-year budget implications, the budget for the new financial powers work had been reviewed as part of the longer term workforce planning which had also identified opportunities for ongoing learning and development as well as upskilling.

Following discussion, the Board noted the work underway and welcomed the update.

Mark Taylor, Rebecca Seidel and Mark Roberts left the meeting.

10. Review of the new approach to auditing best value

Fraser McKinlay, Director, and Fiona Mitchell-Knight, Assistant Director, joined the meeting.

Fraser McKinlay, Director of Performance Audit and Best Value introduced the Review of the new approach to auditing best value report, which had previously been circulated.

Fraser invited the Board to note the Review of the approach to best value was to ensure the approach was fit for purpose and met the Accounts Commission's objectives. Fraser invited Fiona Mitchell Knight to summarise the report.

Fiona Mitchell Knight invited the Board to note the review was to ensure the work took a risk-based approach and was proportionate in order to provide assurance to the Accounts Commission about best value across all 32 councils.

Graham Sharp advised that the Commission recognise that best value audit is a substantial task with good progress made in year one of the new approach and that further development areas had been identified, including ongoing Commission engagement events with local government. Fiona advised of work underway to update audit manuals and issue guidance notes for auditors.

Heather Logan welcomed the report and asked how development actions were being monitored. Fiona Mitchell Knight advised of active monitoring of local risks through the audit plans and by the working groups which in turn forms part of the annual assurance to the Commission. Graham Sharp explained the role of the Local Government Benchmarking Framework in the context of the statutory performance indicators that the Accounts Commission prescribes.

The Chair welcomed the report and asked how the increase in work required had been managed. Fraser McKinlay advised that there had been an increased resource requirement in year one of the new approach and that this had been managed within existing resources using colleagues involved in the local audit team and colleagues from across Performance Audit and

Best Value and that resource needs were expected to reduce over the five year audit appointment. Fraser also advised that the best value audit work provided valuable context for financial reporting which in turn provided wider scope assurance to the Accounts Commission.

Following discussion, the Board welcomed the report.

Fiona Mitchell-Knight left the meeting

11. Work programme and publication schedule

Antony Clark, Assistant Director, joined the meeting.

Antony Clark, Assistant Director, Performance Audit and Best Value, introduced the work programme and publication schedule report, which had previously been circulated and which had been jointly agreed by the Auditor General for Scotland and the Accounts Commission and which is refreshed each year.

Russel Griggs asked whether the schedule was likely to change in light of the new financial powers coming to Scotland. Antony advised that the schedule is designed to provide some flexibility to adapt and respond to changing needs.

Heather Logan noted the openness and transparency briefing due to be published in May and asked whether public bodies were retaining an appropriate focus on this area. Antony advised that every annual audit reports on governance and that supplementary audit guidance would be issued as part of the annual planning guidance to auditors.

Caroline Gardner advised that the process around the work programme and publication schedule was much more robust, building on the extensive programme development work and based on the strategic priorities of the Auditor General and Accounts Commission.

Following discussion, the Board welcomed the report.

Antony Clark left the meeting.

12. Engagement with young people

Tricia Meldrum, Senior Auditor, joined the meeting.

Tricia Meldrum, Senior Auditor, Performance Audit and Best Value, introduced the Engagement with young people report, which had previously been circulated.

Tricia Meldrum invited the Board to note the continued work with young people and specifically the benefits this can bring to audit work.

The Board were keen to explore how the engagement informed programme development, audit scoping and the audit work and the added value it brought to the process and audit reports. Tricia advised that the engagement formed part of a broader engagement, which focussed on ensuring that the audits covered areas of interest to and sought views from 'hard to reach' groups, with a view to supporting diversity and equality. Diane McGiffen advised that the work also supported Audit Scotland's commitment to the Year of Young People 2018.

Following discussion, the Board welcomed the report.

Fraser McKinlay and Tricia Meldrum left the meeting.

13. Data protection policy

Alex Devlin, Corporate Governance Manager, joined the meeting

Alex Devlin, Corporate Governance Manager, introduced the data protection policy, which had previously been circulated.

Alex advised the Board that the date of implementation of the new data protection act was still to be announced while the requirements for GDPR came into effect from 25 May 2018. He invited the Board to approve the updated policy.

The Chair asked Alex to email Board members the link to the updated e-learning package and encouraged members to complete these before the end of May.

The Board discussed the lawful reason for processing personal information as part of audit work and approved the policy.

Action: **Alex Devlin to send members the link to the updated e-learning package. (May 2018)**

Alex Devlin, Corporate Governance Manager, left the meeting

14. Information security management policy

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the Information security management policy report, which had been previously circulated.

The Board was invited to approve the policy which had been updated to reflect changes for GDPR and following discussion, the Board approved the policy.

15. Any other business

Diane McGiffen provided a verbal update on pay negotiations, confirming that PCS had balloted its members and the results were expected on 9 May 2018.

16. Review of meeting

The members agreed that there had been a varied and comprehensive agenda with full discussion on the various reports and the Chair thanked everyone for their contribution.

17. Date of Next Meeting

It was noted that the next Audit Scotland Board meeting was scheduled for 11.30am on Wednesday 6 June 2018 in the offices of Audit Scotland, 102 West Port, Edinburgh.

The Board then moved into private session.

Items taken in private

18. Corporate plan 2018-21

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the Corporate Plan 2018-21 report, which had been previously circulated.

Martin invited the Board to review and approve the Corporate Plan 2018-21 for publication.

The Board discussed and agreed a number of amendments to provide more emphasis in a number of areas including, audit quality, the expansion of the support for the Accounts Commission, the potential inclusion of KPIs, the work to support external engagement, independence and the overall value of audit as part of the Public Audit model in Scotland.

Following discussion, the Board approved the 2018-21 Corporate Plan subject to amendments which would be circulated by email for final approval.

Action: **Martin Walker to circulate the amended 2018-21 Corporate Plan for approval by correspondence. (May 2018)**

Minutes

Audit Committee Meeting

Wednesday 14 March 2018, 10.00am

Audit Scotland offices, Nelson Mandela Place, Glasgow

Present:

H Logan (Chair)
R Griggs

Apologies:

G Sharp

In attendance:

C Gardner, Auditor General for Scotland
I Leitch, Chair of the Audit Scotland Board
D McGiffen, Chief Operating Officer
M Walker, Assistant Director, Corporate Performance and Risk
S Dennis, Corporate Finance Manager
A Devlin, Corporate Governance Manager
D Robertson, Digital Services Manager
C Robertson, BDO
A O'Donnell, BDO
S Cunningham, Alexander Sloan
J So, Alexander Sloan

0. Confidential Item – Internal audit procurement update

Agenda item 10 was taken in private at the start of the meeting.

The Corporate Governance Manager submitted a confidential report on the procurement of internal audit services, which had been previously distributed.

After discussion it was agreed to recommend the preferred supplier to the Board for approval at their next meeting on 28 March 2018.

1. Private meeting

A private meeting was held with BDO, the internal auditors, and Alexander Sloan, external auditors.

There were no issues raised from the private meeting.

2. Welcome and apologies

The Chair of the Audit Committee opened the meeting and noted that apologies were submitted by G Sharp who was attending the 2018 Accounts Commission strategy seminar.

3. Declarations of interest

There were no declarations of interest.

4. Minutes of meeting 15 November 2017

The Audit Committee members reviewed the minutes of the meeting of 15 November 2017, which had previously been circulated.

The minutes were approved as an accurate record of the meeting.

5. Review of actions tracker

The Audit Committee members reviewed the outstanding actions on the actions tracker. The members welcomed the actions which had been concluded and closed.

Updates were provided by Audit Scotland's officers and a number were covered as specific items later on the agenda.

The members welcomed the progress and noted the update.

6. Audit Committee terms of reference

The Chair invited comments from members on the report submitted by the Corporate Governance Manager, which had been previously circulated.

The members approved the updated terms of reference.

7. Internal audit reports

Claire Robertson, BDO submitted internal audit reports on IT service management, financial reporting, workforce planning/resource management and the follow-up review, which had been previously distributed.

IT service management

David Robertson, Digital Services Manager, joined the meeting.

Andrew O'Donnell, BDO provided an overview of the good practice points and key findings as well as the audit outcome of substantial assurance for design and reasonable assurance for operational effectiveness.

The Chair invited comments and questions on the report from the members.

Russel Griggs indicated that he wished to explore the substantial level of assurance that is awarded to most of Audit Scotland's internal audit reports but agreed with the Chair that it be covered when discussing the 2017/18 annual assurance report.

The Chair of the Audit Committee sought and received clarification on the term 'rented purchase' from the Digital Services Manager.

The Chair asked what led to observation three on KPIs. Claire Robertson explained that Digital Services did not have data for one of the KPIs during the audit. The Digital Services Manager also explained that KPIs had been introduced to help achieve ISO 27001 but in hindsight some of the KPIs did not result in meaningful data and were being reviewed and may be dropped if they did not add value.

Ian Leitch highlighted an inaccuracy in the text of the Root-cause-analysis section on page seven. BDO the internal auditors agreed to amend the text.

The report was noted.

David Roberson left the meeting.

Action 55AC: BDO to amend the wording of the root-cause-analysis section of the IT Service Management report and re submit it to Audit Scotland. (March 2018)

Financial reporting

Andrew O'Donnell, BDO gave an overview of the good practice points and key findings as well as the audit outcome of substantial assurance for both design and operational effectiveness.

The Chair invited questions on the report from the members. Russel Griggs noted the comments from those interviewed that the financial reports were too detailed and asked if the end users were really using the very detailed financial reports. Claire Robertson indicated that the reports were being used but that there was some scope for them to be simplified.

The Chief Operating Officer said that she welcomed the report as positive assurance to the Committee members that the changeover during the year of Finance Managers did not affect operational performance.

The members noted the report.

Workforce planning/resource management

Andrew O'Donnell, BDO gave an overview of the good practice points and key findings as well as the audit outcome of substantial assurance for both design and operational effectiveness.

The Chair of the Audit Committee asked about progress on the skills gap analysis recommendation. The Chief Operating Officer advised the members that action was underway and that it had been discussed at the Corporate Services Managers meeting on 13 March 2018.

A discussion took place on previous attempts to map skills and experience including what BDO's process was for this in their organisation. The consensus was that this was a challenging area of work that required careful management.

The members noted the report.

Follow-up review

Andrew O'Donnell, BDO gave an overview of the outcomes from the follow-up review. The members were informed that Audit Scotland had made good progress in implementing recommendations.

Russel Griggs asked if Audit Scotland managers were estimating the recommendation completion date accurately as 28% of recommendations were either not complete or only partially complete. The Chair of the Audit Committee shared the members concern regarding this citing a date of 30 September 2017 being set for implementing cold reviews when it was generally accepted that this date would not be fully met. Claire Robertson advised the members that there were good reasons given for recommendation not having met their implementation dates.

A discussion took place around the estimation of implementation dates by Audit Scotland Managers and the role internal audit could play in challenging dates if they seemed over ambitious. Claire Robertson agreed that this challenge should be integrated into the audit clearance process.

The Chair of the Audit Committee asked why the management response to the contract management recommendation was not more aligned to the status as at February 2018. The Corporate Finance Manager informed the Chair that more work was being done to the ishare page to make it more effective for those seeking guidance on procurement and contract details.

The members noted the two internal audit reports.

Action 56AC: Internal auditors to initiate a process for challenging managers on recommendation implementation dates where they seem to be over ambitious. (June 2018)

8. Co-operation between internal and external auditors

Claire Robertson, BDO introduced the report on co-operation between internal and external audit, which had been previously circulated.

The members noted the report.

9. 2017/18 Internal audit annual assurance report

Claire Robertson, BDO provided an overview of the internal audit annual report 2017/18, which had been previously circulated. Claire Robertson advised the members that the conclusion is positive for the audit year, and that internal audit provided reasonable assurance that there were no major weaknesses in the internal control systems for the areas reviewed in the year.

Russel Griggs returned to his comment previously raised under agenda item 7 in which he wished to explore the number of substantial assurances provided for the areas audited. Russel asked internal audit if they were satisfied that the 'bar' was set at the correct level for the audits or whether Audit Scotland's performance was strong in almost all areas. Claire Robertson assured the members that the 'bar' was set at the correct level and that due to continuity of auditing Audit Scotland over the past few years BDO were able to review previous work to see improvement and progress. The members were also informed that an Audit Needs Assessment would be undertaken shortly by internal audit at the start of the next contract and that internal audit may identify areas that would result in more areas for development and improvement.

The members welcomed the assurance the report had given on internal control.

The Chair informed the members that the annual assurance report brought to an end the internal audit work for 2017/18 and the current internal audit contract. The Chair thanked BDO for all their work during over the last three years.

10. Internal audit procurement update

This item was taken in private at the start of the meeting.

11. 2017/18 Year end statutory accounts timetable

The Corporate Finance Manager introduced the timetable for the completion of the statutory accounts to 31 March 2017, which had previously circulated.

The Audit Committee noted the timetable.

12. External auditors plan 2017/18

Steven Cunningham, Alexander Sloan introduced the external audit plan and timetable for the 2017/18 audit.

The Audit Committee welcomed the update and noted the plan.

13. Review of risk register

There was submitted a report by the Assistant Director, Corporate Performance and Risk, on the review of Audit Scotland's risk register, which had been previously circulated.

The Assistant Director, Corporate Performance and Risk, introduced the report by highlighting the changes made since the last report in November.

A discussion took place on risk 5 – Failure to assess the impact of and respond to the EU referendum result, and the risks and controls surrounding 'Brexit', including the impact it may have on Audit Scotland. The Chief Operating Officer informed the members that Management Team had discussed this matter, what was being done to manage the risks and that this area was the subject of the next risk interrogation to be considered by the Committee at its meeting on 23 May 2018.

The members noted the report.

14. Risk interrogation: Legitimacy, relevance and independence

There was submitted a report by the Assistant Director, Corporate Performance and Risk, on the risk interrogation: legitimacy, relevance and independence, which had been previously circulated.

The Chair of the Audit Committee informed the meeting that she valued these reports and the assurance they gave to the members on the work done to control the risks.

The Assistant Director, Corporate Performance and Risk provided an overview of the interrogation picking out the highlights and the controls in place.

A general discussion took place on the stress around the risk scores and the extent of any challenges to independence, legitimacy and relevance. The members were advised that the independence of the public audit model in Scotland and that of the Auditor General, the Accounts Commission and Audit Scotland are business critical, carefully managed and reflected in the risk scores.

Ian Leitch added that the independently appointed Board members were further evidence of the controls and could be covered in the report. The Assistant Director, Corporate Performance and Risk agreed to consider this for future risk reports and the risk register.

The members noted the report.

Action 57AC: The Assistant Director, Corporate Performance and Risk to consider the independently appointed Board members for future risk reports and the risk register. (May 2018)

15. Q3 financial performance report

There was submitted a report by the Corporate Finance Manager, on the Q3 financial performance report, which had previously been circulated.

The Chair reminded the members that the report had been discussed at the February Board meeting due to the sequencing and timing of the meetings this year.

The Corporate Finance Manager informed the members that our forecasts for the year had been reviewed and that we were consistent with the budget.

The Chair of the Audit Committee informed the members that she had met with Audit Scotland Officers on 7 March 2018 about the detail of financial detail needed for consideration by the Audit Committee members. It was agreed that a simplified report would come to the Audit Committee from the Corporate Finance Manager in future.

The members noted the report.

Action 58AC: The Corporate Finance Manager to simplify the quarterly financial reports for the Committee. (June 2018)

16. Digital security update

David Robertson, Digital Services Manager joined the meeting.

There was submitted a digital security update report by the Digital Services Manager, which had previously been circulated.

The Digital Services Manager provided the members an overview of the main points in the report.

Members of the committee sought clarification on a range of issues and were provided with further information. The areas covered included; the provider of cloud services, Crypto jacking, the extent to which Audit Scotland is targeted through low level cyber-attacks, the motion enabled security camera in the digital server room and the definition of multiple redundant systems for work stream 3.

The Chief Operating Officer informed the members that the investment in our Digital Services has been of great value to the organisation as witnessed most recently by the extremely low impact on our work as a result of the disruption caused to the UK from the winter weather in late February.

The Chief Operating Officer and Audit Committee Members thanked the Digital Services Manager and the Team for all their hard work.

The Audit Committee noted the report.

David Robertson, Digital Services Manager left the meeting.

17. Annual assurance and statement of control process

The Corporate Governance Manager submitted the annual assurance and statement of control process report, which had been previously circulated.

The Audit Committee noted the report.

18. Any other business

Two items of other business were raised on data incidents and whistleblowing prescribed persons.

The Corporate Governance Manager informed the members that there had been one data incident to report since the last meeting and that this involved the loss of a mobile phone; there was no risk to our information as the phone was remotely wiped.

The members were also updated on progress to have Audit Scotland reinstated as a prescribed person under the Public Interest Disclosure Act.

Action 59AC: The Corporate Governance Manager to provide an update at the next meeting of the Committee. (May 2018)

The members welcomed the updates.

19. Review of meeting

The Chair of the Audit Committee invited members to comment on the standard of the papers submitted to them and on the meeting itself.

Members were satisfied with the papers and the meeting.

20. Date of next meeting

The next meeting will be held at 10.00am on 23 May 2018 in the offices of Audit Scotland, Nelson Mandela Place, Glasgow.

AUDIT SCOTLAND BOARD ACTION TRACKER 2018/19

Ref	FORUM	Agenda Item No	Item Title	Action Description	Meeting Date	Due Date	Responsible	Assigned to	Complete/Ongoing	Reported Yes/No	Progress Notes
ASB58	Board	18	2016/17 Annual report on international work and international strategy 2017-20	Antony Clark, Chair of International Steering Group to consider the longer term impact of international work in future reporting.	06/06/2017	02/06/2018	Antony Clark	Sarah Pollock	Complete	No	This report appears at item 23 of today's agenda.
ASB64	Board	5	Accountable Officer's Report	An update report on developments within the Appointments and Assurance and Professional Support teams to be scheduled.	29/11/2017	28/03/2018	Diane McGiffen/Fiona Kordiak	Diane McGiffen/Fiona Kordiak	Ongoing		A verbal update was provided at the meeting on 28 March with a report to be scheduled later in the year.
ASB66	Board	10	Q2 Corporate performance report	An update on the BVAR audit days to be reported to the next meeting of the Audit Committee.	29/11/2017	14/03/2018	Martin Walker	Martin Walker	Complete	Yes	This was considered at item 10 - Review of the new approach to best value at the meeting on 2 May 2018.
ASB67	Board	10	Q2 Corporate performance report	The annual report on international work to expand on the engagement with the Canadian Comprehensive Auditing Foundation in developing the performance audit work.	29/11/2017	06/06/2018	Antony Clark	Antony Clark	Complete	No	This appears in the report at item 23 of today's agenda.
ASB70	Board	11	2018 Audit Scotland staff conference update	A discussion on audit quality and reputational risk to be scheduled following consideration of the Annual Audit Quality report.	31/01/2018	22/08/2018	Diane McGiffen	Elaine Boyd	Ongoing		A report is scheduled to come to the Board meeting on 22 August 2018.
ASB73	Board	12	Publications schedule: January to June 2018	A copy of the Openness and transparency briefing paper to be circulated to members.	31/01/2018	30/04/2018	Diane McGiffen	Joy Webber	Ongoing		This paper now forms part of the auditor guidance which will be circulated to members by the end of May 2018.
ASB74	Board	13	Data protection policy	Alex Devlin to send members the link to the updated e-learning package. (May	02/05/2018	30/05/2018	Alex Devlin	Alex Devlin	Complete	No	The link to the e-learning package was emailed to members on 23 May 2018.
ASB75	Board	18	Corporate Plan 2018-21	Martin Walker to circulate the amended 2018-21 Corporate Plan for approval by correspondence.	02/05/2018	30/05/2018	Martin Walker	Martin Walker	Complete	No	The amended Corporate Plan was emailed to members on 23 May 2018.

Purpose

1. This report presents the financial results for the twelve months to March 2018.

Background

2. The management accounts report for the twelve months to March 2018 was discussed by Management Team on 8 May 2018 and is attached to the report submitted to the Audit Committee on 6 June 2018.

Discussion

3. In the twelve months to March 2018, Audit Scotland's Net Operating Expenditure was £8,514k which was £643k less than budget.

4. In-house income was in total £368k higher than plan with the 2016/17 audit year generating a surplus of £313k with £231k related to the European Agricultural Fund Audit (EAFA). The increase in EAFA income covered additional expenditure incurred on agency staff working on the audit. Progress on 2017/18 audit work was on average 0.28% above plan leading to a positive volume variance of £22k and a recognised price variance of £33k. Price variances relate to integrated joint boards fees and an increase to the indicative fee for the Scottish Police Authority.

5. Fee income earned for audits carried out by external firms net of fees and expenses paid to the firms were £4k higher than budget. Although income was £399k higher than budget this was offset by fees and expenses payable to the external firms being £403k higher than budget. This is in recognition of additional work the firms have carried out to generate the higher income earned.

6. Central charges income was £45k lower than budget and bank interest £18k was less than budget.

7. Staff costs including agency and secondment expenditure and net of secondment income were £210k more than budget.

8. IAS 19 pension costs were £192k less than budget and other expenditure/income contributed £360k to the favourable position. The valuation of unfunded schemes as at 31 March 2018 reduced the obligation from the 2016/17 and led to a favourable outturn.

9. Detailed information was provided in the report considered by the Audit Committee at its meeting immediately prior to the Board, the papers for which all members received.

Virement

10. There were no instances of budget virement in excess of £20k in the twelve months to March 2018.

Recommendation

11. The Board is invited to note the financial results for the 12 months to March 2018.

AUDIT SCOTLAND

Q4 Corporate performance report

Item 10

Assistant Director, Corporate Performance and Risk

6 June 2018

Purpose

1. This report provides the Board with an overview of Audit Scotland's performance during quarter four and an overview of 2017/18.

Background

2. Performance reports are considered by Management Team and the Board on a quarterly basis alongside the quarterly financial performance report and Becoming World Class improvement programme update.

3. The Board considered the quarter three report at is meeting on 28 February 2018.

4. This report was considered by Management Team at its meeting on 8 May 2018.

5. The performance information is structured around the three strategic objectives of Securing World Class Audit, Making a Difference and Building a Better Organisation.

    - Appendix 1 (pages 5 – 7) provides a one-page summary of performance for each strategic objective.

    - Appendix 2 provides the detailed performance information.

Q4 performance summary

6. The Q4 report demonstrates strong performance over all. Performance headlines include:

    - Securing World Class Audit – we are conducting relevant, timely and high-quality audits:

        – 98.6% of audit outputs scheduled were delivered in Q4.

        – 205 annual audit plans delivered.

        – Four performance audit and best value audit reports (Early learning and Childcare; Managing the implementation of the Scotland Acts, BVAR Clackmannanshire Council, BV follow-up Falkirk Council).

        – Devolution of financial powers, fiscal framework and social security – where we have established the social security and public financial management audit teams and published the latest report on the implementation of the Scotland Acts on 28 March 2018.

        – The EAFA 2017 audit was delivered by the statutory deadline of 15 February within the agreed budget and fee. The delivery of this complex audit is a success given the many challenges which have had a direct impact on the audit process.

        – The completion of scheduled quality work under the Audit Quality Framework.

- Making a Difference – we are getting our messages out effectively and delivering new and improved products:

  – Substantial parliamentary, mainstream media and social media interest in reports, in particular the Early Learning and Childcare report and associated material.

  – For the Early Learning and Childcare performance audit we developed additional audit outputs including a guide for parents and carers to answer some frequently asked questions, and we suggest some ways they can get more information and help. The guide also covers how we carried out our audit and what we found and we developed videos for the e-Hub.

- Building a Better Organisation – we are managing our workforce effectively and investing in learning and development. Financial planning and budget management are effective:

  – Staff complement (w.t.e): average number of staff employed in the to March 2018 was 271.9 w.t.e. – 3. w.t.e. lower than the establishment figure of 274.9.

  – Absence rate of 1.12 days.

  – Exams: 77 exams taken in Q4 with a 91% pass rate for professional trainees.

  – Net operating costs, staff costs and travel and subsistence costs are below budget.

2017/18 Performance summary

7. Performance over the course of 2017/18 has been strong.

Securing world class audit

8. We planned 496 audits/ reports and delivered 486 (97.9%).

	Planned	Delivered	%
Annual Audit Plans AS Firms	126 100	126 100	100 100
Annual Audit Reports AS Firms	126 100	126 100	100 100
Performance Audits	8	7	87.5
BV Assurance & Follow-up Reports	8	8	100
Overviews	4	3	75%
Housing Benefit Reports	9	6	66%
Statutory Reports	12	8	66%
Other [1]	3	2	66%

9. Five of the remaining reports will be delivered in Q1 of 2018/19 (the Local Government Overview Report[1] and the National Scrutiny Plan have already been published). One HB report was not

required based on a risk assessment and four statutory reports were provided for, for planning purposes, but were not required.

10. Overall audit costs are 3.12% above budget but within tolerance of 5%.

11. We have introduced the new Audit Quality Framework, established the Appointments and Assurance Team, Professional Support and the Audit Quality Committee. The quality measures indicate positive performance.

Making a difference

12. We are getting our messages out effectively, in Q4 we attended 26 meetings of the Public Audit and Post Legislative Scrutiny Committee and six other committees.

13. There were over 72,000 visits to the website, over 690,000 report downloads and over 20,000 twitter engagements and over 3,000 followers.

14. There is evidence over the year of impact at a national and local level and providing insight and increasing amounts of foresight.

Building a better organisation

15. We are managing our resources well:

- we retained 'ones to watch' status and achieved our highest ever Best Companies staff engagement score and improvement in seven of the eight categories

- net operating expenditure to March 2018; 7% below budget

- efficiencies, cost reduction and additional income delivered £2.4m of budget savings against a target of £1.8m

- average number of staff employed in the 12 months to March 2018 271.9 w.t.e (3.0 w.t.e lower than establishment figure of 274.9 w.t.e)

- staff absence rate 4.2 days (5.3 days in 2016/17)

- over 99% IT up time.

16. 2017/18 was the third year of the 2015-18 Corporate Plan, the quarterly and annual reports over the three years have demonstrated a sustained period of strong performance.

Performance management developments 2018/19

17. We have developed a new Corporate Plan for the period 2018-21. This sets out how we will deliver the Auditor General and the Accounts Commission's strategic priorities, our vision and our audit and organisational priorities for the years to come. The 2018/19 quarterly performance reports will be refined to ensure alignment with the strategic priorities and the new Corporate Plan.

18. One of our key priorities for 2018/19 will be the introduction of a new performance management framework and digital infrastructure to support this.

19. In 2017/18, we carried out two linked strategic reviews on:

- the performance management framework (PMF) – including systems solutions

- 'How we use our time' (HWUOT) – recognising that staffing costs, and so people time, represents our highest area of expenditure.

20. The reviews had distinct and defined objectives and scopes, however we were aware that there would be several areas of shared interest and therefore maintained close links as the work progressed. While the PMF review focused on systems and how we use them, the HWUOT review focused on how people working in the organisation find our processes for recording their time.

21. Management Team considered the review reports at its performance themed meeting on 13 February 2018 and agreed:

    • a single time recording system for the organisation and that, subject to successful testing of a new release, this will be the TR module of MK insight

    • a business intelligence led PMF system be introduced.

22. We have established a short life working group to develop the detailed implementation plan. This work is under-way, the priority workstreams are:

    • engagement and communication (reflecting the fact that this project is as much about working culture as a technical implementation)

    • time recording (streamlined single set of codes, systems training and practical guidance)

    • data (sourcing data in systems, data transfer and cleansing, data warehouse development)

    • PMF dashboards (design and development)

    • tools and systems (change control, systems administration)

    • performance analysis and reporting.

23. The working group and workstream leads are currently developing detailed timelines and resource requirements.

Recommendations

24. The Board is invited to:

    • review the Q4 and 2017/18 performance

    • consider whether additional management action is required in any areas

    • note the planned developments in 2018/19.

Summary of 2017-18 Q4 performance

SECURING WORLD CLASS AUDIT	Our objective is to ensure that public audit in Scotland applies the highest professional and ethical standards, is efficient, proportionate and risk based. Audit work should be informed by an excellent understanding of the strategic and operational context and respond effectively to changing circumstances and emerging issues. We must report clearly and authoritatively and follow the public pound wherever it is spent. Audit must promote transparency, accountability and Best Value.

Headline: During quarter four we conducted relevant, timely and high-quality audits.

Objectives	2016-17				2017-18				Actions
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
We conduct relevant and timely audits and report in public.	G	G	G	G	G	G	G	G	
We make clear and relevant recommendations for improvement	A	A	G	G	G	G	G	G	
Audits are of high quality	G	G	G	G	G	G	G	G	Q3&4 Quality Report – April 18, Annual Audit Quality Report – June 18 Action from year 1 of new Audit Quality Framework (see p13)
We systematically improve the quality of our work	G	G	G	G	G	G	G	G	Ongoing implementation of the Audit Quality Framework.

Key performance indicators

Annual Audit	Performance/ best value/ overviews/housing benefit/statutory reports
• 205 Annual Audit Plans delivered in Q4 (124 Audit Scotland 84 Firms) • 3 Annual Audit Reports published	• 5 reports published in Q4 including 2 performance audits, 1 BVAR, 1 Best value follow up and 1 section 102

On time in Q4

- We planned 216 outputs in Q4 and published 213 (98.6%)
- 5 reports scheduled for Q4 were rescheduled to Q1 18/19 (two of these were published on 03/04 and 04/04)
- 18 Audit Scotland Annual Audit plans and 11 Firms Annual Audit Plans were submitted to AAT later than scheduled - but were delivered within the quarter

On budget	Quality
• Overall audit costs are 3.12% above budget up to the end of Q4; this is within the 5% tolerance limit.	• Q3/Q4 quality report and 2017/18 Annual Quality Reports in Q1 2018/19.

	Our objective is to maximise the difference our audit work makes to public services in Scotland.
MAKING A DIFFERENCE	

Headline: We get our messages out effectively and there is evidence of recommendations leading to improvements.

Objectives	2016-17				2017-18				Actions
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
We get our messages out effectively	G	G	G	G	G	G	G	G	
We systematically deliver impact through our work	G	G	G	G	G	G	G	G	Further quantitative measures to be developed as part of the performance management framework (PMF) to supplement qualitative assessments.
We offer insight and foresight through our audit work					Y	Y	Y	Y	Develop a more comprehensive assessment framework to measure this objective more effectively in the new PMF.
We develop new and improved processes, products and services	G	G	G	G	G	G	G	G	

Key performance indicators

- To support the Early Learning and Childcare performance audit we developed additional audit outputs including a guide for parents and carers to answer some frequently asked questions, and we suggest some ways they can get more information and help. The guide also covers how we carried out our audit and what we found and we developed videos for the e-Hub.
- We attended five Public Audit and Post Legislative Scrutiny (PAPLS) committee meetings, one Education and Skills Committee and one Health and Sport Committee during Q4.
- The three reports receiving the most media coverage were; Early Learning and Childcare (ELC), Managing Scotland's new financial powers and BVAR Clackmannanshire Council.
- To support senior colleagues a media training session run by external experts was delivered during Q4 with a total of eight people attending.
- 95% of correspondence responses delivered within the 30-day deadline compared to 87% in 2016/17.

	Our objective is to make the best use of our resources so that we can deliver audit work that improves the use of public money. We want to make Audit Scotland a great place to work so that we can attract and retain a highly skilled workforce which provides high-quality audit services.
BUILDING A **BETTER** ORGANISATION	

Headline: We manage our workforce effectively and invest in learning and development.

Objectives	2016-17				2017-18				Actions
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
We manage our resources effectively	G	G	G	G	G	G	G	G	
We maximise our efficiency					G	G	G	G	
We manage information and intelligence effectively (internal)	A	A	A	A	A	A	A	A	Digital Audit Strategy and new PMF implementation under-way.
We empower and support our people to be engaged, highly skilled and perform well	A	A	A	A	A	A	A	A	Embedding substantial BaBO development work, including new role profiles, career development gates, time place and travel, 3D and developing approach to professional leadership.

Key performance indicators

People

- Staff complement (w.t.e): Average number of staff employed in the 12 months to March 2018 271.9 w.t.e. (3.0 w.t.e. lower than establishment figure of 274.9 w.t.e.)
- Q4 absence rate: 1.12 days (1.28 days in Q4 2016/17).
- Resignations: 6.75 % (4.16% in 2016).
- L&D events: 22 in-house events covering 501 places.
- Exams: 77 exams with 91% pass rate for professional trainees.
- Career progression: 7 CDG applications received in Q4. First successful CDG applicant was promoted March 2018.

Resources

- Net operating (expenditure) to March 2018: 7% below budget
- Staff costs in the12 months to March 2018: £94k less than budget.
- Property costs in the year to March 2018 were £8k higher than budget.
- Travel costs in the year to March 2018: 6.1% below the budget, but slightly higher than last year's expenditure.
- Travel and subsistence expenditure year to date: £56k less than budget and car lease costs (£28k) and travel/subsistence (£28k) are both underspent.
- IT uptime: 99.94%

SECURING WORLD CLASS AUDIT	We conduct relevant and timely audits and report in public

Key Performance Questions	RAG				Actions
	Q1	Q2	Q3	Q4	
Are relevant audits being delivered?	G	G	G	G	
Are audits delivered on time?	G	G	G	G	
Are audits delivered on budget?	G	G	G	G	

Relevant/ timely/ in public

In Q4 we planned 216 audits and reports and published 213:

- 205 Annual Audit plans.
- 2 Central Government Audits (EAFA and NDR)
  - The EAFA 2017 audit was delivered by the statutory deadline of 15 February within the agreed budget and fee. The delivery of this complex audit is a success given the many challenges which have had a direct impact on the audit process.
  - The NDR annual audit report resulted in a S22 report which delayed the production of the Annual Audit Report.
- 1 Further Education Annual Audit Report published in Q4 (originally scheduled for Q3).
- 4 performance audit and Best Value audit reports (Early learning and Childcare; Managing the implementation of the Scotland Acts, BVAR Clackmannanshire Council, BV follow-up Falkirk Council).
- Statutory report in relation to the significant fraud at Dundee City Council.
- The following reports were rescheduled to Q1: Local government: performance and challenges (published 03/04), the Local Government National Scrutiny Plan (published 04/04), the Scottish Fire and Rescue Service, West Dunbartonshire HB, City of Edinburgh HB.

On budget

Overall audit costs are 3.12% above budget up to end of Q4; this is within the 5% tolerance limit.

2017/18	£ Budget	£ Actual	£ Variance	% Variance
ASG	9,984,939	10,313,798	328,859	3.29%
PABV	2,238,153	2,290,116	51,963	2.32%
Total	12,223,092	12,603,914	380,822	3.12%

Key: ✓ = delivered, (QX) = rescheduled to (from quarter identified in the brackets).   The planned outputs make provision for a number of statutory reports.

	Q1	Q2	Q3	Q4
Annual Audit Plans – AS (126)	✓2 FE			✓10 NHS ✓65 LG ✓49 CG
Annual Audit Plans – Firms (100)	✓19 FE			✓13 NHS ✓40 LG ✓28 CG
Audit – Audit Scotland (126)	✓10 NHS ✓ 5 CG	✓64 LG ✓27 CG	✓1 LG (Q2) ✓2 FE ✓15 CG	✓1 CG ✓1 CG (Q3)
Audit – Firms (100)	✓13 NHS ✓ 3 CG	✓38 LG ✓11 CG	✓1 LG(Q2) ✓18 FE ✓15 CG	✓1 FE(Q3)
Performance Audit (8)	✓CAP Futures update	✓NHS Workforce ✓Self Directed Support 2 ✓Equal Pay	✓Transport Scotland's Ferry services	✓Early learning and Childcare ✓Implementing the Scotland Act X Scottish Fire and Rescue Service (Q1 18/19)
Best Value Assurance Report (6)	✓Inverclyde	✓Renfrewshire	✓East Renfrewshire ✓West Lothian ✓Orkney (Q4)	✓Clackmannanshire
Best Value follow up (2)			✓East Dunbartonshire	✓Falkirk
Overview Report (4)	✓Scotland's Colleges 2017		✓NHS in Scotland 2017 ✓LG financial overview 2016/17	X Local government: performance and challenges (Q1) published 03/04
Housing benefit (9)	✓Stirling ✓East Dunbartonshire ✓HB Annual report	✓ Scottish Borders X Moray(Q3)	✓ Moray(Q2) ✓ Eilean Siar X Shetland Islands*	X West Dunbartonshire (Q1 18/19) X City of Edinburgh (Q1 18/19)
Statutory (12)	✓S22 Edinburgh College (Q4 16/17) ✓S22 Lews Castle College (Q4 16/17) ✓S22 Moray College (Q4 16/17)	✓S22 Scottish Government consolidated accounts	✓S22 NHS Tayside ✓S22 Scottish Police Authority ✓S22 Non Domestic Rates (NDR)	✓S102 2016/17 audit of Dundee City Council: Report on a significant fraud
Other (3)	✓Principles for a Digital Future ✓ National Scrutiny Plan			X National Scrutiny Plan (Q1 18/19) published 04/04 04/04
Planned 496	66	149	65	216
Published 486	63	146	64	213

* Removed from schedule based risk assessment

Best Value

In Q4 we published one Best Value Assurance Report (Clackmannanshire). The Orkney Island report, originally due in Q4, was published earlier than scheduled in Q3.

In Q4 the Accounts Commission considered the Controller of Audit's review report on the first year of the new approach to auditing Best Value. The review found the arrangements to be robust and well delivered and it highlighted positive feedback from the Accounts Commission and councils. It also identified some areas for improvement that will be taken forward during 2018/19. It noted that the scope of the first tranche of BVARs was ambitious and wider than we had anticipated, meaning that the time taken to produce the BVARs has exceeded planning assumptions and identified the need for tighter scoping of future BVARs and Best Value audit work and more concise reports. A total of 12 recommendations were agreed in areas such as audit scoping, planning and reporting. These are being taken forward by auditors, including through the updated Local Government Audit Manual and a Guidance note for auditors.

Annual Audit Plans

In Q4 Audit Scotland produced 124 Annual Audit plans. 18 of these (7 LG and 11CG) were submitted to AAT later than scheduled. Over the same period the Firms produced 81, 11 of which were submitted to AAT later than scheduled (1 NHS, 2 LG, 8 CG). The majority were submitted to the audited body on time but were late in being forwarded to Audit Scotland. This administrative process will be tightened up. In some cases, the delay in submitting the plans were due to waiting until after the audited bodies audit committee had considered the plans (4 cases) and a delay in agreeing plan with audited body (2 cases). All Annual Audit Plans were published in the quarter.

Issues/ risks/ actions:
- The feedback and learning points obtained as part of the year 1 review of the new approach to the audit of Best Value will inform future audit work and reports.
- Procedures for submitting Annual Audit Plans will be tightened up.

Forward look – In Q1 2018/19 we will publish:
- the five-year rolling work programme approved by the Auditor General and the Accounts Commission
- the Local Government National Scrutiny Plan, 32 local scrutiny plans, the Local Government Overview Report and 3 best value assurance reports
- reports on health and social care integration, openness and transparency, ALEOs, the Scottish Fire and Rescue Services, Scotland's Colleges and Housing Benefit
- two s22 statutory reports in the further education sector, and a s102 statutory report on Edinburgh schools (City of Edinburgh Council).
- two housing benefit reports (due in Q4) one was delayed due to additional work being required and the other provided more time for the council to complete its self assessment and supporting documentation.

Trend data: link

SECURING WORLD CLASS AUDIT	We make clear and relevant recommendations for improvement

Key Performance Questions	RAG				Actions
	Q1	Q2	Q3	Q4	
Are there practical, clear and relevant recommendations in all audit published audit reports?	G	G	G	G	

Examples of recommendations from Q4 reports include:

A large part of the audit work is focussed on identifying the risks faced by the audited bodies. All ASG annual audit plans contain an appendix which highlights the large most significant risks faced by the audited bodies. These risks are then followed up and the action taken to mitigate against the risk are reported in the auditors' annual audit reports. We ensure that the responses to address the risks are adequate to address the concerns and are considered at the appropriate level. Examples of significant risks identified by the audit work include:

- Local Government: in response to a recommendation in the BVAR to strengthen member scrutiny and challenge, the council has changed its Cabinet meetings so that officers now present agenda items instead of members.
- Local Government: A Council has acted on our advice and the Section 95 Officer is now present at every meeting of the Audit and Scrutiny Committee in order to improve scrutiny.
- Central Government: Our report on the 2017 European Agricultural Funds Accounts audit reported that there are areas of material non-compliance with Public Sector Internal Audit Standards in internal audit's work on the Agricultural Funds. The work of internal audit did not provide reliable and robust assurance for the Head of the Paying Agency and could not, therefore, be sufficiently relied upon. We also identified a very significant failure against PSIAS, relating to file documentation which brought into question the operation of the review process and compliance with ethical standards.

All Best Value Assurance Reports and performance audits completed during Q4 were plain English reviewed by external consultants. This included the key messages and recommendations for audited bodies within the reports. During Q4 a development workshop took place with Best Value audit teams focussing on report writing. Representatives from all year 2 BVAR audit teams participated in the workshop.

Issues/ risks/ actions:

Forward look:

During Q4 Professional Support refreshed the template for annual audit reports. The template includes a section on whether prior year recommendations have been implemented and any points that still require to be actioned. The refreshed template will be issued to audit teams in April 2018.

	Audit work is of high quality and we are systematically improving the quality of our work
SECURING WORLD CLASS AUDIT	

Key Performance Questions:	RAG				Actions
	Q1	Q2	Q3	Q4	
Are we assured about the quality of our work?	G	G	G	G	External quality assurance reviews took place in Q4 and will be reported to the Accounts Commission's committees and the Audit Committee in Q1 2018/19 Actions arising from the first year of the new Audit Quality Framework The Annual Audit Quality Report 2017/18 will be published in Q1
Are we improving the quality of our work?	G	G	G	G	

Quality in Q4:

- Seven internal cold reviews were carried out in Q4, five on the financial audit (one of which also included Best Value assurance work, one on the Scotland's colleges 2017 overview, and one on Supporting Scotland's economic growth: the role of the SG and its economic development agencies performance audit.

- Five external cold reviews were carried out by ICAS in Q4: three on the financial audit (two Audit Scotland and one Firm) and reviews of one Best Value audit and one performance audit.

- The new Audit Scotland Audit Quality Committee met in February 2018. It will continue to meet on a quarterly basis to drive continuous improvement in audit quality and ensure compliance with internal and external quality standards.

- The Accounts Commission considered the Controller of Audit's Annual Assurance and Risks Report on Local Government. This report provides assurance on the delivery of audit outputs across the local government sector and in relation to the Commission's Strategic Audit Priorities (SAPs). The report's key findings included:
  - Auditors have an effective approach to identifying and following up audit risks in individual councils, integration authorities and pension funds.
  - Auditors have provided good coverage of the Commission's five SAPs. There are some areas in which we could provide more assurance in future, such as the quality of public performance reporting, councils' approach to people development and the effectiveness of community engagement.

- The Professional Support team made a series of presentations to super teams on the new audit guide and other issues affecting the audit approach. These presentations were well received by ASG staff and a number of positive comments were made about the comprehensive nature of the audit guide and the clear way in which it has been written.

- During Q4 the Appointments and Assurance Team have produced the second 'in year' quality report and prepared the 2017/18 Annual Audit Quality Report, the actions arising are detailed below.

Issues/ risks/ actions:

Areas for improvement arising from the first year of the new Audit Quality Framework relating to financial audits include early actions on:

- the circulation of quality review findings to all ASG staff prior to this year's final accounts work
- issuing supplementary guidance to auditors (inc guidance asset valuations)
- the updating of audit programmes prior to the commencement of 2018/19 audits
- revisions to the annual audit report template
- the addition of good practice examples to ASG's good practice iShare site
- a training session led by ICAS and Professional Support at the end of May.
-

Areas for improvement arising from the first year of the new Audit Quality Framework relating best value and performance audits include early actions on:

- a new working group to consider and consult on the application of ISAs and other relevant standards and guidelines to best value audits and performance audits including discussion with the Accounts Commission and Auditor General
- circulation of quality review findings to PABV staff
- a quality feedback session at the next PABV team meeting in June
- a joint ICAS and Professional Support training session later in the year.

Forward look:

- Findings of internal and external quality reviews will be considered by the Accounts Commission's committees and Audit Scotland Quality Committee in Q1.
- The Annual Audit Quality Report 2017/18 will be published in Q1.
- Implementation of quality actions arising from the first year of the new Audit Quality Framework.

MAKING A DIFFERENCE	We get our messages out effectively

Key Performance Questions:	RAG				Actions
	Q1	Q2	Q3	Q4	
Are we getting messages getting out effectively?	G	G	G	G	

Media

The three reports receiving the most media coverage in Q4 were; Early Learning and Childcare (ELC), Managing Scotland's new financial powers and the BVAR report on Clackmannanshire Council. We secured external media training for eight colleagues in Q4.

Getting our message out

In Q4 we attended five Public Audit and Post Legislative Scrutiny (PAPLS) committee meetings, one Education and Skills Committee and one Health and Sport Committee.

This quarter was particularly marked by high levels of social media engagement (retweets, clicks through to our website, likes and replies) brought about by the level of interest in the Early Learning & Childcare (ELC) report. This was increased by a targeted Facebook campaign to encourage parents to visit our ELC Parents Guide on the website. The ELC report including additional support including an E-hub for further information and a for the first time a supporting Video.

Nearly 60% of the traffic to the site came via social media apps (principally Facebook and Twitter) accessed on a mobile device. Users also spent more time than usual on the Parents Hub – between four and five minutes, suggesting we targeted the right people effectively through social media and that the content engaged them when they clicked through to our website.

The Parliament's Public Audit and Post-Legislative Scrutiny Committee (PAPLS) received briefings and took evidence on a number of our reports during Q4. These included the Self-Directed Support, Transport Scotland's ferry services, and Early learning and Childcare performance audits, and the s22 report on the Scottish Police Authority.

The Audit Scotland conference in Q4 included a breakout session run by our communications team and external experts from 'Work on words' on getting our message across using effective infographics and plain English.

Media/ social media	Q1	Q2	Q3	Q4	YTD	16/17
Media	329	339	324	348	1,340	1,528
Downloads	179,531	146,283	178,281	186,018	690,113	704,996
Engagements*	5,932	5,592	4,335	4,777	20,636	15,470
Retweets	751	713	561	599	2,624	3,952

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

Correspondence

New correspondence cases	Q1	Q2	Q3	Q4	YTD	16/17
Number of cases	41	33	25	37	136	119
Acknowledgement within five working days	100	100	100	100	100	90%
Final response within 30 working days	95	97	100	95	97	87%

In Q4 we received a number of items of anonymous correspondence in relation to whistleblowing. These cases are more difficult to assess as we do not have the opportunity to engage with the correspondent to clarify any information provided or points raised. We have also had three FOI requests this quarter in connection with our correspondence (one in relation to a whistleblowing case).

During this quarter we also carried out our annual engagement round with the firms and have received very positive feedback which will be reflected in our annual correspondence report.

Issues/ risks/ actions:

Forward look:

In Q1 we will:

- review the media and social media KPIs to ensure that they are fit for purpose
- publish the annual correspondence and FOI reports.

Trend data: link

MAKING A DIFFERENCE	We systematically deliver impact through our work

Key Performance Questions:	RAG				Action
	Q1	Q2	Q3	Q4	
Is our work delivering impact?	G	G	G	G	
Are our recommendations leading to improvements?	Y	G	G	G	Further quantitative measures to be developed to supplement qualitative assessments as part of the new performance management framework.

Examples of making a difference through audit

Examples of impact during Q4 include:

- Central Government: Our report on the 2017 European Agricultural Funds Accounts audit reported that there are areas of material non-compliance with Public Sector Internal Audit Standards in internal audit's work on the Agricultural Funds. The work of internal audit did not provide reliable and robust assurance for the Head of the Paying Agency and could not, therefore, be sufficiently relied upon. We also identified a very significant failure against PSIAS, relating to file documentation which brought into question the operation of the review process and compliance with ethical standards.

- Local Government: Colleagues from PABV are supporting Education Scotland inspection work in several local authorities. In particular, they are supporting inspectors with the financial and governance aspects of their inspection work, with a focus on knowledge transfer to the Education Scotland teams and maximising the impact and value for money of inspection activity.

- Local Government: Following our criticisms on governance arrangements and subsequent recommendations, the Council's legal service have prepared deeds of constitution for three administered charities. Arrangements for freeing up and amalgamating funds have also been prepared. The expectation is that the deeds will shortly be approved by OSCR and the Council and that funds will become more easily available to potential beneficiaries. Governance arrangements have been regularised and are now more transparent.

- Local Government: The Council has acted on our advice and the Section 95 Officer is now present at every meeting of the Audit and Scrutiny Committee in order to improve scrutiny.

- Local Government: As part of planning, we identified that Internal Audit did not provide full reports to members of the Audit Committee or publish reports to the website. We conducted a review of all Councils in Scotland to identify the proportion of Councils who do and where they don't, if they provide internal audit reports to members through the internal systems. We found that 12 Councils provide the full IA reports to members and of these 12, seven Councils publish them on their website in some shape or form. The members of the Audit Committee have agreed to discuss this with officers about how to take this recommendation on board for the next audit committee.

Feedback received

Examples of feedback received in Q4 include:

- Local Government: After the 2017/18 Annual Audit Plan (AAP) was presented to the Scrutiny and Audit Committee; the Committee expressed its appreciation for the detailed explanation of the audit plan and the readability of our reports. (This was the first AAP for the members newly elected in May 2017).

- Local Government: In our 2016/17 annual audit report we recommended that the council's Annual Report should include a performance section that includes the summary position regarding the council's performance together with relevant detailed performance information. This would improve the accessibility of performance information and help to demonstrate greater transparency by the council. As a result, this was subsequently included in the Council's 2016/17 Annual Report.

- Local Government: The follow-up audit of the Best Value Report on East Dunbartonshire Council issued by the Accounts Commission in December 2016 was reported in our 2016/17 Annual Audit Report in September 2017. The Accounts Commission concluded that this approach in reporting the Best Value follow-up audit worked well and complimented the new approach to reporting Best Value audit work in Best Value Assurance Reports.

Issues/ risks/ actions:

- Development of further metrics as part of the new performance management framework to supplement the narrative around the impact of Audit Scotland's work. This is likely to include numbers of recommendations, agreed, implemented in the short term and positive impact in the longer term.

Forward look:

- Annual Report & Accounts 2017/18 and suite of annual reports (international, quality, equality) in Q1.

Trend data: link

MAKING A DIFFERENCE	We offer insight and foresight through our work

Key Performance Questions:	RAG				Action
	Q1	Q2	Q3	Q4	
Are we making information and intelligence available to others?	G	G	G	G	This is a priority in the next Corporate Plan and we will develop a more comprehensive assessment framework to measure this objective more effectively.

Examples of offering insight and foresight through our work in Q4 include:

- Audit Scotland was represented at the first OECD Auditors Alliance meeting, held in Paris.
- Colleagues engaged with the new Clerk to the Public Audit and Post Legislative Scrutiny Committee, and briefed the returning Chair of the committee on our forthcoming audit work.
- Central government body: Audit team penetration testing of user access to a new payroll system revealed that HR staff could get access to both HR and Payroll systems. This created a risk that employee records could be manipulated or ghost employees created. This was raised with appropriate staff and management and the client is seeking a solution, demonstrating professional attitudes towards IT and system security.
- The Correspondence Team met with representatives from each of the audit firms to discuss emerging issues and intelligence arising from our correspondence work.
- Technical guidance issued in Q4, including:
  - 3 technical guidance notes issued (one for all sectors, one for central government and one for health).
  - 5 technical training workshops.
  - the quarterly technical bulletin and 25 technical briefing notes.
  - 6 technical updates were provided to super teams and the ASG managers.
  - guidance on a new emerging risk- recognition of grant.
  - 3 external presentations delivered this quarter.
- Professional Support produced a good practice note on IJBs which focussed on key issues and risks which apply to the majority of IJBs. This should assist audit teams in making more insightful judgments when working on IJB audits.

Issues/ risks/ actions:

- The level of risk associated with foresight is inevitably higher than is the case with backward looking audit work.

Action:

- Consider our risk appetite for such content and the controls to mitigate such risks.

Forward look:

- Local Government Overview – challenges and performance overview report (Q1)
- Scotland Colleges Overview (Q1)
- Openness and transparency briefing paper (Q1)
- Output on health and social care integration as part of our online information hub (Q1)
- Audit Scotland's data analytics team is continuing to discuss common areas of interest with the other UK and Irish audit agencies with the intention of holding a data analytics conference in 2018/19.

MAKING A DIFFERENCE	We develop new and improved processes, products and services

Key Performance Questions:	RAG				Action
	Q1	Q2	Q3	Q4	
Are new processes, products and services being developed?	G	G	G	G	
Are products and study programmes suitable and appropriate for emerging issues?	G	G	G	G	5 year rolling work programme (April 2018) Development work on requirements arising from the new financial powers and constitutional change.

Examples of new processes, products and services in Q4 include:

The promotion and supplementary outputs from of the Early Learning and Childcare audit (covered in more detail on page 12) has resulted in a great deal of interest.

Following consultation with key stakeholders, the Auditor General and Accounts Commission formally signed off the refreshed rolling audit work programme.

On 13 February 2018 Management Team considered two linked review reports covering how we use our time and proposals for the development of the performance management framework and a digital solution to support that. Management Team agreed a single solution for time recording and a Business Intelligence led approach for a new performance management system. These will be implemented during 2018/19.

Audit Scotland participated in the first of the Centre for Homelessness' Impact Advisory Panels. Involvement in the work of the panel will help to inform future audit work within this area.

An internal Knowledge Café took place focussing on 'auditing for outcomes'.   This approach helps support quality audit work focussed on the achievement of outcomes rather than inputs.

Issues/ risks/ actions:

Forward look:

BUILDING A BETTER ORGANISATION	We manage our resources effectively and maximise efficiency

Key Performance Questions:	RAG				Action
	Q1	Q2	Q3	Q4	
Are we managing our resources effectively	G	G	G	G	Cross business group resourcing development work is progressing.
Are we maximising efficiency?	G	G	G	G	Business intelligence led approach to performance management development is under way.

Resources

Net operating (expenditure) to March 2018

	Q1	Q2	Q3	Q4	16/17
Actual	(942)	(1,861)	(4,016)	(8,514)	(7,350)
Budget	(1,016)	(1,936)	(4,221)	(9,157)	(7,423)
Variance	-7.3%	-3.9%	-4.9%	-7.0%	-1%

Staff

Own staff costs in the 12 months to March 2018 were £94k less than budget. The average number of staff employed in the 12 months to March 2018 at 271.9 w.t.e. was 3.0 w.t.e. lower than the establishment figure of 274.9 w.t.e. In Q3 we recruited 16 professional trainees in preparation for an increase in work load due to new financial powers work due to come online in 2018.

	Q1	Q2	Q3	Q4	16/17
2017/18 establishment w.t.e:	274.9	274.9	274.9	274.9	278.1
Average number of staff employed in 2017/18 w.t.e:	269.4	267.9	271.6	271.9	276.4
No. of staff at end of quarter w.t.e:	270.3	263.3	277.4	272.0	270.8

The new Career Development Gateway process went live during Q4. This will result in more flexibility around resourcing, and increased opportunities for colleagues to progress within the organisation. The Gateway process should also result in cost savings due to less need for external recruitment campaigns and the significant cost associated with these.

Capital expenditure

Capital investment in the 12 months to March 2018 was £197K, £3K less than the available budget of £200K.

Estate

Property costs in the year to March 2018 were £8k higher than budget.

£000 YTD	Q1	Q2	Q3	Q4	16/17
Actual spend	211	418	640	938	896
Budget	215	430	645	930	935
Prior year spend	206	442	672	896	

Costs of travel

Travel costs in the year to March 2018 were 6.1 per cent below the budget, but slightly higher than last year's expenditure. Travel and subsistence expenditure year to date is £56k less than budget and car lease costs (£28k) and travel/subsistence (£28k) are both underspent.

£000 YTD	Q1	Q2	Q3	Q4	16/17
Actual spend	204	428	654	866	863
Budget	201	438	677	922	985
Prior year spend	198	417	615	863	

IT network up time

The IT uptime was 99.94 per cent in Q4 which is similar to previous quarters. The majority of the downtime this quarter was due to a drop in the connection at West Dunbartonshire caused by a fault in the line. There was also an e-mail outage after the annual systems recovery testing, some supportworks outages and an issue caused by the e-mail spam filter preventing replies to some e-mails.

IT Network	Q1	Q2	Q3	Q4	16/17
IT uptime	99.9	99.9	98.58	99.94	99.9
Working hours lost	220	106	3300	132	67.25
Average time lost per person (minutes)	<1	<1	660	<1	13.1

IT Incident management summary

95.91% (821/856) of incidents were accepted within the response time SLA.

98.6% (844/856) of requests were closed within the fix time SLA

An average of 2.7 incidents logged per user.

Business group productivity:

Business group productivity remains broadly consistent with productivity/ planning assumptions.

	17/18 %				16/17 %			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
ASG	57	74	59	67	60	78	51	73
PABV	76	74	67	76	68	69	65	73

Average cost per Audit Day
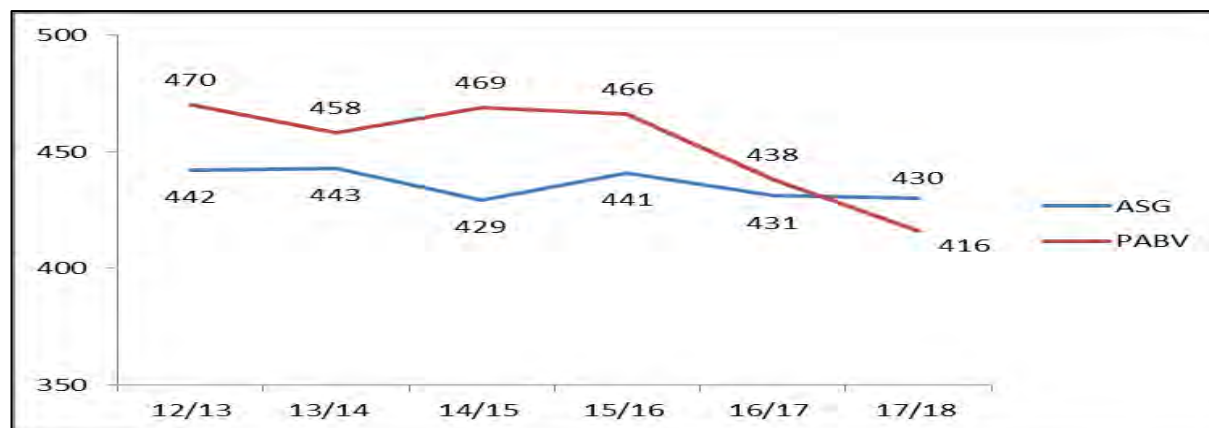
Issues/ risks/ actions:

- Further analysis of the business group productivity and the average cost per audit day to be done to consider consistency and comparability.

Forward look:

- Introduction of business intelligence led approach to performance management framework over the course of 2018/19 has a focus on efficiency.

Trend data: link

BUILDING A BETTER ORGANISATION	We manage information and intelligence effectively (internal)

SWCA Objectives	2016-17				2017-18				Actions
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Are we managing information and intelligence effectively (Internal)	A	A	A	A	Y	Y	Y	Y	Digital Audit Strategy implementation Digital Services Strategy implementation. Implementation on professional lead roles across members of the leadership group.

Examples from Q4 include:

Colleagues from the new financial powers and constitutional change programme team attended Superteam meetings to update colleagues on work in this area. Management Team held a Brexit 'summit', looking at the impact of leaving the EU for Scotland's public finances and services, and for our audit work.

Data analytics guidance published for colleagues in Q4.

Colleagues involved in joint inspection work with Education Scotland also presented to cluster meetings and Superteams, including emerging messages of relevance to our audit work.

The Audit Scotland all-staff conference took place during Q4.

Issues/ risks/ actions:

- The move to Office 365 may require additional training for some users.

Forward look:

- Roll out of Microsoft office 365 in Q1 including training sessions
- New MKI tool for audit data analysis expected in spring 2018.
- Preparations for GDPR continue in preparation for 25 May 2018.
- Cyber Security and Cyber Essentials work progressing.

BUILDING A BETTER ORGANISATION	We empower and support our people to be engaged, highly skilled and perform well

Key Performance Questions:	RAG				Actions
	Q1	Q2	Q3	Q4	
Are our people empowered and engaged?	G	G	G	G	BaBO programme implementation/ embedding
Are our people highly skilled?	G	G	G	G	Learning & Development strategy implementation
Are people performing well?	Y	Y	Y	Y	3D discussions in Q4 and annual check-in re coverage and themes by PDGG
How effective is communication and collaboration across the organisation?	G	G	G	G	
Are career paths offered across the organisation?	G	G	G	G	Continuing gateway reviews in 2018/19 and recruitment and selection campaigns to increase capacity for new audit responsibilities.
Do we understand and support diversity within the workforce?	G	G	G	G	Annual Diversity Report to be published in Q1.

Empowered and engaged

Management Team hosted a people themed session in February 2018 to consider workforce planning, capacity, career development, learning and development and succession planning.

Strategic leadership conversations continued in Q4 and the scope of professional lead roles are being developed.

The first staff submissions as part of the Career Development Gateway (CDG) process were submitted during Q4. The first successful submission under the new arrangements was approved during the quarter. Additional awareness raising sessions for staff and managers were delivered, as were sessions on 3D and coaching.

We published our first Gender pay gap report on 30 March 2018. The information is based on a snapshot date of 31 March 2017. There are more men than women in the upper quartile of jobs, at 55.7% to 44.3%. This equates to more senior roles within Audit Scotland. However, 75 per cent of Audit Scotland's Management Team is female. Audit Scotland's Mean Gap is 8.49% and the Median Gap is 4.86%. This compares well overall with a national median of 9.9%.

Best Companies Business Group results were considered in Q4. High level results were discussed at Management Team on 30/01/18 and the Board on 31/01/18. This was followed by a presentation to Leadership Group on the 2 February 2018. We achieved our highest best companies score (635.1) and retained our one to watch status. Local teams have discussed results over the course of Q4 and are in the process of agreeing actions/next steps.

A series of cross-business group meetings took place to consider how the organisation supports development within resourcing and recruitment.

A new internal 'opportunities' section went live on iShare promoting opportunities across the organisation.

Colleagues from Audit Services and PABV joined new teams in Professional Support, Public Financial Management and Social Security Teams following an internal 'expressions of interest' campaign.

Highly skilled / Performing well

We continued to review 3D, including reporting on business group completion rates and sharing this data with the People Leads and we ran two manager and one employee 3D coaching sessions in Q4.

Career Paths

Recruitment Matters, an external training provider, trained the second tranche of CDG panellists in March 2018. This now provides us with 27 trained CDG panellists.

We ran two CDG manager awareness sessions and three CDG employee awareness sessions in Q4.

By the 31 March 2018 we received 10 CDG submissions. Our first successful CDG applicant was promoted on the 7 March.

During Q4, four Senior Auditors were appointed, all of whom were internal. We also saw five Trainees successfully promoted to Auditor.

Wellbeing

 Wellness checks concluded in Q4, with a total of 163 staff attending representing 58% of the workforce.

Absence levels

Absence levels have increased slightly relative to the previous quarter, but remain low and are lower than in the last four years.

	Q1 days	Q2 days	Q3 days	Q4 days	ytd days
Audit Scotland - 17/18	0.69	1.16	1.07	1.12	4.40
Audit Scotland - 16/17	1.03	1.37	1.27	1.28	5.32
Audit Scotland - 15/16	0.89	0.98	1.49	2.05	5.62
Audit Scotland - 14/15	1.12	0.87	0.99	1.31	4.59
Audit Scotland - 13/14	1.6	1.14	1.57	1.40	5.99

Staff turnover

Turnover and resignations have decreased compared to the previous quarter, but both are higher than the full year figures for last year and is likely to be slightly above the CIPD benchmark figure for the whole year.

2017/18	Q1	Q2	Q3	Q4	YTD	CIPD benchmark	16/17
Resignations %	1.77	1.44	2.13	1.41	6.75	10.00	4.16
All Leavers %	2.48	3.23	3.90	3.18	12.79	16.50	11.11

Highly skilled

The number of events and attendees are in line with previous years.

	Q1		Q2		Q3		Q4		YTD		16/17	
	Events	Attendees	Events	Attendees	Events	Attendees	Events	Attendees	Events	Attendees	Events	Attendees
Health & Safety	0	0	0	0	1	25	0	0	1	25		
Knowledge Cafes	7	171	2	33	1	23	2	39	12	266		
Learning & Development	0	0	1	8	5	44	2	12	8	64		
Management Development	1	16	3	6	1	14	3	18	8	54		
Organisational Development	3	3	1	2	16	187	6	304	26	496		
Technical Training	5	61	0	0	17	280	9	128	31	469		
Total	**16**	**251**	**7**	**49**	**41**	**573**	**22**	**501**	**86**	**1374**	**89**	**1,360**

Exam results

In Q4 there were 77 exams taken and 70 passes and the year to date pass rate is 88%. This is slightly lower than last year's 90.5%.

	Q1	Q2	Q3	Q4	YTD	16/17
Exams taken	9	20	15	77	121	158
Exams passed	6	17	13	70	106	143
% pass rate	67	85	87	90.9	88	90.5%

Career paths and secondments

Secondments out: One secondee returned from secondment to Scottish Government Health Directorate in Q4 and a new secondee started with the Scottish Government Health Directorate.

Secondments in: One secondee ended their secondment from SRUC to PABV in Q4.

Vacancies filled	17/18 YTD	16/17
Internal	15	29
External	21	33
Total	36	62

Secondments	17/18	16/17
17/18 - New	0	4
17/18 - Existing	7	9

Issues/ risks/ actions:

Forward look:

- After a period of reducing our workforce in recent years we are increasing capacity to deliver on the new audit responsibilities relating to the new financial powers and social security. The target is to recruit an additional 20 auditors over the course of the next 6 months.
- We are embarking on a major attraction, recruitment and selection campaign which will present both risks and opportunities in terms of the challenging jobs market, resourcing the process, onboarding and developing new starts and developing our existing workforce skills and capacity. We will be doing all of this in the context of a full work programme.
- Wellness International will be sharing the aggregated results of the 2018 wellness checks of 2018/19 with the Health, Safety & Wellbeing Committee in Q1.
- The PDGG are meeting on the 26 April to discuss the draft L&D plan for 2018/19. This will be followed in May/June by a discussion on the L&D report; this report reviews progress in 2017/18 and sets out the strategic L&D priorities for 2018/19. Timescales for publishing this will be in line with those of the Corporate Plan, circa June 2018.
- The Professional Support team will be delivering a number of technical training workshops in Q1, including Professional Scepticism. Also taking place in April will be our first Peer to Peer training session on 'Leading an Audit', delivered by third year Trainees.
- As part of our continued commitment to Women in Leadership, sessions with Caroline Gardner, Diane McGiffen and Fiona Kordiak are taking place in April and May 2018.

Trend data: link

Q4 Becoming World Class Improvement Programme report

Assistant Director, Corporate Performance and Risk

Item 11

8 May 2018

Purpose

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

Background

2. The BWC strategic improvement programme is a key enabler for achieving our vision to be a world class audit organisation. The last quarterly BWC update report was considered by the Board on 28 February 2018.

3. This update report was considered by Management Team on 8 May 2018.

Progress on the BWC improvement programme

4. We continue to make good progress on the programme. Progress headlines since the last report include:

- Securing World Class Audit:

  – Devolution of financial powers, fiscal framework and social security – where we have established the social security and public financial management audit teams and published the latest report on the implementation of the Scotland Acts on 28 March 2018.

  – Audit Quality – where the Audit Quality Committee has been established, the Q3/Q4 and annual audit quality reports have been produced and improvement actions to respond to these have been developed.

- Building a Better Organisation (BaBO):

  – The 2018/19 pay award has been supported by the local PCS branch and 92.85% of those who voted agreed with the PCS Branch recommendation to accept Audit Scotland's pay and reward offer.

  – We have developed the 2018/19 Workforce Plan and the Learning and Development Strategy.

  – Career Development Gateways – where we have received 10 submissions, five have been 'evidenced', three have been 'needs more evidence', one was 'no evidence' and one is in progress.

  – The reviews of our performance management framework and the efficiency review on how we spend our time have concluded and an implementation plan is being developed.

- Making a Difference:

  – The refreshed rolling five-year work programme was published in March.

  – Best Value – where the first year of Best Value audits under the new approach has been concluded, the Accounts Commission has considered Controller of Audit's first Annual Assurance and Risks Report and the review of year one of the audits.

  – Innovative audit products - to support the Early Learning and Childcare performance audit we developed additional audit outputs including a guide for parents and carers to answer some

frequently asked questions, and we suggested some ways they can get more information and help. The guide also covers how we carried out our audit and what we found, and we developed videos for the e-Hub.

– The second phase of parliamentary engagement is under-way.

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

The improvement programme

6. The Becoming World Class Improvement programme was developed in 2015 to deliver the strategic priorities captured in the 2015-18 Corporate Plan. Over the course of the last three years we made a huge amount of organisational change through the programme. This provides us with very solid foundations on which to improve even further as we pursue our vision to be a world class organisation.

Securing world class audit

7. Over the past three years we:

- published Public Audit in Scotland in conjunction with the Auditor General and the Accounts Commission, this sets out the shape, principles and common themes of public audit and the priorities identified by the Auditor General and the Accounts Commission.

- published a new Code of audit practice for public audit in Scotland

- supported the Auditor General and the Accounts Commission in their appointment of auditors for 2017/18 - 2021/22 and ensured that there was a smooth transition to the new audit appointments

- introduced a new Audit Quality Framework which covers all of the audit work

- implemented a new approach to auditing Best Value in local authorities

- restructured our teams to improve quality assurance and professional support

- delivered a new, simpler and more transparent system for determining audit fees

- informed the scrutiny and accountability arrangements around the new financial powers and fiscal framework.

Making a difference

8. Over the past three years we:

- refreshed the rolling five-year programme of audit work based on extensive engagement and by focusing on the key risks facing Scotland's public sector

- strengthened our approach to development work underpinning our programme, by engaging on an on-going basis with a wider group of stakeholders and improving how we use data to inform what, when, and where we audit

- developed a new communications and engagement strategy and engaged extensively with the Scottish Parliament, committees and SPICe to support effective Parliamentary scrutiny and ensure that our work reflects key issues of concern to parliamentarians

- supported the Accounts Commission in the delivery of its engagement strategy

- introduced a new website and enhanced our range of audit outputs and products available through it, including briefing papers, web resource pages, case studies, guidance and checklists for decision-makers, interactive data tools and infographics and animations

- developed our use of social media and a Social Media Strategy to help get our messages out, share information and engage with stakeholders and the public

- developed [our international strategy](#) and our approach to international work

- developed a [Digital Audit Strategy](#) to guide how we audit digital services, harness analytics in the audit process and build our digital capacity

- refreshed our [equality outcomes](#) and further embedded equality in our work

- introduced improved [arrangements for investigating matters of concern](#) raised by members of the public.

Building a better organisation

9. Over the past three years we:

    - developed a new strategic approach to managing our workforce and developing our people, this includes job roles, grading, pay and reward and career progression and wellbeing, all based on the principles of simplicity, transparency, fairness and flexibility

    - developed more flexible arrangements for organisational development and working practices

    - built flexibility and resilience into how we deploy our workforce

    - reviewed our professional trainee scheme to ensure it is attractive to candidates, provides the best support and provides a flow of professionals for the future

    - rationalised our office accommodation, providing a more flexible working environment at a reduced cost

    - reviewed the efficiency of our business groups, how we use our time and our performance management arrangements

    - refreshed our equality outcomes, improved the accessibility of our offices and extended our Living Wage accreditation to cover the procurement of services.

10. This report is the last quarterly report covered by the 2015-18 Corporate Plan. A number of the projects in the programme (including programme development, auditing best value and how we work together) have now concluded and are mainstreamed into core business. Over the period 2018-21 we want to consolidate on the progress we have made over the last three years, embed the improvements we have developed over that period and continue to be responsive and flexible to the rapidly changing operating environment.

11. The next update report will reflect the strategic priorities identified in the new Corporate Plan 2018-21 and the organisational improvement themes and projects which support them.

Objective	Improvement priority theme
Delivering world class audit	Audit quality
Making a difference	Digital Audit Follow-up and impact Diversity and equality
Being a better organisation	Being a better organisation in action Workforce capacity, planning and deployment Efficiency and effectiveness Sustainability

Recommendations

12. The Board is invited to:

- note the progress made in Q4

- note the progress made in the 2015-18 improvement programme over all

- note the next steps in terms of current projects and future reporting arrangements.

	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.

Project/ initiative/ product	Status update	Next steps
Implementing the Audit Quality Framework	The first tranche of external quality reviews carried out by ICAS has concluded. The new Audit Quality Committee, including representatives from all business groups met in February and April 2018. Management Team considered the Q3/4 audit quality report at its meeting on 9 April and the Accounts Commission's committees considered the report at their meetings on 26 April 2018. The draft annual audit quality report was considered by Management Team at its meeting on 1 May 2018. The reports highlight that there is strong evidence of satisfactory compliance with auditing standards and the Code of Audit Practice and overall good levels of qualitative performance with some limited improvements identified. Improvement actions have been developed and were considered by the Management Team at its meeting on 8 May 2018. The Audit Committee considered the Q3/Q4 report and the draft Annual Audit Quality Report at is meeting on 23 May 2018.	The key milestones are: • Publication of the Annual Audit Quality Report – June • Consider standards required for PABV work and compliance with International Standards on Auditing (ISA's) – September • Audit Quality Project review – September • Develop new more co-ordinated approach to client engagement on quality integrated with other corporate engagement activities. • Implement improvement actions arising from the first year's operation under the new audit quality framework.
Development of: Appointments and Assurance Team (AAT) Professional Support	The new Appointments and Assurance Team (AAT) and Professional Support (PS) took effect from October 2017. The AAT submitted a workplan and resourcing plan to Management Team on 23/01/18 and has held two team development workshops. The Professional Support Operational Plan was considered by the Management Team on 13 March 2018.	The key milestones are: • Implementation of the plans during 2018/19.

Project/ initiative/ product	Status update	Next steps
New financial powers and constitutional change (NFPCC) including EU withdrawal	On 16 January 2018 Management Team considered an update paper and met with a range of internal stakeholders to discuss the implications of EU withdrawal. Diane McGiffen is the lead for our approach to EU withdrawal and Mark Roberts is the professional lead in this area. Management Team considered a briefing paper on the new social security landscape at its meeting on 27 February 2018. We published the latest report on the implementation of the Scotland Acts on 28 March 2018. The Board considered an update paper on the new financial powers and constitutional change at its meeting on 2 May 2018. Management Team considered a risk interrogation report on the risk of failure to assess and respond to the impact of EU withdrawal at its meeting on 1 May 2018. The risk interrogation was considered by the Audit Committee at its meeting on 23 May 2018. We have started to build capacity for 2018/19 and have established two new teams to lead on our audits of social security and public financial management.	The key milestones are: • Audit Committee EU withdrawal risk interrogation – 23 May 2018 • Building capacity in social security and public financial management teams – ongoing, the target is to recruit an additional 20 auditors over the course of the next 6 months • Reviewing resource needs for 2019/20 in response to new financial powers and EU withdrawal – summer 2018 • Developing our programme of engagement and audit work in response to EU withdrawal - ongoing

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	Band profiles have been agreed and the Remuneration Committee approved the Career Development Gateways (CDGs) at its meeting on 5 October 2017. It also approved the reward structure, pay progression arrangements and transitional plan for members of the Leadership Group.	The key milestones are: • Gateway panels during 2018 • Wellness International will be sharing the aggregated results of the 2018 wellness checks of

Project/ initiative/ product	Status update	Next steps
	The 2018/19 pay award has been supported by the local PCS branch and 92.85% of those who voted agreed with the PCS Branch recommendation to accept Audit Scotland's pay and reward offer. Wellness checks concluded in Q4, with a total of 163 staff attending representing 58% of the workforce.	2017/18 with the Health, Safety and Wellbeing Committee in Q1 2018.
How we learn and develop: • planning careers • developing skills • professional training schemes • becoming better managers and leaders	The first CDG panellists were trained in October 2017 and we have been running awareness sessions for managers and colleagues since then. This now provides us with 27 trained CDG panellists. Gateways went live for submissions in December 2017. We have now received 10 CDG submissions, five have been 'evidenced', three have been 'needs more evidence', one was 'no evidence' and one is in progress. The L&D strategy and plan are progressing to plan. In May 2018 we will be conducting an organisational survey on 3D and we are in the process of sampling 43 3D forms.	The key milestones are: • 3D survey and review • L&D Strategy and Plan – June 2018
Strategic leadership	Professional leadership areas for members of the Leadership Group (LG) were confirmed in December. LG met on 07/02/18 to discuss development priorities for 2018. Professional lead scope documents are being developed along with a programme of personal development including MBTI and external speakers for 2018. Management Team has also reviewed how to improve the strategic focus of meetings and scheduled regular strategic conversations involving an extended range of internal stakeholders throughout the year. These include themed meetings on EU withdrawal (Jan), Performance (Feb), People (Feb) and Strategy (Mar).	The key milestones are: • Development of scope and objectives for professional leadership areas – February – May 2018 • Themed MT meetings - ongoing • Revised Management Team Terms of Reference – May 2018.
Programme of efficiency reviews	The 'How we spend our time' (HWSOT) review has completed its second phase and identified areas for action and recommendations. MT considered the HWSOT report at its performance themed meeting on 13/02/18. An implementation	HWSOT milestones are:

Project/ initiative/ product	Status update	Next steps
	plan is being developed as part of the performance management framework project (see below). The review on securing external capacity (consultants, agency, internal audit and legal) is progressing.	• Implementation of new time recording arrangements during 2017/18 including a review of time codes and a single TR system for the whole organisation. External capacity review milestones are: • Conclude analysis – May 2018 • Report to Management Team – June 2018
Performance management and business intelligence	Management team considered the external consultants review report on the performance management framework at their performance themed meeting on 13/02/18. The report was considered alongside the HWUOT report noted above as the reviews had arrived at very similar conclusions in a number of areas and are closely linked. Management Team considered the review reports at its meeting on 13 February 2018 and agreed: • A single time recording system for the organisation and that, subject to successful testing of a new release, this be the TR module of MK insight. • A business intelligence led PMF system be introduced. We have established a short life working group to develop the detailed implementation plan. This work is under-way, the priority workstreams are: • Engagement and communication (reflecting the fact that this project is as much about working culture as a technical implementation). • Time recording (streamlined single set of codes, systems training and practical guidance). • Data (sourcing data in systems, data transfer and cleansing, data warehouse development). • PMF dashboards (design and development). • Tools and systems (change control, systems administration).	The key milestones are: • Implementation of a new Business Intelligence led approach to performance management during 2018/19.

Project/ initiative/ product	Status update	Next steps
	• Performance analysis and reporting. The working group and workstream leads are currently developing detailed timelines and resource requirements.	

MAKING A DIFFERENCE	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 (BV) in councils	BV assurance reports on all six councils scheduled for 2017/18 have been considered by the Accounts Commission and published. The Controller of Audit's Annual Assurance and Risks Report was considered by the Accounts Commission at its meeting on 08/02/18. The Commission also considered a review report on the first year of the new approach to auditing Best Value at that meeting. The Audit Scotland Board considered the review report at its meeting on 2 May 2018. The Scottish Government working group's review of the statutory BV guidance has concluded its work. The Scottish Government are now arranging the public consultation of the draft guidance. No timetable has been provided for this to date.	The key milestones are: • End of 2018 - The second tranche of six BVARs will be reported to the Commission by December 2018.
World Class Programme Development	The Auditor General and the Accounts Commission considered proposals for refreshing their joint five year rolling work programme (2018/19 to 2021/22) in December. The Accounts Commission consulted with councils, trade unions, COSLA and SOLACE (Scotland) on both the detailed proposals for the next two years and the longer-term programme during Q4. The new rolling five year programme was published on 28 March 2018, following which the programme has been communicated	The key milestones are: • Communication of work programme to key stakeholders – March/April 2018. • Strategic work programme stock take – Summer 2018

Project/ initiative/ product	Status update	Next steps
	to key stakeholders, including Chief Executives and Leaders of councils, Chief Executives and Chairs of Health Boards and NDPBs, MSPs and key officials at relevant national bodies such as COSLA and the Improvement Service. Ongoing external engagement and programme development activity continues to be taken forward by PABV's three cluster groups (PIE, JELL, and HCC) which is reported routinely to the Auditor General and the Accounts Commission. A strategic stocktake of key public-sector risks, issues arising from programme development activity and potential areas of future audit work is planned later in the summer to inform the AGS and Accounts Commission's 2018 work programme refresh.	
Strategic approach to Parliamentary Engagement	We refreshed our strategy for parliamentary engagement earlier this year drawing on the lessons learnt from implementing phase 1 (understanding, informing and engaging with the Parliament). The refresh was informed by the wide range of feedback on progress to date received from MSPs, clerking teams, SPICe and staff from across Audit Scotland. An important feature of our refreshed strategy involves supporting the Parliament in responding to the Budget Process Review Group (BPRG) and Commission on Parliamentary Reform reports recommendations. In particular, the recommendations that Parliament develop a stronger focus on outcomes by robustly scrutinising what budgets have achieved and aim to achieve over the long-term. The revised budget process for 2019/20 will be starting 31 May with the publication of the SG's medium-term financial strategy. This will involve significant changes in how Parliament scrutinises the Scottish Budget, with a greater role for our work in supporting this scrutiny. For that reason, we are currently working with the clerks of the Finance Committee to organise two workshop events in May to explore the implications for parliamentary scrutiny as a result of	**The key milestones are:** • Communication of work programme to key Parliamentary stakeholders – March/April • Budget scrutiny workshops - May • Implementation of the Accounts Commission's new approach to Parliamentary engagement – Spring 2018 • Strategic planning engagement with PAPLS – Summer 2018 • Budget scrutiny support – Autumn 2018

Project/ initiative/ product	Status update	Next steps
	the new budget process and discuss how to get the best out of the new process as it is introduced this year. Colleagues from the Scottish Parliament (committee clerks and researchers), Scottish Government and public bodies will be taking part in these workshops. The Auditor General for Scotland briefed the Public Audit and Post-Legislative Scrutiny Committee (PAPLS) on her work programme on 26 April. Further work is planned with the Committee over the summer to: • brief the committee on the Scottish Public Audit Model (including the role of internal audit) • discuss key recurring strategic themes arising from our audit work and how best they can be presented to the committee • support the Committee in developing its longer-term strategic work programme. The Accounts Commission is currently developing its approach to Parliamentary engagement following its strategy seminar in March. This includes ongoing engagement with key conveners (e.g. Local Government and Communities Committee) and routine briefing of relevant committees on the Commission's audit work.	
Digital Audit	The Board approved the Digital Audit Strategy in October 2017. The strategy contains a variety of commitments under three main streams of work: • Auditing digital • Digital auditing • Digital capacity and resilience The Digital Services Strategy 2018-21 has also been approved and sets out how digital services will support the delivery of the strategy and core business delivery. In April 2018 we published Data analytics guidance for colleagues.	Implementation of the Digital Audit and Digital Services strategies 2017-21.

Project/ initiative/ product	Status update	Next steps
Innovative audit products	To support the Early Learning and Childcare performance audit we developed additional audit outputs including a guide for parents and carers to answer some frequently asked questions, and we suggest some ways they can get more information and help. The guide also covers how we carried out our audit and what we found and we developed videos for the e-Hub.	

Purpose

1. This report updates the Audit Scotland Board on our compliance with the General Data Protection Regulation (GDPR) and Data Protection Act 2018.

Background

2. The EU General Data Protection Regulation 2016/679 (GDPR) came into effect on 25 May 2018. The Data Protection Bill [HL] achieved royal assent on 23 May 2018, and came into force on 24 May 2018 as the Data Protection Act 2018 (the Act). The Act includes the GDPR and the areas of the GDPR which required UK domestic data protection arrangements/laws.

GDPR compliance update

3. The Act says the controller (Audit Scotland, the Accounts Commission and the Auditor General) is **accountable** for, and must be able to demonstrate compliance with, the principles for processing personal information. The joint data protection policy for Audit Scotland, the Auditor General and the Accounts Commission, approved by the Board on 2 May 2018, is a key document in demonstrating accountability for the personal information we process in undertaking our work.

4. The information Commissioner published 12 steps that organisations should take to ensure compliance with the GDPR; this was presented to the board in a paper on 2 May 2018. The following table updates the board on our progress and compliance against the 12 steps.

Step	ICO Description	Update
1	**Awareness** You should make sure that decision makers and key people in your organisation are aware that the law is changing to the GDPR. They need to appreciate the impact this is likely to have.	Awareness raising was covered in: • The Data Protection update newsletter to everyone in June 2016 and 2017, data protection day newsletter January 2017. • The 2015/2016 & 2016/17 annual information governance and security report to Management Team and the Audit Committee. • The 10 GDPR Essential newsletters to everyone from August 2017 to May 2018. • Our Data Protection Policy May 2018 approved by the Board and communicated to all staff. • GDPR training for all staff. 67% pf staff have completed the e-learning by 25 May 2018.

Step	ICO Description	Update
2	**Information you hold** You should document what personal data you hold, where it came from and who you share it with. You may need to organise an information audit.	A personal information inventory was conducted by each business group in August 2017. This showed the personal information collected by each business group. A personal processing register has been completed which records the personal information processed and its lawful basis. Data processing agreements are in place for suppliers processing personal information.
3	**Communicating privacy information** You should review your current privacy notices and put a plan in place for making any necessary changes in time for GDPR implementation.	Our privacy notice has been updated to ensure compliance and has been published on the Audit Scotland website. A personnel privacy notice has been published on ishare to inform staff of our data handling arrangements for their personal information. A privacy notice has been drafted for the National Fraud Initiative (NFI).
4	**Individuals' rights** You should check your procedures to ensure they cover all the rights individuals have, including how you would delete personal data or provide data electronically and in a commonly used format.	Individuals' rights have been included in our internal and external privacy notices.
5	**Subject access requests** You should update your procedures and plan how you will handle requests within the new timescales and provide any additional information.	Our data subject access request procedure has been updated and is GDPR compliant.
6	**Lawful basis for processing personal data** You should identify the lawful basis for your processing activity in the GDPR, document it and update your privacy notice to explain it.	A personal information processing register has been prepared which identifies each lawful basis for processing personal information. Our privacy notices and online forms contain our lawful basis. In addition, we wrote to all public bodies we audit on 23 May to inform them of our lawful basis for processing audit information and their lawful basis for providing it.
7	**Consent** You should review how you seek, record and manage consent and whether you need to make any changes. Refresh existing consents now if they don't meet the GDPR standard.	We do not rely on consent for processing personal information in most cases therefore this will have only a limited impact on our arrangements.

Step	ICO Description	Update
		Only payroll deductions for trade union subscriptions rely on consent. Evidence will be held in the HR/finance section.
8	**Children** You should start thinking now about whether you need to put systems in place to verify individuals' ages and to obtain parental or guardian consent for any data processing activity.	This aspect is mainly focussed towards online service providers such as Facebook, snapchat, online games providers, etc. This should not impact our work.
9	**Data breaches** You should make sure you have the right procedures in place to detect, report and investigate a personal data breach.	Our new data breach reporting arrangements came into effect in January 2018.
10	**Data Protection by Design and Data Protection Impact Assessments** You should familiarise yourself now with the ICO's code of practice on Privacy Impact Assessments as well as the latest guidance from the Article 29 Working Party, and work out how and when to implement them in your organisation.	Our Privacy Impact Assessment (PIA) process has been updated to the new requirement to conduct Data Protection Impact Assessments (DPIA). Assessment will be conducted when there are major changes to how we do our work and store personal information.
11	**Data Protection Officers** You should designate someone to take responsibility for data protection compliance and assess where this role will sit within your organisation's structure and governance arrangements. You should consider whether you are required to formally designate a Data Protection Officer.	The Corporate Governance Manager is our Data Protection Officer. The role is now mandatory in public bodies and the duties they are required to undertake has been expanded.
12	**International** If your organisation operates in more than one EU member state (i.e. you carry out cross-border processing), you should determine your lead data protection supervisory authority. Article 29 Working Party guidelines will help you do this.	Not applicable to us. However, we have been reviewing where we store personal information to ensure it remains in the EU or in the USA if our supplier has signed up to the Privacy Shield.

5. In summary we have in place the necessary policies, procedures and processes for complying with the Act and this will be tested by internal audit in quarter two of 2018/19. However, we will continue to review and refine our arrangements over the next six months as guidance is issued on the application of the Act by the UK Information Commissioner. Thereafter, the data protection officer must monitor our compliance with data protection legislation. This will be done by preparing an audit/review schedule to ensure that our policies, processes, procedures and personal data handling arrangements are working as designed.

6. The outcomes of our review/audit of our data handling arrangements will be reported to the Audit Committee as part of the data incident/loss reporting and included in the 2018/19 annual report on data protection and incidents.

Recommendation

7. This report invites the Audit Scotland Board to note our progress towards and compliance with the GDPR and the Data Protection Act 2018.

2017/18 Annual report on freedom of information and environmental information

Item 13

6 June 2018

Corporate Governance Manager

Purpose

1. This is the 2017/18 annual report to the Board on our Freedom of Information (FOI) and Environmental Information Regulations (EIRs) arrangements, requests and performance. This report forms part of a suite of assurance reports in support of the Accountable Officer's governance statement in the annual report and accounts.

2. The report concludes that our FOI/EIR arrangements are working well and that there are no significant issues that should be brought to the attention of the Board.

3. The Board is invited to note the contents of this report.

Background

4. Audit Scotland, the Auditor General and the Accounts Commission are subject to the Freedom of Information (Scotland) Act 2002 (FOISA) and the Environmental Information (Scotland) Regulations 2004 (EIRs).

5. Audit Scotland developed and implemented suitable joint arrangements for the discharge of FOISA/EIRs in 2005 for all three bodies. These arrangements are reviewed annually.

6. The Scottish Ministers' Code of Practice on the discharge of functions by Scottish public authorities under FOISA and the EIRs require us to monitor our handling of information requests.

7. Since 1 April 2013 public bodies are required to submit their FOI and EIR handling statistics, on a quarterly basis, to the Scottish Information Commissioner (SIC). Audit Scotland has complied timeously with this requirement.

FOI/EIR overview for 2017/18

8. This annual report has been prepared to fulfil our FOI/EIR good practice requirements under the Scottish Ministers section 60 Code of Practice and incorporates our SIC quarterly returns.

Governance

9. The Knowledge, Information and Technology Governance Group (KITGG) provide oversight of our FOI/EIR arrangements and report their activity to Management Team, the Audit Committee and the Board as necessary. The Corporate Governance Manager is responsible for day-to-day management of our FOI/EIR arrangements.

10. The FOI/EIR policy was reviewed by the KITGG, re-approved by the Board in August 2017 and staff acknowledged compliance with the policy via the fit and proper form in November 2017.

11. We reviewed our FOI publication scheme to ensure it remained up-to-date. Additional information was added to the scheme on open data as required by the Scottish Information Commissioner's model publication scheme update.

Approach to requests

12. It is our policy to be as open and transparent as possible, and therefore our approach to FOI/EIR requests is to treat them as a 'business as usual' activity. This means that where we would normally supply information to those we work with we will continue to do so without treating them as FOI/EIR requests.

13. For complex 'business as usual' requests and all other requests, which may have to be considered by a FOI panel, these are recorded in our FOI/EIR system.

14. Where it is appropriate and legal we can apply exemptions and exceptions to the information being requested. Audit Scotland has established a group of senior managers (FOI panel) trained in considering FOI/EIR exemptions and exceptions to complex requests. This year a further two managers were trained and joined the FOI panel pool.

15. The following statistics and analysis are based on our recorded FOI/EIR requests for 2017/18.

Statistics and Analysis

Number of requests received

16. Audit Scotland recorded 51 FOI and no EIR requests this year. These were received in:

Requests received	2017/18 requests		2016/17 requests	
	FOI	EIR	FOI	EIR
Q1 (April – June)	7	0	12	1
Q2 (July – September)	19	0	14	0
Q3 (October – December)	11	0	17	0
Q4 (January – March)	14	0	13	0
Total	**51**	**0**	**56**	**1**

17. Forty nine FOI requests were addressed to Audit Scotland and two to the Accounts Commission.

Type of requester

18. We categorise the requests we receive for analysis purposes. This year we received:

Requester type	2017/18 requests		2016/17 requests	
	FOI	EIR	FOI	EIR
Media	11	0	4	0
MSP/MP	8	0	4	0
Organisation	8	0	21	0
Members of the public	22	0	21	1
Public body	0	0	5	0
Other	2	0	1	0

19. Themes emerging from the information being requested are:

- 22% - Audit Scotland: staff, finance, cars
- 6% - Information Technology: equipment, contracts
- 41% - Audit Scotland: reports, draft reports and correspondence
- 23% - Data held on other organisations
- 6% - Audit Scotland: governance, policies, procedures
- 2% - Other

Responding to requests

20. All information requested was released in full on 16 (31%) occasions, partially released on 19 (37%) occasions, the information requested was not held by us on 14 (28%) occasions, clarification not received on one occasion (2%) and one (2%) neither confirm nor deny.

Cost of administrating and responding to requests

21. Time spent on specific requests is generally recorded to the job code for the audit work concerned. In addition, the time spent on FOI/EIR training is coded to the general training and development job code.

22. However, 12 members of staff recorded 410 hours (501 in 16/17) for administering our FOI systems and procedures, replying to some requests and dealing with complex requests at FOI panels. This equates to approximately £20,574 (£30,115 in 16/17) using the average hourly rate from the Time Recording System. However, the true cost to Audit Scotland of complying with FOI/EIRs will be higher due to the way some FOI/EIR work and training is recorded.

Time taken to respond

23. FOISA and the EIRs require public bodies to reply to requests within 20 working days and within 40 working days for complex or volumous EIRs. Audit Scotland met this requirement on 50 (98%) occasions and failed to meet it on one (2%) occasion. This is a slight improvement on last year's 96.5%.

Charging for dealing with requests

24. Public bodies are able to make certain charges for dealing with FOI and EIR requests. Where this is appropriate we issue a fee notice. We issued no fee notices in 2017/18.

25. Public bodies are also able to refuse a request where it will cost more than £600 to deal with it. However, where public bodies estimate the cost to be greater than £600 they are to inform the requester that they may be able to supply some information if they narrow their request. No requests were refused by Audit Scotland on excessive cost of compliance this year.

FOI/EIR panels, reviews and appeals

26. Panels met five times this year to consider applying exemptions to some or all of the information being requested. In 19 requests, we applied exemptions to the information we held. This included information otherwise accessible, law enforcement, personal information and the audit function. The most common exemption used was for personal information.

27. Where an applicant is not satisfied with our initial response to their request they can ask Audit Scotland for a review and in 2017/18 there were no requests for a review.

28. If an applicant remains dissatisfied with how we dealt with their request after a review they can make an appeal to the SIC. There was one appeal to the SIC from a dissatisfied applicant this year that related to a request from 2016/17. The decision of the SIC was received on 19 April 2017; the SIC found that Audit Scotland had not complied with the Freedom of Information (Scotland) Act 2002 by responding late to a request for information. The SIC does not require us to take any further action.

Information requested but not held by Audit Scotland

29. Audit Scotland issued 14 FOISA section 17 notices this year informing the applicant that the information they were requesting was not held by Audit Scotland, the Auditor General or the Accounts Commission.

Information otherwise accessible

30. Where the information requested is already publicly available e.g. in the authority's publication scheme/website the public authority does not need to provide it. However, there is a duty to provide advice and assistance, which means informing the requester where the information is published.

31. Audit Scotland issued five section 25 notices informing the applicant that the information was publicly available.

FOI/EIR Training

32. Audit Scotland staff undertake basic FOI/EIR training when they join Audit Scotland and refresher training is given as necessary. In November 2017, 11 senior mangers attended the advanced FOI training. The advanced training is to allow managers to support staff in dealing with Freedom of information requests. Following the training two of the mangers joined the pool of FOI panel members.

33. In addition staff updates are published when changes occur. A staff brief was issued in September 2017 and on FOI Day in March 2018 to remind staff of our FOI/EIR arrangements, performance and changes to legislation.

34. Maintaining training records is dynamic process due to staff joining and leaving the organisation at any point during the year and at the 31 March 2018 no one had FOI/EIR training outstanding.

Recommendation

35. The Board is invited to note the contents of this report.

2017/18 Annual Report on Complaints	Item 14
Corporate Governance Manager	6 June 2018

Purpose

1. This is the 2017/18 annual report to the Board on complaints received by Audit Scotland about its work. This report forms part of a suite of assurance reports in support of the Accountable Officer's governance statement in the annual report and accounts.

2. The report on complaints handling concludes that there are no significant issues that should be brought to the attention of the Board.

3. The Board is invited to note the contents of this report.

Background

4. The Public Services Reform (Scotland) Act 2010 (the Act) required the Scottish Public Services Ombudsman to introduce a set of complaint handling principles, to which all public bodies have to adhere.

5. Audit Scotland, the Auditor General and the Accounts Commission introduced a joint complaints handling process in December 2012. The joint complaints handling process was reviewed and updated in late 2014. A further review of our guides for staff and members of the public was undertaken in January 2017.

6. A feature of the arrangements is the systematic analysis of the complaints received and reporting on them to Management Team and the Board.

7. This is the fifth annual report on complaints handling under our complaints handling procedure.

8. Our complaints handling procedure continues to work effectively.

Complaints received

9. Audit Scotland staff actively engage with the public through a number of channels for example: the inspection period for local government unaudited accounts, the correspondence process, freedom of information requests, our main office receptions, our telephone switchboard, etc. If our interaction with the public is handled well it enhances our reputation and contributes to our goal of becoming world class. However, if handled poorly it may harm our reputation and lead to dissatisfaction and complaints.

10. This is a transitional year with the formation of the Appointments and Assurance Team to monitor and report on Audit Quality. We are reviewing our current complaint handling arrangements to establish a process specifically for issues raised about audit quality. A proposal on our arrangements will be submitted to Management Team.

11. Complaints should be dealt with at stage 1, front line resolution within five working days. However, when complaints are more complex or are not resolved at stage 1 they are investigated at stage 2, within 20 working days.

12. Corporate Services maintains the register of complaints received. The register shows that there were four complaints received in 2017/18 (7 in 2016/17).

13. One complaint was rejected as it was outwith our complaints handling procedure i.e. it was about our audit opinions and judgements. The complainant appealed to the SPSO on our determination that it was outwith our complaints handling process. The SPSO rejected the appeal.

14. A further complaint was found to be invalid as the complainant had claimed that we had not responded to their correspondence. This was incorrect and a duplicate copy of our acknowledgement and formal reply was sent to them from our correspondence records.

15. The third complaint was made to us anonymously via Glassdoor, which is a website where employees and former employees anonymously review companies and their management. The complaint about a recruitment campaign process was upheld and an invitation published on Glassdoor for the complainant to contact us to discuss the issue.

16. The fourth complaint contended that investigations undertaken by Audit Scotland staff did not appear to have been conducted in accordance with the International Standards on Auditing. This complaint, as at the 31 March 2018, is ongoing at stage 2 of our complaints handling procedure.

Scottish Public Services Ombudsman (SPSO)

17. The Scottish Public Services Ombudsman Act 2002 (the Act) provides a framework for matters that can be considered by the SPSO for investigation. This year the SPSO received one appeal about Audit Scotland; it was rejected by the SPSO.

18. The SPSO finally determined an appeal by a complainant about Audit Scotland to a complaint from 2016/17. The SPSO initially found in favour for the complainant on four issues and Audit Scotland on a further three issues. The complainant was dissatisfied with this outcome and requested the SPSO review the findings/decision. The SPSO concluded the review in March 2018 and decided that the original decision by the SPSO's investigating officer was correct.

Recommendation

19. The Board is invited to note the contents of this report.

Introduction and purpose

1. The Audit Committee is a standing Committee of the Board established under Audit Scotland's Standing Orders. The Audit Committee consists of the members of the Board, other than the Chair and Accountable Officer, who are not employees of Audit Scotland. The Audit Committee met five times in 2017/18.

2. During the year the membership of the Audit Committee changed following Graham Sharp's appointment as Chair of the Accounts Commission. The Audit Committee thanked Ronnie Hinds, the Acting Chair of the Accounts Commission, for his time on the Audit Committee.

Programme of work

3. During the year the Audit Committee extended its role by agreeing to monitor Audit Scotland's Audit quality and arrangements.

4. The Audit Committee considered the annual report from the External Auditors, Alexander Sloan Chartered Accountants, relating to the certification of Audit Scotland's 2016/17 accounts. The audit of the 2017/18 accounts has concluded and was reported to the Audit Committee on 6 June 2018.

5. The Audit Committee approved the timetable to facilitate the completion of the Statutory Accounts for the Year ended 31 March 2018.

6. BDO conducted seven internal audits and one follow-up review in 2017/18. The Audit Committee considered all the internal audit reports, the 2017/18 annual audit report and four audit progress reports from BDO prior to 31 March 2018.

7. The annual review of Audit Scotland's principal governance policies (Standing Orders, Financial Regulations and Scheme of Delegation) was undertaken. The reviews resulted in minor changes to them. In addition, the Audit Committee considered its Terms of Reference at each of its meetings; minor amendments were made during the year.

8. The Members' Code of Conduct was reviewed to ensure it remained up-to-date and in line with the model code published by the Scottish Government. The Code is published on the Audit Scotland website along with the annual declaration of Members' interests.

9. The Audit Committee approved version twelve of Audit Scotland's business continuity plan and arrangements.

10. The Audit Committee considered 2017/18 annual assurance reports on Health and Safety, Information Governance and Security, Audit Quality, Correspondence Handling, Risk Management, Hospitality and Gifts, Data Incidents, Whistleblowing and Bribery and Fraud.

11. The Risk Management Framework was last presented to and approved by the Audit Committee on 23 May 2018.

12. The corporate risk register was considered by the Audit Committee on four occasions as part of its internal controls and governance arrangements. A programme of risk interrogations of individual risks was undertaken and scrutinised at Audit Committee meetings in 2017/18.

13. The Audit Committee considered reports on data incidents and noted the corrective actions proposed by Audit Scotland to reduce further incidents.

14. At its meeting in March 2018 the Audit Committee considered a report from the internal and external auditors on their joint working.

15. The members of the Audit Committee carried out the annual review of its effectiveness basing it on the National Audit Office's Audit Committee self-assessment checklist. A report on the outcome and actions was presented to the meeting of the Audit Committee on 23 May 2018.

Overview of external audit

16. Alexander Sloan, Chartered Accountants, who are appointed by the SCPA, completed the audit of Audit Scotland's 2016/17 accounts and provided a report to the June 2017 Audit Committee. The external auditor advised the Audit Committee that they would be issuing an unqualified audit opinion.

17. The external audit had been completed on time and the Audit Committee was satisfied that the work had been delivered to the required standard in accordance with Alexander Sloan's quality control procedures.

18. There were no recommendations in the external auditor's management letter for 2016/17.

19. The audit of the 2017/18 accounts was reported to the Audit Committee at its meeting on 6 June 2018.

20. The external auditors have attended all the Audit Committee meetings during 2017/18. At each meeting there is a private session with both external and internal auditors at which they have the opportunity to raise any issues, none were raised for 2017/18.

Overview of internal audit

21. BDO carried out seven internal audits and one follow-up review during 2017/18; all reports were presented to the Audit Committee. An overall assurance assessment is given in each internal audit report for the design and operational effectiveness of systems and internal controls.

22. Audits and overall assurance assessments were:

- Business Continuity Management (substantial assurance)
- Quality Management (reasonable assurance)
- Procurement and Contract Management (substantial (design) reasonable (operational effectiveness) assurance)
- Audit Efficiency (substantial assurance)
- Core Financial Controls (substantial assurance)
- IT General Controls (substantial assurance)
- Workforce Planning and Resource Management (substantial assurance)
- Follow-up review (good progress).

23. There were 18 recommendations from the seven internal audits. Two recommendations were classed as medium and 16 as low significance. There were no recommendations of high significance. Management responses have been given for all audit recommendations and work is being undertaken to implement them as appropriate.

24. The internal audit service and scrutiny provided by BDO offered reasonable assurance for the 2017/18 annual internal audit report.

25. The Audit Committee was satisfied with the performance of internal audit and that the internal audit programme had been delivered to the required standard for the year.

26. The cost of the internal audit work, completed by 31 March 2018, was £28,004.10. The number of days used by BDO was 57, two more than in the 2017/18 plan.

27. The internal auditors have attended all the Audit Committee meetings during 2017/18. At each meeting there is a private session with both internal and external auditors at which they have the opportunity to raise any issues, none were raised for 2017/18.

Audit quality

28. The new Audit Quality Framework was approved by the Board on the 25 October 2017. This framework commits to providing regular reporting to the Audit Committee on audit quality as well as to the Auditor General and the Account's Commission.

29. The Appointments and Assurance Team, in their first report to the Committee in November 2017, conclude that there are no major concerns on the quality of the audit work reviewed to date or in the delivery of audit reporting to timescales.

30. The quarter three and four audit quality monitoring report and draft 2017/18 audit quality annual report were presented to the May 2018 meeting of the Audit Committee. The annual report concluded that for all auditors, there is strong evidence of high compliance with auditing standards and the Code of Audit Practice and overall good levels of other evidence of audit quality with some limited improvements required.

Governance statement

31. The Audit Committee considered a report on the effectiveness of the systems of internal control. There were no matters arising from Audit Scotland's business groups which would require to be raised specifically in the Accountable Officers governance statement.

32. Internal auditors provided Audit Scotland with reasonable assurance that, there are no major weaknesses in the internal control system for the areas reviewed in 2017/18.

33. It is the Audit Committee's opinion, based on our scrutiny and oversight of the work of Audit Scotland, that the Accountable Officer and Board can take assurance that there are sound systems of internal control in place within Audit Scotland to support the achievement of the organisation's policies, aims and objectives as set out by the Audit Scotland Board.

Recommendation

34. On the basis of the work reviewed and progress made during 2017/18, the Audit Committee can advise the Board that, in its opinion, the internal control systems in Audit Scotland are adequate.

2017/18 Annual report from the Chair of the Remuneration and Human Resources Committee

Chair of the Remuneration and Human Resources Committee

Purpose

1. This paper informs the Audit Scotland Board that the Remuneration and Human Resources Committee (Remco) has completed the review of the past twelve months performance of Remco and identified the future priority areas for 2018/19.

Background

2. Remco Terms of Reference (ToR) state that a review of Remco past performance and the identification of future priorities is an annual item of business. This process follows good practice for the operation of remuneration committees and the discussion forms the basis of a report to the Audit Scotland Board and Accountable Officer. Remco considered this matter in May 2018.

Progress update

3. During 2017/18 Audit Scotland's Remco met on four occasions. Key items of business considered by Remco are shown below:

    - review of the operation, impact and savings achieved from earlier years' Voluntary Early Release Arrangement (VERA) and redundancy schemes

    - consideration of Audit Scotland's approach and effectiveness of talent management and succession planning

    - progress and impact of Audit Scotland's organisational development programme – *Building a Better Organisation* (BaBO). This included implementation of the new career development gateway system, leadership group development and approval of a new reward system for Assistant Directors, Directors and Chief Operating Officer Officer following the provision of research and independent reward advice from the Institute for Employment Studies

    - consideration and approval of the parameters relating to the 2018 pay award and negotiations with the Public and Commercial Services (PCS), including the latest public sector pay policy in Scotland and the implications of this upon Audit Scotland's pay settlement, budget and fee strategy, and

    - adjustment to Audit Scotland's pension policy statement in relation to changes in HMRC annual contribution allowances.

4. All of this work has been achieved in accordance with good employment practice and is consistent with public sector policy guidance affecting organisations such as Audit Scotland.

Future priority areas

5. Remco has agreed that the following list of potential items will be considered as priority items for future discussion:

    - the effectiveness of Audit Scotland recruitment strategy in support of workforce growth in response to the demands arising from new financial powers;

- the changing environment for public sector pay in Scotland and Scottish Government pay policy – how this will influence our future budget, fee strategy and approach to employee relations with the PCS union;

- an update on BaBO as it matures to focusing upon *Being a Better Organisation*, including Audit Scotland's learning & development strategy and the work in support of employee wellbeing.

Conclusion

6. The operation of the Remco during 2017/18 has been effective and in accordance with the terms of reference. Good governance exists and the Committee has continued to challenged and support the effective and efficient operation of Audit Scotland.

Recommendation

7. Board members are invited to:

- note and comment on the work of Remco during 2017/18, and

- comment on the areas which Remco is planning to take forward as priority areas for 2018/19.

Next steps

8. The Remco Chair will facilitate the next review of Remco performance at the meeting scheduled in May 2019. A report will then be submitted to the Audit Scotland Board and Accountable Officer in June 2019.

Purpose

1. This report informs the Board of the review of Audit Scotland's internal controls that support the achievement of the organisation's policies, aims and objectives as set by the Board. The report also provides the Certificate of Assurance on Audit Scotland's internal controls.

Background

2. The Audit Committee considered a report on the review of Audit Scotland's internal controls. After discussion the Audit Committee agreed to recommend the report and certificate of assurance to the Board and Accountable Officer to support the Governance Statement.

Recommendation

3. The Board is invited to note the recommendation from the Audit Committee to approve the Certificate of Assurance in support of the annual assurances and signing of the annual accounts.

Purpose

1. This report invites the Board to approve an updated Policy on the provision of Non-Audit Services by Audit Scotland's external auditor.

Background

2. The Audit Committee immediately prior to the Board meeting will consider a report on the policy on the provision of Non-Audit Services by Audit Scotland's external auditor. All Board members have received copies of the papers for the Audit Committee meeting. A verbal update will be provided at the Board meeting on the Audit Committee's recommendation.

Recommendations

3. The Board is invited to approve the policy as recommended by the Audit Committee.

Agenda

Wednesday 22 August 2018, 10.15am

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

AUDIT SCOTLAND

1. Welcome and apologies

2. Declarations of interest

3. Decision on items to be taken in private   For approval

Standing items

4. Chair's report – verbal update

5. Accountable Officer's report – verbal update

6. Accounts Commission Chair's report – verbal update

7. Review of minutes: For approval
   - Board meeting, 6 June 2018

8. Review of action tracker   For information

Business performance

9. Q1 Corporate performance report   For information

10. Q1 Becoming world class improvement programme report   For information

Governance

11. Scottish Commission for Public Audit: Report on Audit Scotland's 2017/18 Annual   For information
    report and accounts

12. Annual review of Codes of conduct   For approval

13. Proposed Board and Committee meeting schedule 2019   For approval

14. Any other business

15. Review of meeting

16. Date of next meeting: 26 September 2018

Minutes

AUDIT SCOTLAND

Wednesday 6 June 2018, 11.30am

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

Present:

I Leitch (Chair)
C Gardner
G Sharp
H Logan
R Griggs

Apologies:

None

In attendance:

D McGiffen, Chief Operating Officer
M Walker, Assistant Director, Corporate Performance and Risk
S Dennis, Corporate Finance Manager (items 9, 24)
A Devlin, Corporate Governance Manager (items 12,13,14,15,17)
E Boyd, Assistant Director, Appointments and Assurance (items 18, 22)
O Smith, Senior Manager, Appointments and Assurance (items 18, 22)
J Gilchrist, Manager, Appointments and Assurance (items 18, 22)
A Clark, Assistant Director, Performance Audit and Best Value (item 23)
J Gillies, Communications Manager
J Webber, Senior Executive Assistant

1. Welcome and apologies

The Chair welcomed members and attendees to the meeting of the Audit Scotland Board, the agenda and papers for which had been published on Audit Scotland's website on Monday 4 June 2018.

2. Declarations of interest

There were no declarations of interest.

3. Decision on items to be taken in private

The members agreed that items 22, 23 and 24 would be considered in private as they are intended for future publication.

4. Chair's report

Ian Leitch provided a verbal update on regular meetings with Diane McGiffen and Caroline Gardner on general business matters and in preparation for the meeting with the Scottish Commission for Public Audit (SCPA) on Audit Scotland's 2017/18 Annual report and accounts.

The members welcomed the update.

5. Accountable Officer's report

Caroline Gardner advised the Board of parliamentary engagement which included a session with the Social Security Committee on the impact of the Scotland Act and the potential risks around implementation. Caroline invited members to note that she had been speaking at two workshops on Budget Process Review hosted by Audit Scotland and that there is a further

meeting with the Scottish Futures Trust scheduled for 15 June 2018. Caroline advised that she had taken part on an informal panel of the Scottish Parliament's Women's Network speaking about her role in public life.

Caroline advised of the recent Public Audit and Post Legislative Scrutiny (PAPLS) sessions on NHS Tayside, Scottish Colleges section 22 report and the Scottish Fire and Rescue Service.

Caroline advised that the health and central government audit teams were busy working to a deadline of the end of June reviewing annual reports and accounts and invited members to note Audit Scotland's significant recruitment campaign focused on building capacity around the new financial powers and social security. The Board noted the restricted market for recruiting highly skilled staff and welcomed the branding and marketing of Audit Scotland's culture to attract candidates.

Russel Griggs asked whether there was an increased focus on fraud and Caroline advised that Fiona Kordiak and Angela Canning would be leading this work.

Following discussion, the Board welcomed the update.

6. Accounts Commission Chair's report

Graham Sharp advised the Board that the Accounts Commission had at its last meeting approved their Annual Report, strategy and engagement strategy which included the use of social media and local papers to encourage engagement with the public and continued engagement with Parliament. He advised the Commission also approved the next tranche of best value audits, considered the best value findings on East Renfrewshire Council and reviewed the Audit Quality annual report.

He invited members to note that at the Commission's meeting on Thursday 7 June, the Commission would be considering the Best Value report on West Dunbartonshire, a report from the Strategic Scrutiny Group, a draft report on Early Learning and Childcare and the review report on the East Renfrewshire best value audit.

Graham advised of the meeting with the Local Government and Communities Committee (LGCC), meetings with Bob Doris MSP and Jenny Marra MSP. Graham advised he had attended a meeting and dinner with SOLACE on 24 May 2018 and of planned engagement with local authority Chief Executives to share feedback on Best Value reports.

Graham advised of an introduction meeting with Councillor Alison Evison and Sarah Gadsden from the Improvement Service to the interaction between the organisation and the Accounts Commission.

Finally, Graham advised announcements of the appointments of the new Commission members would be made shortly.

The Board welcomed the update.

7. Review of minutes

Board meeting, 2 May 2018

The Board considered the minutes of the meeting of 2 May 2018, which had been previously circulated, and agreed these were an accurate record of the meeting subject to amended wording for Item 10, Review of the new approach to auditing best value.

Audit Committee, 14 March 2018

The Board considered the minutes of the meeting of 14 March 2018, which had been previously circulated, and agreed they were content they were an accurate record of the meeting.

8. Review of actions tracker

The Board noted the updates provided by the action tracker and Diane McGiffen provided an update report on the developments within the Appointments and Assurance and Professional Support teams would come to the Board after the summer.

9. Q4 Financial performance report

Stuart Dennis, Corporate Finance Manager, joined the meeting.

Stuart Dennis, Corporate Finance Manager introduced the Q4 financial performance report, which had been previously circulated.

The Board reflected on the earlier discussion of this report at the meeting of the Audit Committee immediately preceding the Board meeting and agreed they were content with the report.

10. Q4 Corporate performance report

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the Q4 corporate performance report, which had been previously circulated.

The members discussed whether there were any perceived conflicts of interest in relation to joint working with other public sector scrutiny agencies. Caroline Gardiner advised that there were no issues and Graham Sharp, as Chair of the Strategy Scrutiny Group, advised that scrutiny bodies often work together in order to share information and contribute to risk assessments.

Following discussion, the Board welcomed the report.

11. Q4 Becoming world class improvement programme

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the Q4 becoming world class improvement programme report, which had been previously circulated.

Martin Walker advised that in compiling the report it had provided an opportunity to review the year in full and he invited members to note the overall achievements.

Russel Griggs asked what opportunities there are for Audit Scotland to consider international standards and best practice. Diane McGiffen advised colleagues work in clusters on the delivery of audits where they consider standards and best practice routinely as part of best value work.

Heather Logan reflected that the report reflected a very dynamic period.

Following discussion, the Board welcomed the achievements reported.

12. Data protection update

Alex Devlin, Corporate Governance Manager, joined the meeting.

Alex Devlin, Corporate Governance Manager, introduced the Data Protection update report, which had been previously circulated.

Alex Devlin invited the Board to note progress towards and compliance with the GDPR and Data Protection Act 2018 with 95% of colleagues having completed the updated training module. He also advised of recent letters to the Chief Executives of public bodies regarding an update of privacy notices to state that they supply information to us as part of our audit work.

Russel Griggs asked what the international implications of GDPR were for sharing information. Alex advised that while the legislation relates to keeping information within the European Union,

international organisations whom we work with have signed up to the Privacy Shield which provides adequate protection.

Following discussion, the Board welcomed the report.

13. 2017/18 Annual report on freedom of information and environmental information

Alex Devlin, Corporate Governance Manager, introduced the 2017/18 annual report on freedom of information and environmental information, which had been previously circulated.

Alex Devlin invited the Board to note the report as part of the suite of assurance reports in support of the Accountable Officer's governance statement in the annual report and accounts.

Alex provided a summary of the statistics and analysis reported on the 51 freedom of information requests received in the year.

Following discussion, the Board welcomed the report.

14. 2017/18 Annual report on complaints

Alex Devlin, Corporate Governance Manager, introduced the 2017/18 annual report on complaints, which had been previously circulated.

Alex Devlin invited the Board to note the report as part of the suite of assurance reporting. In response to a question from the Chair, Alex advised that complaints about audit judgements and audit quality were dealt with outwith the complaints handling process. Diane McGiffen advised that the audit judgements process was scheduled to be reported to Management Team in August 2018.

Following discussion, the Board welcomed the report.

15. 2017/18 Annual report from the Chair of the Audit Committee

Heather Logan, Chair of the Audit Committee, introduced the 2017/18 annual report from the Chair of the Audit Committee, which had been previously circulated.

Heather Logan noted her thanks to members and Audit Scotland officers for their work in support of the Audit Committee over the past year.

Following discussion, the Board welcomed the report.

16. 2017/18 Annual report from the Chair of the Remuneration and Human Resources Committee

David Blattman, Secretary to the Remuneration and Human Resources Committee, joined the meeting.

Russel Griggs, Chair of the Remuneration and Human Resources Committee (Remco), introduced the 2017/18 Annual report from the Chair of Remco, which had been previously circulated.

Russel Griggs noted his thanks to members and Audit Scotland officers for their work in support of the Remuneration and Human Resources Committee over the past year.

Following discussion, the Board welcomed the report.

David Blattman, Secretary to the Remuneration and Human Resources Committee, left the meeting.

17.   2017/8 Governance statement on internal control and certificate of assurance

Alex Devlin, Corporate Governance Manager, introduced the 2017/18 Governance statement on internal control and certificate of assurance, which had been previously circulated.

The Chair invited members to note the Governance statement on internal control and certificate of assurance which had been considered at the earlier Audit Committee meeting.

The Board welcomed the assurance provided. There were no further comments and the Board approved the certificate.

Alex Devlin, Corporate Governance Manager, left the meeting.

18.   Policy on the provision of non-audit services by Audit Scotland's external auditor

Elaine Boyd, Assistant Director, Owen Smith, Senior Manager and John Gilchrist, Manager, Appointments and Assurance, joined the meeting.

Elaine Boyd, Assistant Director, Appointments and Assurance, introduced the policy on the provision of non-audit services by Audit Scotland's external auditor, which had been previously circulated.

The Board noted the recommendation by the Audit Committee to approve the policy and following discussion, approved the policy.

19.   Any other business

There was no further business.

20.   Review of meeting

The members agreed that business had been dealt with timeously and the Chair thanked everyone for their contribution.

21.   Date of Next Meeting

It was noted that the next Audit Scotland Board meeting was scheduled for 10.15am on Wednesday 22 August 2018 in the offices of Audit Scotland, 102 West Port, Edinburgh.

The Board then moved into private session.

Items taken in private

22.   2017/18 Annual report on Audit quality

James Gillies, Communications Manager, joined the meeting.

Elaine Boyd, Assistant Director, Appointments and Assurance, introduced the 2017/18 annual report on Audit Quality, which had been previously circulated.

Elaine invited members to note the independent assurance provided, which covered all audit work, and sought approval to publish the report alongside the suite of annual reports in June 2018.

The Board welcomed the assurance provided and discussed the process for ensuring fairness and consistency across the independent ICAS review and the cold reviews undertaken by the Appointments and Assurance Team.

Following discussion, the Board welcomed the assurance provided and approved the report for publication.

Action ASB76: The Appointments and Assurance team to provide a published copy of the report to members. (June 2018)

Elaine Boyd, Assistant Director, Owen Smith, Senior Manager and John Gilchrist, Manager, Appointments and Assurance left the meeting.

23. 2017/18 Annual report on International work

Antony Clark, Chair of the International Steering Group, joined the meeting.

Antony Clark, Chair of the International Steering Group introduced the 2017/18 annual report on International Work, which had been previously circulated.

Antony invited members to note International Manager Sarah Pollock's work to forge and develop links with international agencies before highlighting key activities from the year which will inform our future audit work and opportunities to share learning with colleagues.

Heather Logan asked if there had been any direct impact from our international engagement. Antony advised of a secondment opportunity working with the Office of the Auditor General of the Cayman Islands and access to the Canadian database which provided insight on their approach to housing. Looking ahead the Board discussed topics likely to feature more in next year's report including fraud and corruption and EU withdrawal.

Following discussion, the Board welcomed the report and approved it for publication.

Antony Clark, Chair of the International Steering Group, left the meeting.

24. 2017/18 Draft annual report and accounts

Stuart Dennis, Corporate Finance Manager introduced the 2017/18 Draft annual report and accounts, which had been previously circulated.

The Board approved the draft annual report and accounts which had been previously circulated and discussed at the earlier meeting of the Audit Committee and recommended that the Auditor General for Scotland, as Accountable Officer for Audit Scotland, sign the accounts on 12 June 2018.

Stuart Dennis, Corporate Finance Manager, left the meeting.

AUDIT SCOTLAND BOARD ACTION TRACKER 2018/19

Ref	FORUM	Agenda Item No	Item Title	Action Description	Meeting Date	Due Date	Responsible	Assigned to	Complete/Ongoing	Reported Yes/No	Progress Notes
ASB64	Board	5	Accountable Officer's Report	An update report on developments within the Appointments and Assurance and Professional Support teams to be scheduled.	29/11/2017	28/03/2018	Diane McGiffen/Fiona Kordiak	Diane McGiffen/Fiona Kordiak	Ongoing		A verbal update was provided at the meeting on 28 March with a report to be scheduled later in the year.
ASB67	Board	10	Q2 Corporate performance report	The annual report on international work to expand on the engagement with the Canadian Comprehensive Auditing Foundation in developing the performance audit work.	29/11/2017	06/06/2018	Antony Clark	Antony Clark	Complete	Yes	A report was considered at the Board meeting on 6 June 2018.
ASB70	Board	11	2018 Audit Scotland staff conference update	A discussion on audit quality and reputational risk to be scheduled following consideration of the Annual Audit Quality report.	31/01/2018	22/08/2018	Diane McGiffen	Elaine Boyd	Ongoing		A report will be considered by Management Team on 4 September 2018.
ASB73	Board	12	Publications schedule: January to June 2018	A copy of the Openness and transparency briefing paper to be circulated to members.	31/01/2018	30/04/2018	Diane McGiffen	Joy Webber	Complete	Yes	This paper now forms part of the auditor guidance and a copy shared with members on 6 June 2018.
ASB74	Board	13	Data protection policy	Alex Devlin to send members the link to the updated e-learning package. (May	02/05/2018	30/05/2018	Alex Devlin	Alex Devlin	Complete	Yes	The link to the e-learning package was emailed to members on 23 May 2018.
ASB75	Board	18	Corporate Plan 2018-21	Martin Walker to circulate the amended 2018-21 Corporate Plan for approval by correspondence.	02/05/2018	30/05/2018	Martin Walker	Martin Walker	Complete	Yes	The amended Corporate Plan was emailed to members on 23 May 2018.
ASB76	Board	22	2017/18 Annual report on Audit quality	The Appointments and Assurance team to provide a published copy of the report to members.	06/06/2018	30/06/2018	Elaine Boyd	Elaine Boyd	Complete	No	The report was published on our website at the same time as the Annual report and Accounts in June 2018 and a link has been shared with members.

Q1 Corporate performance report 2018/19

Assistant Director, Corporate Performance and Risk

Purpose

1. This report provides the Board with an overview of Audit Scotland's performance during quarter one of 2018/19.

Background

2. Performance reports are considered by the Management Team and the Board on a quarterly basis alongside the quarterly financial performance report and Becoming World Class improvement programme update.

3. The quarter four report was considered at meetings of the Management Team and the Board on 8 May and 6 June 2018 respectively.

4. This report was considered by Management Team at its meeting on 31 July 2018.

5. The performance information is reported under the three strategic objectives of Delivering World Class Audit, Making a Difference and Being a Better Organisation.

    -   Appendix 1 (pages 3 – 5) provides a one-page summary of performance for each strategic objective.

    -   Appendix 2 provides the detailed performance information.

Q1 performance summary

6. The Q1 report demonstrates strong performance overall. Performance headlines include:

    -   Delivering World Class Audit - we are conducting relevant, timely and high-quality audits:

        –   All annual audit plans and reports planned for Q1 were delivered on or ahead of schedule.

        –   Local Government National Scrutiny Plan 2018/19 published in Q1.

        –   13 reports published in Q1: 3 statutory reports, 2 Performance Audits, 3 Best Value, 2 Overviews, 1 Housing Benefit, 2 impact reports.

        –   2017/18 Annual Audit Quality Report published in Q1 provided positive assurance.

    -   Making a Difference - we are getting our messages out effectively and delivering new and improved products:

        –   Substantial parliamentary, mainstream media and social media interest in reports, in particular on the Local Government and Colleges overviews and the report on the Scottish Fire and Rescue Service.

        –   Extensive engagement with parliament and its committees.

    -   Building a Better Organisation - we are managing our workforce effectively and investing in learning and development. Financial planning and budget management are effective:

        –   We have changed the assessment on the objective 'We empower and support our people to be engaged, highly skilled and perform well' from amber to green. The Performance and Risk.

Management Group considered the broad range of relevant indicators (and contra-indicators), for this objective and concluded the change was appropriate. Its' consideration included:

o extensive developments through BaBO and the mainstreaming of this development work (role profiles, 3D personal development, career development gateways, time place and travel)

o Best Companies engagement survey – best ever score achieved in December 2017

o extensive professional trainee programme and high pass rates

o revised learning and development strategy and portal and continued investment in personal development

o low sickness absence and turnover rates.

We continue to prioritise empowerment, support and performance and the 'green' assessment does not indicate a reduction of attention in this area. The next Best Companies survey later this year will provide another opportunity to assess this important area.

o Staff complement (w.t.e): 98.3% of 274.9 establishment at the end of the quarter (98.9% of 274.9 in Q4)

o Absence rate: 1.28% (1.12% in Q4 2017/18)

o Net operating cost: £56k less than budget – variance of 4.5% of net operating expenditure budget

Recommendations

7. The Board is invited to:

• review the Q1 performance report and consider whether any additional management attention is required.

Summary of 2017-18 Q1 performance

Delivering world-class audit	Our objective is to ensure that public audit in Scotland applies the highest professional and ethical standards, is efficient, proportionate and risk based. Audit work should be informed by an excellent understanding of the strategic and operational context and respond effectively to changing circumstances and emerging issues. We must report clearly and authoritatively and follow the public pound wherever it is spent. Audit must promote transparency, accountability and Best Value.

Headline:	Relevant audits published to schedule and under budget. Audit planning progressing is to schedule. Positive assurance on audit quality gained from the Annual Quality Report.

Objectives	2017-18				2018-19				Actions
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
We conduct relevant and timely audits and report in public.	G	G	G	G	G				
We make clear and relevant recommendations for improvement	G	G	G	G	G				
Audits are of high quality	G	G	G	G	G				
We systematically improve the quality of our work	G	G	G	G	G				

Key performance indicators

Annual Audit	*Performance/ best value/ overviews/housing benefit/Section 22*
• All planned annual audit reports and plans published on or ahead of schedule in Q1	• 2018/19 National scrutiny plan published in April • 13 reports published in Q1: 3 statutory reports, 2 Performance Audits, 3 Best Value, 2 Overviews, 1 Housing Benefit, 2 impact reports
On budget	*Quality*
• Expenditure on audit work was 10.7% below budget in Q1.	• Annual Quality Report published in June 2018

	Our objective is to maximise the difference our audit work makes to public services in Scotland.
Making a difference	

Headline:	Substantial interest in reports published in Q1 (in terms of downloads, mainstream and social media). Extensive engagement with parliament.

Objectives	2017-18				2018-19				Actions
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
We get our messages out effectively	G	G	G	G	G				
We systematically deliver impact through our work	G	G	G	G	G				Further quantitative measures to be developed as part of the PMF2018 project to supplement qualitative assessments.
We offer insight and foresight through our audit work	Y	Y	Y	Y	Y				PMF2018 project developing KPQs/KPIs on this objective
We develop new and improved processes, products and services	G	G	G	G	G				

Key performance indicators

- 477 Media mentions of Audit Scotland and/ or Accounts Commission (Q1 17/18 329 an increase of 45%).
- 215,008 downloads (Q1 17/18 179,531 an increase of 16.5%).
- 7,286 social media engagements (Q1 17/18 5,932 an increase of 23%).
- Attended 12 Parliamentary committees including; seven Public Audit and Post Legislative Scrutiny (PAPLS), two Equalities and Human Rights, two Local Government and Communities and one Social security.
- Attended 11 other Parliamentary meetings including with; MSPs, Committee Clerks, SPICe and other events.
- 92% correspondence responses issued within 30 days (Once the ongoing cases are completed this is expected to be 100%).

Being a better organisation	Our objective is to make the best use of our resources so that we can deliver audit work that improves the use of public money. We want to make Audit Scotland a great place to work so that we can attract and retain a highly skilled workforce who provide high- quality audit services.

Headline:	Our joint recruitment campaign to recruit up to 20 new colleagues to Audit Scotland commenced during the quarter. Net operating costs are £56k less than budget, a variance of 4.6%.

Objectives	2017-18				2018-19				Actions
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
We manage our resources effectively	G	G	G	G	G				
We maximise our efficiency	G	G	G	G	G				
We manage information and intelligence effectively (internal)	A	A	A	A	A				Digital Audit Strategy implementation and review of performance management framework under-way.
We empower and support our people to be engaged, highly skilled and perform well	A	A	A	A	G				Embedding of BaBO, including role profiles, career development gates, time place and travel, and professional leadership development.

Key Performance Indicators

People	*Resources*
- On the basis of the 'whole basket' of indicators and progress on BaBO we have changed the overall assessment on supporting our people from amber to green. - Staff complement (w.t.e): 98.3% of 274.9 establishment at the end of the quarter (98.9% of 274.9 in Q4). - Absence rate: 1.28% (1.12% in Q4 2017/18). - Resignations: 1.08 ytd% (6.75% in 2017/18). - L&D events: 22 in-house events covering 310 places. - Exams: 3 exams with 100% pass rate for professional trainees. - Career progression: By the 30 June 2018 there were 17 CDG submissions and of these 11 were successful.	- Net operating cost: £56k less than budget – variance of 4.5% of net operating expenditure budget. - Staff costs: £41k less than budget – variance 1.1% - Capital investment: £12k (ytd) on IT hardware - Property costs: £7 k less than budget – variance of 3.3% on budget. - Travel and subsistence expenditure: £7k less than budget – variance of 1.3%.

	We conduct relevant and timely audits and report in public.
Delivering world-class audit	

Key Performance Questions	2017-18				2018-19				Actions
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Are relevant audits being delivered?	G	G	G	G	G				
Are audits delivered on time?	G	G	G	G	G				New performance management framework being introduced 2018/19
Are audits delivered on budget?	G	G	G	G	G				New performance management framework being introduced 2018/19

Relevant

The performance audits and overview reports published during Quarter 1 focussed on areas of audit work within the work programme that were informed by our ongoing programme development and audit risk monitoring work. In addition, three statutory reports were published for the City of Edinburgh Council (Edinburgh schools), Edinburgh College and New College Lanarkshire.

Timely/ in public

We delivered 67 of the scheduled 68 audit reports in Q1 and published six corporate reports. One housing benefit report (City of Edinburgh) was not published in Q1 as the council requested an extension to the time for carrying out a factual accuracy check. The final report is on schedule for Q2.

On budget:

In Q1 the audit spend is 10.67 percent below budget (see table below). This is outwith our tolerance of 5%. There are a range of factors that have influenced this including; changes in the actual versus planned resource mix within audit teams. For example, we have made greater use BSS resources for audit support activities and there have been efficiencies through joint working between PABV and Audit Services (for example, the use of FE auditors in support of the Scotland's Colleges overview and S22 work). Audits are also being completed in fewer days due to better use of resources and more refined/streamlined approaches to controls work. This includes consistent use of analytical procedures to reduce the amount of testing of detail required by audit teams. Both the streamlined controls work and better use of analytical procedures also allowed for an increased focus of audit time.

	2018/19			
	Budget	Actual	£ Variance	% Variance
ASG	£7,467,254	£6,650,093	-£817,160.69	-10.94%
PABV	£685,572	£634,581	-£50,991	-7.44%
Total	£8,152,826	£7,282,797	-£870,029	-10.67%

In 2018/19, we plan to publish 488 audit plans, audit and performance reports. Variation in the schedule is shown as ✓ = delivered, (XQ) = rescheduled to or from quarter identified in the brackets.

	Q1	Q2	Q3	Q4
Annual Audit Plans – AS (122)	2 FE ✓			10 NHS 66 LG 44 CG
Annual Audit Plans – Firms (99)	19 FE ✓			13 NHS 39 LG 28 CG
Audit – Audit Scotland (123)	10 NHS ✓ 4 CG ✓	66 LG 25 CG	2 FE 15 CG	1 CG
Audit – Firms (99)	13 NHS ✓ 5 CG	39 LG	19 FE 23 CG	
Performance Audit (7)	ALEOS ✓ Scottish fire and rescue services ✓	Forth Replacement Crossing Children & young people's mental health Superfast broadband for Scotland: update	Health and social care integration: update	Scotland's new financial powers: next in series
Best Value Assurance Report (7)	East Ayrshire Council ✓ Fife Council ✓ West Dunbartonshire Council ✓	Glasgow City Council	Dumfries and Galloway Council East Lothian Council	South Lanarkshire
Overview Report (5)	Local government in Scotland: challenges and performance ✓ Scotland's Colleges ✓		NHS in Scotland Local Government: financial overview	Local government in Scotland: challenges and performance
Housing benefit (8)	✓West Dunbartonshire × City of Edinburgh (Q2)	East Renfrewshire Housing benefit annual report	Renfrewshire Glasgow	Perth Falkirk
Statutory (8)	s102 City of Edinburgh Council ✓ s22 Edinburgh College ✓ s22 New College Lanarkshire ✓	s22 Scottish Government Consolidated Accounts	3x s22 Health (provisional) s22 Scottish Police Authority	
Other (10)	National Scrutiny Plan ✓ Two Impact reports: Modern Apprenticeships ✓ Maintaining Scotland's roads: a follow-up report ✓	National Fraud Initiative Impact report: Community Planning in Scotland	Four Impact reports: Efficiency of Sherriff courts Scotland's economic growth Higher education Social work in Scotland	How Councils Work: managing risk through internal controls
Planned (488)	**68**	**139**	**74**	**207**
Published	**67**			

The planned outputs make provision for several statutory reports. These are informed by audit risk monitoring and intelligence, and by local audit work. There may therefore be more / less statutory reports than indicated above dependent on audit risks, issues and other factors out with our control.

The agreed five year rolling work programme included a performance audit on the NHS Workforce: primary care workforce to be published during 2018/19. The timing of this audit is being finalised and agreed with the Auditor General, taking account of resource availability, the publication of updated NHS workforce data and progress in the implementation of primary care improvement plans. It is looking increasingly likely that publication will fall in quarter 1 or 2 of 2018/19.

The work programme also includes a performance audit looking at the value for money of non-profit distributing (NPD) models of capital investment. This audit is listed as an 2018/19 audit but reporting during early 2019/20 (quarter 1 or 2). This reflects the bulk of the audit work being undertaken during 2018/19, but with the final published audit report falling in 2019/20. As this is a joint Auditor General and Accounts Commission audit, this has been jointly agreed as part of the sign-off of the work programme.

We published six corporate reports, in Q1:
- Corporate Plan 2018-21
- Annual diversity report 2017/18
- Annual report and accounts 2017/18
- Audit Quality annual report 2017/18
- International work annual report 2017/18
- Correspondence and whistleblowing annual report 2017/18

Issues/ risks/ actions:
Actions relating to Housing Benefit audit include:
- Renfrewshire was scheduled originally for Q2 but as East Renfrewshire has been delayed due to annual leave of the Operations Manager the knock-on effect will be a delay in Renfrewshire's delivery putting the report now into Q3.
- Glasgow/Perth and Falkirk are all still on target for Q3/Q4/Q4. Please note that the DWP issues a speed processing update on 25/7/18 and depending on performance reported, the councils in the current programme (Glasgow/Perth/Falkirk) might be replaced.

Forward look:
- There are 3 NHS s22 currently planned for quarter 3; one is an Audit Scotland led audit (NHS Tayside) with the other two have lead responsibility by audit firms (NHS Highland and NHS Ayrshire and Arran). These will be laid in Parliament in October 2018.
- The annual refresh of the Auditor General / Accounts Commission rolling work programme will commence in quarter 2. Proposals will be presented to the AGS and Commission in December, for final sign off in quarter 4.

Trend data: link

	We make clear and relevant recommendations for improvement

Key Performance Questions:	2017-18				2018-19				Actions
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Are there practical, clear and relevant recommendations in everything published?	G	G	G	G	G				

Examples of significant risks identified by the audit process (from the AAP and followed up and reported on in the AAR) include:
- NHSS – Accepted by the client that refresher training be undertaken by finance staff of the requirements for capitalisation and receipting of goods due to a number of issues found during the final accounts audit.
- NHST – Recommended the development of an overarching integrated clinical strategy which clearly articulates and priorities its clinical aims. The Board have committed to developing a strategy by the end of 2018
- NSHT - The board's performance information is not accumulated and made readily available on the website. In our experience other organisations have developed a performance page within their website for local residents to obtain ready access to performance information. The Board will publish this information from 2018/19 as the Boards performance management arrangements develop.

The annual audit report templates for local government, pension funds, central government, further education and IJB bodies were refreshed and rolled out. The templates now require auditors to monitor and report progress made by audited bodies in implementing audit recommendations. This will provide us with management information to gauge the impact of audit work.

All performance audit and Best Value reports published during the quarter contained clear and relevant recommendations for improvement.

Issues/ risks/ actions:

Forward look:

	Audit work is of high quality and we are systematically improving the quality of our work								

Key Performance Questions:	2017-18				2018-19				Actions
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Are we assured about the quality of our work?	G	G	G	G	G				Review of most appropriate standards for non-financial audit work is under way
Are we improving the quality of our work?	G	G	G	G	G				Refinements to the Audit Quality arrangements

Assurance

In Q1 we published the 2017/18 Annual quality report, the report concluded 'There is strong evidence of compliance with auditing standards and the Code, and overall good levels of other evidence of audit quality with some limited improvements identified for audit work delivered in the period 1 April 2017 to 31 March 2018. We reported on planned improvement actions to the Audit Committee in May 2018.

The ASG Quality Report on 2016/17 audits was reported in April 2018. The overall conclusion was positive. A sample review of 13 audits concluded that, for financial statements audit work, limited improvements were required for 11 audits and improvements required for 2 audits.

We have made changes to the final accounts programmes to improve quality and will use quality findings to update audit planning programmes before the start of the 2018/19 audit cycle.

In Q1 we signed up for membership with Quality Scotland (QS). QS is a charitable membership organisation working with over 250, private, public and third sectors, organisations across Scotland. We will use this resource to inform efficiency reviews.

Improvement

In May we delivered joint training with ICAS for appointed auditors based on the findings of quality reviews of financial audit work. The session was filmed for unable able to attend.

Our relaunched Audit Quality Committee met for the first time in Q1. The committee oversees the internal quality monitoring activity for all our audit work and ensures action is taken in response to both internal and external quality reviews. During Q1 the committee considered the results of the internal cold reviews of 13 annual audits, 2 performance audits and external (ICAS) review of 2 annual audits, 1 performance audit and a Best Value Assurance Report. The high-level message is that the reviews provided good assurance on the quality of our work. Areas for improvement generally related to documentation and recording evidence – the results of the reviews are being shared with staff, with training sessions for staff scheduled, and other action such as new guidance and templates being developed. A review is under way to consider the most appropriate audit standards to be used for non-financial audit work.

In Q1 we launched several new initiatives to improve the quality of audit work, including:

- a new template for sample size justification. This was in response to ICAS quality findings which had reported that there were inconsistencies between audit teams in determining and justifying sample sizes for tests of detail.
- a new Team Risk Agenda Meeting (TRAM 2) to encourage auditors to document emerging findings, assess whether any changes to audit approach were implemented during the audit and to provide an audit trail for audit dimensions work. The TRAM 2 meeting ensures that auditors, prior to the financial statement audit, have carried out all planned work and addressed identified risks.
- training on the use of substantive analytical procedures
- final accounts audit programmes have been updated to reflect this training, this should lead to a more efficient and effective audit of key areas such as staff costs, council tax, housing rents and non-domestic rates.

Issues/ risks/ actions:
-

Forward look:
- The Audit Quality Committee next meets on 08/08/18
- Updated ASG Audit Guide, audit planning programmes, and refreshed sectoral Annual Audit Plans in place by the start of Q3
- Report on cold reviews of audits by the end of Q3 to better inform training needs and allow audit testing programmes to be updated early.
- Working groups set up to discuss quality findings and to develop actions plans for improving quality. This covers all audit work including best value and performance audits. A report is to be taken to the Audit Quality Committee in early August outlining proposals.

	We get our messages out effectively
Delivering world-class audit	

Key Performance Questions:	2017-18				2018-19				Actions
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Are we getting messages getting out effectively?	G	G	G	G	G				

Getting our messages out

In Q1 we attended 12 Parliamentary committees including; seven Public Audit and Post Legislative Scrutiny (PAPLS), two Equalities and Human Rights, two Local Government and Communities and one Social security. We also attended 11 other Parliamentary meetings including; MSPs Committee Clerks, SPICe and events.

	Q1	Q2	Q3	Q4	YTD	17/18
Media	477					1,340
Downloads	215,008					690,113
Engagements*	7,286					20,636

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

Media:

Month	Broadcast coverage (radio & tv)	Print Coverage: National (newspapers & online)	Print Coverage: Local	Total
April	36	103	73	212
May	29	52	55	136
June	27	68	34	129
Total	92	223	162	477

Most media coverage was for Scottish Fire and Rescue Service, Overview: Local Government in Scotland, and S102: City of Edinburgh Council reports.

- The backlog on capital expenditure faced by the Scottish Fire and Rescue Service received significant coverage. Strong sub-stories around the retirement and leadership 'crisis' facing the Service, plus the rise in the number of fires started maliciously gave the report life beyond publication day.
- In keeping with previous years, the overview of Local Government in Scotland received attention at the national and local level. Meanwhile, the S102 report on Edinburgh Council's handling of the Oxgangs Primary School wall issue also received attention, despite the issues raised by the report having been covered extensively previously. 'The Accounts Commission says…' resulted in the media revisiting the story.

- The Colleges Overview report was just outside the top three performing reports in terms of coverage, but coverage wasn't far behind the 2017 report, which painted a more challenging picture for the sector when there was more political pressure around the Scottish Government's handling of FE reform. The colleges' considerable estate backlog was the focus of much of the coverage. By the same token, strong local coverage of the S22 reports on New College Lanarkshire and Edinburgh College reflected the respective difficulties facing each college.
- There were four more reports published in this quarter than in the last quarter of 2017/18, and overall coverage levels were higher. But as all three BVARs were largely positive stories they generated modest amounts of local media coverage. Equally, the ALEOs report did not have a particularly strong news line and this was reflected in the level of coverage.

Downloads:
- The most heavily downloaded documents were NHS Overviews, Health Inequalities report and the Social Work report (consistently between 2.5-3k downloads each month).
- The local government overview report page was also in the top three of most visited pages on the website during April, with 1,351 views. This compares to the 1,498 views of our reports search page, consistently the second most popular page after our homepage.
- The top three April podcast downloads were; S102 Edinburgh (137); local government overview report (62) and S22 Colleges (58). This reflects the keen media interest in the Edinburgh report.
- May was a quieter month online with the ALEOs news story being the most popular in terms of report downloads (465). However, it was the Fire and Rescue Service report, published on 31 May, that headed the month's podcast list with 102 downloads in one day.
- The last week of June saw respectable report downloads for Scotland's Colleges Overview (456) and the Fire and Rescue report (427). And the local government overview report continued to receive attention with 426 downloads.
- Scotland's Colleges was the only report released in June to feature on the website's ten most visited pages – the report page picking up 593 views. June's podcasts were dominated by the Fire & Rescue report, with another 98 downloads. There were also reasonable podcast download numbers for the East Ayrshire BVAR (49), Scotland's Colleges (48) and the S22 Colleges (32).

Correspondence
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.

New correspondence cases	Q1	Q2	Q3	Q4	YTD	17/18
Number of cases	24				24	136
Acknowledgement within five working days	100%				100	100
Final response within 30 working days	92%				92	97

- Two final response cases pending (8%). All are still currently within 30 working day deadline.
- For the same quarter last year, we reported 41 new cases with 100% acknowledgement and 95% final response targets achieved (two response targets missed)

- In addition, we had 25 audit enquiries (compared to 51, Q1 17/18) – relating to queries about our work (e.g. figures within our reports, guidance and access to materials/reports). Of which four of these where Freedom of Information requests about correspondence.

FOI/EIR/Complaints
There were 11 FOI requests, no EIRs and 2 complaints in Q1.

Issues/ risks/ actions:

Forward look:
- Revised engagement and communications strategy – Autumn 2018

Trend data: link

	We systematically deliver impact through our work									

Key Performance Questions:	2017-18				2018-19				Action
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Is our work delivering impact?	G	G	G	G	G				
Are our recommendations leading to improvements?	Y	G	G	G	G				Further quantitative measures to be developed to supplement qualitative assessments as part of the PMF2018 project.

Performance:

In Q1 we published two impact reports

The review of the Modern Apprenticeship report found that apart from one recommendation, the Scottish Government and Skills Development Scotland (SDS) has fully implemented the recommendations made in the original audit report. The recommendation that the Scottish Government and SDS *develop appropriate outcome-based measures to assess the long-term benefits of modern apprenticeships…and publish performance information against these* has been assessed as partially implemented, with work continuing to develop cost-benefit and return on investment measures.

The Maintaining Scotland's roads impact report summarised the Strategic Action Group (SAG) for roads maintenance response to the original audit recommendations. The response presents a mixed picture progress, with many of the actions outlined wither ongoing and / or long-term in nature. These will therefore take time to demonstrate impact. The SAG has however acknowledged the unsustainability of the current delivery model for roads maintenance, and highlighted progress in the development of Roads Authority asset management plans using a whole life costing basis, and improved collection and use of roads data and improved reporting of asset management and investment plans as examples of positive developments.

Examples of where our work has made a positive impact include:

Financial sustainability
- We organised a NFI pilot on social care in partnership with a council identified payments made by councils for clients who have died. The pilot has now resulted in a new data match being rolled out across the UK on an optional basis to allow councils to match social care payments against deceased records.
- We are working with the Cabinet Office & the Wales Audit Office on the development of new data match. This looks to use HMRC and credit reference data to identify economically active residents in the same households as students who have not been declared on student funding applications. The match identifies undeclared people on student award applications meaning students may be awarded funding in excess of what they are entitled to. Despite previous attempts by SAAS, this is the first time HMRC have provided access to their data for such matching to happen in Scotland. This will be reviewed during summer 2018.

Governance and transparency
- We published a report on early learning and childcare in February 2018 which looked at how effectively the Scottish Government and councils are working together to expand funded early learning and childcare (ELC). One of our findings was that parents needed clearer information to help them understand how early learning and childcare works. Following publication of the audit report we set up an interactive e-hub for parents. This includes a guide for parents and carers to answer some frequently asked questions, and suggests some ways the public can get more information and help. The guide also covers how we carried out our audit and what we found.

Feedback received:
An update presentation for Public Services Directors of Finance Forum on the Government Financial Reporting Manual (FReM) was used by SFC as the basis for their updated accounts direction and they have advised they hope to use future presentations.

We supported NFI work through presentations and social media, including tweets. Feedback has been good and we have received several follow up questions and emails. This has raised awareness of NFI in advance of the next exercise. We have also been working with SG to extend counter fraud data matching through the identification of new bodies for inclusion in NFI- so far, we have some housing associations interested and a couple of councils interested in piloting a new NDR data match.

Issues/ risks/ actions:
Development of further metrics as part of the performance management framework project to supplement the narrative around the impact of Audit Scotland's work. This is likely to include numbers of recommendations, agreed, implemented in the short term and positive impact in the longer term.

Forward look:
Impact reports for several performance audits are due to be completed during 2018/19; the next report due to be finalised is the Community Planning in Scotland audit.

Making a difference	**We offer insight and foresight through our work**

Key Performance Questions:	2017-18				2018-19				Action
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Are we making information and intelligence available to others?	G	G	G	G	G				Development of an assessment framework and more systematic approach to measuring progress on this objective.

Performance:

We continue to offer insight and foresight through our work. Examples in Q1 include:

- Publication of the Local Government in Scotland: challenges and performance, and Scotland's Colleges overview reports
- Openness and transparency briefing paper
- Outputs on our e-hubs including:
  - Early learning and childcare interactive e-hub for parents - this includes a guide for parents and carers to answer some frequently asked questions, and suggests ways the public can get more information and help.
  - Year of Young People 2018 e-hub - this is part of our commitment to working and engaging with young people in Scotland, as well as publishing reports that directly involve and benefit them. Following a successful pilot project with Young Scot, we are developing a Youth Advisory Panel, working with Youth Scotland. Our ambition is that this panel will work with us to involve young people more in our work and use their voices and experiences as part of the audit process.
- The Director of Performance Audit and Best Value participated in the International performance audit IMPACT conference in Sydney Australia. Following the conference, the Director hosted an internal Knowledge Café focussing on a range of topics, including: the use of data, digital and artificial intelligence; citizen participatory auditing; auditing the UN's sustainable development goals; the auditor of the future - skills, experience and behaviors.

Issues/ risks/ actions:

Forward look:
- Briefings for the Auditor General and Accounts Commission on engaging with young people, housing and Scotland's response to the Grenfell tragedy
- Audit Scotland's data analytics team is continuing to discuss common areas of interest with the other UK and Irish audit agencies with the intention of holding a data analytics conference in 2018/19.

We develop new and improved processes, products and services

Key Performance Questions:	2017-18				2018-19				Action
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Are new processes, products and services being developed?	G	G	G	G	G				
Are products and study programmes suitable and appropriate for emerging issues?	G	G	G	G	G				Development work on-going on the requirements arising from the new financial powers, social security and constitutional change.

Examples of new products and services in Q1 include:
- We developed new audit programmes for housing benefit risk assessment and performance audit work. This allows us to adopt a more consistent approach to documenting and evidencing audit work.
- The technical reference library has been refreshed to make it more user friendly.
- Introduction of revised AAR template to ASG for 2017/18 audits
- Introduction of sectoral ISA 580 letters whereas in prior years issued one generic ISA 580
- A senior manager joined colleagues from the Welsh Audit Office to discuss the WAO approach to auditing sustainable development.

Emerging issues:
- The work programme has contingency for responding to emerging risks and issues identified through audit intelligence, programme development and annual audit work. During the quarter there were statutory reports in local government and further education sectors covering issues identified through these channels.
- Our professional leads for health met colleagues from the Northern Ireland, Wales and National Audit Offices to discuss merging issues relating to health sector auditing.

Issues/ risks/ actions:

Forward look:
- An additional audit test to confirm compliance with GDPR requirements will be added to audit programmes where appropriate to remind auditors of their responsibilities.
- Consideration is being given to the audit reporting arrangements for the additional devolved responsibilities arising from the Scotland Acts. The final approach should be agreed with the Auditor General in Q2.

We manage our resources effectively and maximise efficiency

Being a better organisation

Key Performance Questions:	2017-18				2018-19				Action
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Are we managing our resources effectively	G	G	G	G	G				
Are we maximising efficiency?	G	G	G	G	G				

Resource management

In the three months to June 2018:

- Audit Scotland's Net Operating Expenditure was £1,180k which was £56k less than budget.
- 17-18 audits £40k less than phased budget mainly due to completion percentage for Local Government being slightly lower than projections.
- Capital investment in the three months to June 2018 totalled £12k, with the total available budget for 2018/19 being £175k. The £12k year to date expenditure is on IT hardware comprising 4 laptops and an Apple MacBook Pro.
- Staff costs £41K (1.1%) less than budget.

Net operating (expenditure) to June 2018.

	Q1	Q2	Q3	Q4	17/18
Actual	(1,180)				(8,514)
Budget	(1,237)				(9,157)
Variance	-4.6%				-7.0%

Staff - The average number of staff in the quarter was 98.9% of the establishment and the number at the end of the quarter was 98.3% of establishment.

	Q1	Q2	Q3	Q4	17/18
2018/9 establishment w.t.e:	274.9				274.9
Average number of staff employed in 2018/19 w.t.e:	271.9				271.9
No. of staff at end of quarter w.t.e:	270.3				272.0

Estate - Estate costs in the year to June 2018 are lower than budget and previous years spend.

£000 YTD	Q1	Q2	Q3	Q4	17/18
Actual spend	208				938
Budget	215				930
Prior year spend	211	418	640	938	

Costs of travel - Travel costs in the year to June 2018 were higher than last year's expenditure but lower than budget.

£000 YTD	Q1	Q2	Q3	Q4	17/18
Actual spend	227				866
Budget	230				922
Prior year spend	204	428	654	866	

Capital Expenditure and Funding: Capital investment for the three months to June 2018 was £12k, with the total available budget for 2018/19 being £175k. The £12k year to date expenditure is on IT hardware comprising 4 laptops and an Apple MacBook Pro.

IT network up time Q1:

IT Network	Q1	Q2	Q3	Q4	17/18
IT uptime (%)	99.14				99.6
Working hours lost	1992.5				3758
Average time lost per person (minutes)	6.69 hours				660

The majority of the downtime this quarter was due to an outage with Office 365 affecting connection to OneDrive and Outlook. This was an outage with Microsoft themselves affecting a third of their global service and was out with our control. There was also an issue with the Netscaler, that lost all its configuration overnight that affected outlook and remote access for a day. We engaged third party suppliers on this and have improved our process and documentation around this so that if it happens again we will be able to resolve the issue more quickly. The Glasgow office connection failed over six times, affecting users' ability to connect first thing in the morning. This is an ongoing issue with the line, which we are taking steps to replace and improve. In the short term we are increasing our notification and monitoring arrangements to resolve any of these issues earlier with less disruption. There have been

ongoing issues with the connection at Stirling council. All the main hardware has been replaced however this remains an intermittent issue which we are monitoring closely.

IT Incident management summary
- 94.7% (1002/1058) of incidents were accepted within the response time SLA.
- 98.6% (1043/1058) of requests were closed within the fix time SLA
- An average of 3.6 incidents were logged per user.

Business group productivity:
Business group productivity remains broadly consistent with productivity/ planning assumptions.

	18/19%				17/18%			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
ASG	60				57	74	59	67
PABV	70				76	74	67	76
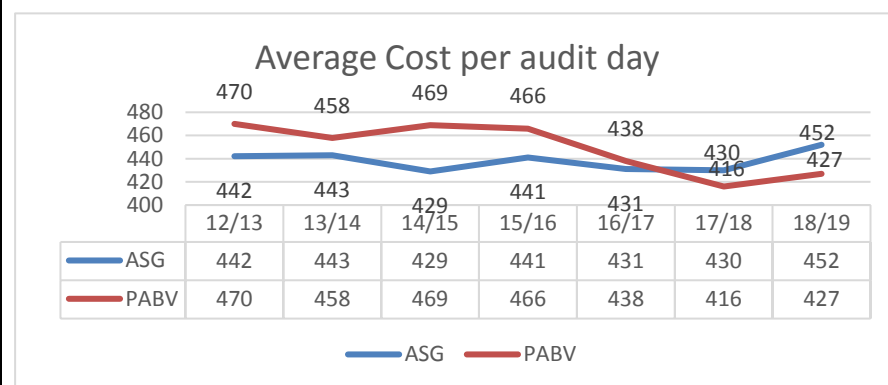
Average Cost per audit day

	12/13	13/14	14/15	15/16	16/17	17/18	18/19
ASG	442	443	429	441	431	430	452
PABV	470	458	469	466	438	416	427

The average cost per audit day of PABV and ASG audits fluctuates between audits and throughout the year. This is due to the timing of audit work, the grade mix deployed and any changes in the daily rate for audit staff made by the finance team each April. The increase from 17/18 that can be seen for Q1 18/19 is an average of £11 per day for PABV and £22 for ASG. The overall average cost per audit day increase for PABV are 2.6% and ASG 4.8%.

Issues/ risks/ actions:

Forward look:

Trend data: link

	We manage information and intelligence effectively (internal)
Being a better organisation	

Key Performance Questions:	2017-18				2018-19				Actions
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Are we managing information and intelligence effectively (Internal)	Y	Y	Y	Y	Y				PMF2018/19 project under way

Examples of managing information and intelligence during Q1 were:

- New 'Cluster Live' ishare sites have been set up to aid the timely sharing of information and intelligence amongst and between our policy clusters. These sites include more up to date audit intelligence and emerging issues, policy developments, external engagement information and progress with work already underway.
- The Data Analytics Group published a new online guide to support colleagues in making more efficient and effective use of data in their work.
- Microsoft office 365 and OneDrive were rolled out across the business in Q1.
- Preparations for the new GDPR continued in Q1 and GDPR came into force on 25 May 2018.
- Cyber Security and Cyber Essentials work progressing.
- A new Professional Support web homepage was developed for easier access to information and guidance. Feedback from auditors to date is positive.
- We delivered a series of workshops for colleagues across audit teams on the revised Scottish budget process, including how parliament scrutinise the budget and the role of audit.

Issues/ risks/ actions:

Forward look:

- New MKI tool for audit data analysis expected in summer 2018.
- Performance Management Framework 2018/19 project is ongoing.

	We empower and support our people to be engaged, highly skilled and perform well
Being a better organisation	

Key Performance Questions:	2017-18				2018-19				Actions
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Are our people empowered and engaged?	G	G	G	G	G				
Are our people highly skilled?	G	G	G	G	G				
Are people performing well?	Y	Y	Y	Y	G				
How effective is communication and collaboration across the organisation?	G	G	G	G	G				
Are career paths offered across the organisation?	G	G	G	G	G				
Do we understand and support diversity within the workforce?	G	G	G	G	G				

Empowered and engaged

On the basis of the 'whole basket' of indicators and progress on BaBO we have changed the overall assessment on supporting our people from amber to green. The Performance and Risk Management Group considered the broad range of relevant indicators (and contra-indicators), for this objective and concluded the change was appropriate. Its' consideration included:

- extensive developments through BaBO and the mainstreaming of this development work (role profiles, 3D personal development, career development gateways, time place and travel)

- Best Companies engagement survey – best ever score achieved in December 2017

- Extensive professional trainee programme and high pass rates

- Revised learning and development strategy and portal and continued investment in personal development

- Low sickness absence and turnover rates

We continue to prioritise empowerment, support and performance and the 'green' assessment does not indicate a reduction of attention in this area. The next Best Companies survey later this year will provide another opportunity to assess this important area.

In Q1 we started a major recruitment campaign to recruit up to 20 new colleagues to Audit Scotland and the interviews took place in June. The campaign was successful in identifying appointable candidates across all grades. There remain some specialist roles / positions (including ASG qualified accountants

and PABV Audit Managers) where further targeted efforts are required to source the required number and calibre of people. This will continue throughout Q2, and will also align with the upcoming Professional Trainee recruitment (due to conclude Q3).

As part of our continued commitment to Women in leadership, sessions with Caroline Gardner, Diane McGiffen and Fiona Kordiak took place during April and May. Further sessions with members of the Accounts Commission will take place in late Summer / Autumn.

Several team check-in sessions took place in PABV in Q1. These focussed on organisational and business group specific priorities for the 12/18 months.

We continued to review 3D, including reporting on business group completion rates and sharing this data with the People Leads.

Career Paths - In Q1 we received a further nine CDG applications and ran a further CDG manager awareness session in May. Since we began CDG in December 2017, we have received a total of 17 submissions. Of those 17, 11 colleagues have demonstrated the required evidence and are progressing into the next zone.

Wellbeing - The Chief Operating Officer and PCS chair issued a joint communication sharing the results of the stress survey with colleagues. This illustrated how the learning points will be woven into our 2018/19 wellness calendar, and reminded colleagues about our zero tolerance to bullying at Audit Scotland.

Absence levels - Absence levels have increased slightly in relation to previous quarters. However, our absence levels remain low.

	Q1 days	Q2 days	Q3 days	Q4 days	ytd days
Audit Scotland - 18/19	1.28				
Audit Scotland - 17/18	0.69	1.16	1.07	1.12	4.40
Audit Scotland - 16/17	1.03	1.37	1.27	1.28	5.32
Audit Scotland - 15/16	0.89	0.98	1.49	2.05	5.62

Staff turnover -. lower than the same quarter last year (1.77) and lower than the previous quarter (1.41)

2018/19	Q1	Q2	Q3	Q4	YTD	17/18	CIPD benchmark
Resignations %	1.08					6.75	5.5
All Leavers %	1.08					12.79	13.6

Exam results: In Q1 there were three exams taken and three passes.

	Q1	Q2	Q3	Q4	YTD	17/18
Exams taken	3					121
Exams passed	3					106
% pass rate	100					88

Career paths and secondments
We received 17 submissions since the start of the Career Development Gateways(CDG) December 2017. Through this process 11 colleagues demonstrated the required evidence and are therefore progressing into the next zone.

Vacancies filled	18/19 YTD	17/18
Internal	0	15
External	2	21
Total	2	36

Secondments	18/19 YTD	17/18
17/18 - New	1	0
17/18 - Existing	3	7

Equalities
In Q1 we published an annual diversity report and two equality impact assessments (EIAs). The EIAs covered the Career Development Gateways and Reward processes.

Highly skilled - L&D events are summarised below.

	Q1		Q2		Q3		Q4		YTD		17/18	
	Events	*Attendees*	Events	Attendees	Events	Attendees	Events	Attendees	Events	Attendees	Events	Attendees
Health & Safety	1	1									1	25
Knowledge Cafes	2	15									12	266
Learning & Development	1	6									8	64
Management Development	4	41									8	54
Organisational Development	2	20									26	496
Technical Training	12	227									31	469
Total	**22**	**310**									**86**	**1,374**

Issues/ risks/ actions:

Forward look:
- An external training provider will be training the third tranche of CDG panellists in October 2018. We currently have 27 trained CDG panellists and hope to train another 8-10 colleagues at this session.
- Wellness – the focus of the wellness calendar in Q2 is emotional health, resilience and stress. Free NHS Healthy Working Lives sessions on these topics have been promoted through the L&D portal along with a further mindfulness awareness session in Glasgow. A TED talk on stress has also been scheduled to promote discussion of this important area between colleagues.
- Best Companies Survey – autumn/ winter 2018

Trend data: link

Purpose

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

Background

2. The BWC strategic improvement programme is a key enabler for achieving our vision to be a world class audit organisation. The last quarterly BWC update report (Q4) was considered by the Management Team on 8 May 2018 and the Board on 6 June 2018.

3. This report was considered by Management Team at its meeting on 31 July 2018

Progress on the BWC improvement programme

4. We continue to make good progress on the programme. The programme has been updated to reflect the strategic objectives in the 2018 -21 Corporate Plan and where development work is complete and the new arrangements have been mainstreamed. Progress headlines since the last report include:

- Delivering World Class Audit:

  – Audit Quality – Annual Quality Report 2017/18, the Q3/Q4 report have been produced and improvement actions to respond to these have been developed

  – New financial powers and constitutional change – engagement with a wide range of stakeholders and new financial powers and social security teams in place.

- Being a Better Organisation (BaBO):

  – Extensive recruitment and selection campaign to build capacity in accordance with the workforce plan

  – Learning and Development Strategy published and promotion of the Learning and Development Portal

  – Career Development Gateways – to date we have had 18 submissions and 12 evidenced transitions.

  – Work is progressing on the business intelligence led performance management framework project PMF2018.

- Making a Difference:

  – Auditing Best Value – the new approach is now embedded and the Accounts Commission, the Management Team and the Audit Scotland Board has considered the review of year one.

  – Extensive parliamentary engagement

  – Innovative products – including the Year of Young People e-Hub and increased use of video animations to support reports.

5. The appendix provides more detailed information on each of the BWC workstreams.

Recommendations

6.   The Board is invited to note the progress made in Q1.

Delivering world-class audit	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.

Project/ initiative/ product	Status update	Next steps
Implementing the Audit Quality Framework	On 23 May 2018 the Audit Committee considered the he Q3/Q4 update report, the draft 2017/18 Annual Quality Report and a report planned improvement actions. The Audit Quality Committee met on 17/04/18 The 2017/18 Annual Quality report was published on 15/06/18. The report found that 'there is strong evidence of compliance with auditing standards and the Code, and overall good levels of other evidence of audit quality with some limited improvements identified for audit work delivered in the period 1 April 2017 to 31 March 2018'.	The key milestones are: • Next meeting of the Audit Quality Committee – 08/08/18 • Consider standards required for PABV work and compliance with International Standards on Auditing (ISA's) – September 18 • Develop an audit quality issues escalation process (triggered by internal QA or an external complaint) – September 18 • Audit Quality Project lessons learned review – September 18 • Development of a new, more co-ordinated approach to client engagement on quality integrated with other corporate engagement activities – proposal to Management Team September 18. • Implement improvement actions arising from the first year's operation under the new audit quality framework during 2018/19.

Project/ initiative/ product	Status update	Next steps
New financial powers and constitutional change (NFPCC) including EU withdrawal	We published the most recent report on the implementation of the Scotland Acts on 28 March 2018. The Board considered an update report on the new financial powers and constitutional change at its meeting on 2 May 2018. The Audit Committee considered a risk interrogation on the risk of failure to assess and respond to the impact of EU withdrawal at its meeting on at its meeting on 23 May 2018. We have established two new cross-organisation teams, with responsibility for the audits of social security and wider public financial management work. Colleagues were invited to express an interest in this work and both teams have a mix of people from ASG and PABV. We are identifying the particular skills that are needed in these two teams, and for our wider work, and will be targeting learning and development activity in these areas. We have identified a professional lead for EU withdrawal, who is leading our programme of engagement in this area. They will work with colleagues across the organisation to develop our audit work programme and manage any organisational implications. Communications - we continue to use a dedicated Yammer site to share information and seek the views of colleagues. We have shared reports/ briefings from a wide range of sources including, Scottish Government, Scottish Parliament, Scottish Fiscal Commission, Spice, HMRC, EHRC, Fraser of Allander Institute.	The key milestones are: • Developing our audit approach and work programme for the audits of social security and public financial management – ongoing • Developing our programme of engagement and audit work in response to EU withdrawal – ongoing • Providing a briefing paper to the AGS and Accounts Commission on the potential implications of EU withdrawal on public bodies – Autumn 2018

	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.

Being a better organisation

Project/ initiative/ product	Status update	Next steps
How we work together • Job Design • Reward & Recognition • Performance Appraisal	The focus for 2018-21 is on getting the benefits of the significant BaBO developments over the last three years. Wellness checks concluded in Q4, with a total of 163 staff attending, representing 58% of the workforce.	The key milestones are: • Wellness International will be sharing the aggregated results of the 2018 wellness checks of 2018/19 with the Health, Safety & Wellbeing Committee in Q2. • TED Lunch & Learn event on stress 4 September 18
How we learn and develop • planning careers • developing skills • professional training schemes	Learning & Development (L&D) In July we published the L&D strategy and a refreshed L&D portal that makes accessing learning easier. Career Development Gateways To date we have received 18 CDG submissions, 12 have been 'evidenced', three have been 'needs more evidence' and three have been 'no evidence'. One of the evidenced submissions was a resubmission. We carried out a CDG review involving 18 panellists in June. We trialled several amendments to the process as a result of ongoing feedback from colleagues making submission e.g. advising an individual of the outcome as soon as it is known, these are now a permanent part of the process. We also introduced a CDG submission checklist.	The key milestones are: • Implementation of L&D Strategy and Plan during 2018/19 • One-year review of CDG – Winter 2018

Project/ initiative/ product	Status update	Next steps
Resourcing	We recently ran an extensive recruitment and selection campaign to ensure we have the people we need to meet new and increasing audit responsibilities and to fill vacancies created from internal moves, promotions and leavers. On 17 July 2018 Management Team considered a report on the outturn of the recruitment and selection campaign. Key points included: use of internal and external social media campaigns, extensive campaign promotion including dedicated web hub, and the use of CDGs. We received 201 applications, 23 of which were internal (and a further six CDG submissions) and made 19 appointments. Our professional trainee scheme will continue to play a key role in bringing talented people into Audit Scotland. We have also started the assessment and interview process for our graduate and school leaver professional trainee schemes where we're looking for around 10-12 talented people to start their careers in public audit with us.	Complete recruitment and selection process and onboarding.
Strategic leadership	Professional leadership areas for members of the Leadership Group (LG) were confirmed in December. Professional lead scope documents have been developed along with a development agenda for 2018 including; 360 feedback, a programme of personal development (inc. MBTI), and external speakers Management Team has also reviewed how to improve the strategic focus of meetings and scheduled regular strategic conversations involving an extended range of internal stakeholders throughout the year.	The key milestones are: • Development of scope and objectives for professional leadership areas – ongoing 2018 • Themed MT meetings – ongoing 2018
Performance management and business intelligence	We have established a short life working group to develop the detailed implementation plan. This work is under-way, the priority workstreams are:	The key milestones are: • Implementation of a new Business Intelligence led approach to performance management during 2018/19.

Project/ initiative/ product	Status update	Next steps
	• Engagement and communication (reflecting the fact that this project is as much about working culture as a technical implementation) • Time recording (streamlined single set of codes, systems training and practical guidance) • Systems (sourcing data in systems, data transfer and cleansing, data warehouse development) • PMF dashboards (design and development) • PMF reports (a suite of performance reports) • PMF analytics (a tool for more specific analysis) • Systems administration (change control, systems administration) The working group and workstream leads are currently developing detailed scopes, timelines and resource requirements.	
SharePoint Online	During 2018/19 we will complete the Office 365 implementation by introducing a new cloud based version of ishare. The O365 project has already delivered cloud based versions of Outlook, Office 2016 products and OneDrive. The next stages are the design, build, test and transfer of files to SharePoint Online. The O365 Project Board meet monthly, have held development workshops and are currently consulting with business groups on the new design, streamlining metadata and simplifying the file retention and disposal arrangements. The project is at an early design phase and will be adopting a thorough testing process throughout. This will ensure the confidentiality, integrity and availability of our information is not impacted as a result of the transition to the new SharePoint Online environment. Progress updates will be provided to colleagues through the O365 Yammer channel.	The key milestones are: • Initial site structure and design for ASG, PABV, Digital Services, Communications, AAT and Corporate Governance – Summer 18 • Confirmation of file transfer process - Autumn 2018

	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.
Making a difference	

Project/ initiative/ product	Status update	Next steps
Auditing Best Value (BV) in councils	The new approach to auditing Best Value is now mainstreamed. The Audit Scotland Board considered the review report at its meeting on 2 May 2018. To date East Ayrshire, Fife and West Dunbartonshire have been published in 2018. The Scottish Government working group's review of the statutory BV guidance has concluded its work. The Scottish Government are now arranging the public consultation of the draft guidance. No timetable has been provided for this to date.	The key milestones are: • End of 2018 - The second tranche of six BVARs will be reported to the Commission by December 2018.
World Class Programme Development	The rolling five-year programme was published on 28 March 2018. Ongoing external engagement and programme development activity continues to be taken forward by PABV's three cluster groups (PIE, JELL, and HCC) which is reported routinely to the Auditor General for Scotland and the Accounts Commission. A strategic stocktake of key public-sector risks, issues arising from programme development activity and potential areas of future audit work is planned later in the Summer to inform the AGS and Accounts Commission's 2018 work programme refresh.	The key milestones are: • Strategic work programme stock take – Summer 2018
Communications and engagement	We are reviewing and refreshing the Communications and Engagement Strategy.	The key milestones are: • Revised strategy for consideration by Management Team and Board – September 2018

Project/ initiative/ product	Status update	Next steps
Strategic approach to Parliamentary Engagement	An important focus for 2018/19 involves supporting the Parliament in responding to the Budget Process Review Group (BPRG) and Commission on Parliamentary Reform reports recommendations. The revised budget process for 2019/20 started on 31 May with the publication of the SG's medium-term financial strategy. In May we hosted two workshops on the revised budget process. They involved around 80 attendees from the Scottish Parliament (committee clerks and researchers), the Scottish Government, COSLA, central government and health bodies, and auditors. The discussion focused on how we can work together to help implement the new process and support improved budget scrutiny. Feedback on the workshops was positive and we continue to work with colleagues in the Scottish Parliament and others to help communicate and support implementation of the revised budget process.	The key milestones are: • Communication of work programme to key Parliamentary stakeholders – March/April. • Budget scrutiny workshops - May • Implementation of the Accounts Commission's new approach to Parliamentary engagement – Spring 2018 • Strategic planning engagement with PAPLSC – Summer 2018 • Budget scrutiny support – Autumn 2018
Digital Audit	The Board approved the Digital Audit Strategy in October 2017. The strategy contains a variety of commitments under three main streams of work: • Auditing digital • Digital auditing • Digital capacity and resilience The Digital Services Strategy 2018-21 has also been approved and sets out how digital services will support the delivery of the strategy and core business delivery. In April 2018 we published Data analytics guidance for colleagues. In the audit analytics workstream we have demonstrated end-to-end journal collection, analysis and risk assessment on six NHS bodies, 1 central government, 4 councils and 2 pension funds. The multi-factor risk assessment performed well against other sampling methods and was built to be sector neutral. The GLiQ	Implementation of the Digital Audit and Digital Services strategies 2017-21. Co-hosting workshop with LG digital office on digital opportunities and audit – September 2018 Auditing digital – rolling work programme includes: • Superfast Broadband (2018/19) • Digital progress in CG & health (reporting early2019/20)) • Digital progress in LG (reporting early 2020/21) • Digital services (learning or justice tba) (reporting 2021/22) • Progress against digital strategy – five years on (reporting 2022/13)

Project/ initiative/ product	Status update	Next steps
	Excel app is highly automated and is tailored to the public-sector audit environment. Meetings have been held with the other UK agencies and topics for collaboration and lead agencies were agreed.	• Digital progress across government (X cutting) (2022/13) Digital auditing/ capacity - Audit analytics - Autumn 18 Improve and enhance GLiQ • end-user experience • front-end for audit planning and control testing • collaborate with Statistics Group (and external consultant) to improve methodology • share with other audit agencies
Innovative audit products	We developed a video to support the publication of the Annual Report and Accounts 2017/18. We have also developed an e-Hub on the Year of Young People	

Scottish Commission for Public Audit: Report on Audit
Scotland's Annual report and accounts 2017/18

Chief Operating Officer

Purpose

1. This report updates the Board on the Scottish Commission for Public Audit's (SCPA) report on Audit Scotland's 2017/18 annual report and accounts. A copy of the report is attached.

Background

2. The SCPA considered the 2018/19 Annual report and accounts at its meeting on 20 June 2018. The minute and the official report of the meeting are available on the SCPA pages of the Scottish Parliament's website.

Recommendations

3. The Board is invited to note the SCPA official report.

OFFICIAL REPORT
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Scottish
Commission for Public Audit

Wednesday 20 June 2018

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SCOTTISH COMMISSION FOR PUBLIC AUDIT
1st Meeting 2018, Session 5

COMMISSION MEMBERS

*Colin Beattie (Midlothian North and Musselburgh) (SNP) (Chair)
*Bill Bowman (North East Scotland) (Con) (Deputy Chair)
*Alison Johnstone (Lothian) (Green)
*Rona Mackay (Strathkelvin and Bearsden) (SNP)
Jenny Marra (North East Scotland) (Lab)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Steven Cunningham (Alexander Sloan)
Stuart Dennis (Audit Scotland)
Caroline Gardner (Auditor General for Scotland)
Ian Leitch (Audit Scotland)
Diane McGiffen (Audit Scotland)

LOCATION

The Adam Smith Room (CR5)

Scottish Commission for Public Audit

Meeting of the Commission

Wednesday 20 June 2018

[The Chair opened the meeting at 09:30]

Decision on Taking Business in Private

The Chair (Colin Beattie): Welcome to the first meeting in 2018 of the Scottish Commission for Public Audit. As always, I ask that all members and witnesses keep questions and answers concise and to the point. I also ask that everyone ensures that their electronic devices are switched to silent mode. We have apologies from Jenny Marra.

Agenda item 1 is consideration of a decision on whether to take item 3 in private. Do members agree to take that item in private?

Members *indicated agreement.*

Audit Scotland Annual Report and Accounts for the Year to 31 March 2018

09:30

The Chair: Agenda item 2 is evidence on Audit Scotland's annual report and accounts for the year to 31 March 2018. Members have a copy of the annual report and accounts in their meeting papers.

I welcome to the meeting Ian Leitch, who is the chair of Audit Scotland's board. He is accompanied by Caroline Gardner, who is the Auditor General for Scotland and, from Audit Scotland, Diane McGiffen, who is the chief operating officer, and Stuart Dennis, who is the corporate finance manager.

I invite Ian Leitch, and then the Auditor General, to make short, introductory statements of no more than a couple of minutes.

Ian Leitch (Audit Scotland): Thank you, chair. Good morning, members. As you know, our role as a board is to oversee the exercise of all Audit Scotland's functions. Audit Scotland supports the Accounts Commission and the Auditor General in their roles of providing independent assurance to the people of Scotland that public money is spent properly and provides value for money. Audit Scotland must also demonstrate the same things in managing its finances prudently.

As you will see from this year's annual report, we have managed to deliver £2.4 million in efficiencies, cost reductions and additional income against a target of £1.8 million. That was 9.6 per cent of our total expenditure budget. Most savings came from revised external firms' audit contracts, staffing costs following organisational changes and reduced consultancy expenditure and training costs.

In 2017-18, Audit Scotland spent £25.6 million on services for the Auditor General and the Accounts Commission. Of those costs, £18 million was recovered through charges to audit bodies and from other income. The balance of £7.6 million net operating expenditure and the net finance costs of £0.9 million were met from direct funding provided by the Scottish Parliament, on the recommendation of the commission. That sum of £8.5 million was £0.6 million below the estimate—budget—for the year.

The board has met eight times during the year. Its committees—the audit committee and the remuneration and human resources committee—met nine times in all. I am very grateful for the support of fellow board members. This year, we welcomed Dr Graham Sharp as the new chair of

the Accounts Commission, who was appointed by ministers. I thank Ronnie Hinds, who is the vice-chair, for carrying out that role on an acting basis.

Caroline Gardner (Auditor General for Scotland): This is a time of significant change for public bodies, with new challenges and demands on public audit. We are responding by investing in our people and strengthening our audit quality regime. The focus on audit quality reflects the risks associated with increasing pressures on audited bodies and the cost reductions that we have achieved through the most recent round of audit appointments.

We have set up two new teams—the appointments and assurance team and the professional support team. One of the first tasks of the appointments and assurance team was to develop a new audit quality framework that combines the highest professional and ethical standards, with strengthened arrangements for internal quality reviews, external quality reviews commissioned from the Institute of Chartered Accountants of Scotland and enhanced reporting on audit quality to me, the Accounts Commission, the Audit Scotland audit committee and the public. We consider that that is the most rigorous approach of any public audit agency in the United Kingdom.

The new professional support team works closely with the appointments and assurance team to provide guidance, advice and support to auditors. We are represented on and engage with a wide range of UK and international professional bodies and audit agencies, allowing us to influence professional standards and share good practice.

We have maintained our focus on the implementation and impact of Scotland's new financial powers. That is a critical area, where Scotland's overall budget will be far more closely tied to the performance of the Scottish economy, with much more volatility and uncertainty than in the past, and therefore there is a greater need to ensure financial sustainability.

As always, we will do our best to answer the commission's questions.

The Chair: Thank you for that. We will open up the session to questioning; I will ask the first question.

Staff costs represent around 67 per cent of Audit Scotland's budget. Obviously, anything that affects staff terms and conditions can have a fairly profound effect on that budget. On page 10 of the annual report, Audit Scotland stated that it has

"implemented a new strategic approach to managing and developing people".

That is a recurring theme in the report. On page 56, Audit Scotland reported that it has

"developed a new, simpler and more flexible approach to pay, reward, career progression and how we resource the audit work."

Will you give some background information on and explanations of the new strategic approach and identify the expected outcomes and improvements?

Caroline Gardner: I will kick off on that and then ask Diane McGiffen to pick up on how we are doing that.

That is a really important issue for us. As the commission knows, we can carry out our work only by having the appropriately skilled and qualified staff to do it, and we quite rightly work within the constraints of the Scottish Government's pay policy, which means that we have to work hard to ensure that we can recruit and retain staff who are also in demand by professional accountancy firms and public bodies more widely. That means that we have to think about our overall reward package, the way we develop people, and the way we shape jobs to make them attractive to people now and for the longer term.

Diane McGiffen has been leading on that work. I ask her to talk members through how we do that.

Diane McGiffen (Audit Scotland): We have worked with colleagues in Audit Scotland for around three years to build and redesign how we organise work and create career progression, and on how we handle promotion and development, and therefore how we can recruit in the external market and internally when we come to do that.

We have organised our job roles into three job families. There are proposals for colleagues to progress within those job families and to use the career development gates process in order to make a case that they are able to take on additional work or for the business to decide that it has opportunities and would like to invite people to gain new experiences and broaden their opportunities. For the first time, we have a single structure of job families for the whole organisation that includes people who work on financial audits, best-value audits and performance audits, and our corporate support services team. Therefore, everyone can see clearly how they work together in the different parts of the business.

Taking quite a hard look at how the previous systems that we used worked or did not work for us was key. We found that internal and external recruitment and promotion opportunities caused quite a lot of dissatisfaction for colleagues, as there was a time-consuming process, and it was felt that the feedback process could be improved for candidates. We have turned that around, and we use internal recruitment and professional

development, and our annual process of recording conversations to promote professional and technical development, which we call 3D. We use all of that to enable everyone in the organisation to build a portfolio of their experience and to be able to make a case for moving to do different things and expand their skills and experience.

Our investment in professional training and professional development underpins all of that. Our graduate trainee scheme fits into that model, but it also has the goal of delivering professionally qualified auditors at the end of it.

We are looking to enhance the sense of everyone working for one organisation rather than on individual projects or outputs for the business. That has gone really well for us. It enables us to offer in the jobs market something that is attractive and simple and to give people a clearer idea of career progression. That is because all those changes have been linked to a much simpler pay model that has simple incremental steps.

As a business, we try to ensure that we offer flexible employment opportunities, a rich development and career training environment and the great experience that comes from working for an organisation that is able to look across the whole public sector and produce reports and outputs that can help to make a difference to public services. In the external recruitment market, that approach is successfully attracting applicants to come and work with us. As you know from our need to expand to meet the responsibilities of the new financial powers, attracting new people is one of the things that we need to do well this year.

The Chair: That sounds good. I have had a look at your retention levels, but the approach does not seem to have had a huge impact on them yet.

Diane McGiffen: The retention levels this year are a combination of a number of factors. They include some fixed-term contracts that came to an end, some retirements and some student placements that came to an end. I will have to take my specs off to see this, but I think that the underlying resignations were 18, which is about 6 per cent of the turnover.

We examine all departures from the organisation to understand what is happening. We need some turnover to help with organisational rejuvenation. We discuss departures with individuals and managers to ensure that we pick up any signals that things are not going well. The turnover rate that is published in the annual report is similar to last year's. The underlying picture includes a number of people whose departure from the organisation would be known or planned.

The Chair: Information technology skills are important going forward and at the moment. They are difficult to secure across the public sector. How are you handling that?

Diane McGiffen: You are absolutely right. That is the case for everybody, including us. We have been building a strong team. We have been focusing on investing in and developing the people who work with us and diversifying the number of posts that we have in IT. We have introduced some new systems in IT to bring greater resilience to the team. We have a senior manager on call 24/7. That rotates around a pool of three people. We have also brought in some external expertise.

We have been considering the benchmarking of pay in IT services and have had a discussion with the remuneration committee about the potential to recruit in a slightly different market for the skills that we need if necessary. So far, we have been able to develop our own people and source specific skills for short-term needs when we have them. We have also used a variety of external benchmarking. The strategic plan around our digital strategy is consistently focused on improving the security of our own digital services. We have built the skills of the team behind that. However, we are very aware that, should we need to recruit in the external market, that would be quite difficult.

The Chair: Is there a specific audit qualification in IT? Being able to carry out an IT audit is a specialised skill.

Diane McGiffen: The short answer is yes. There are a variety of things, but I would need to get better-equipped people than me to give you the detail. Some of those skills are in our organisation.

Caroline Gardner: Beyond that, it is increasingly the case that our auditors need to be skilled in digital matters. In the past, we had a small number of computer auditors who would go and examine the computer systems and the controls around them. We still have those people, but our digital strategy recognises that more and more public services are provided digitally and that auditors need to be able to understand what that means for the risks that they audit and when they need to bring in specialist expertise.

Our digital strategy is about what we audit, how we audit it and what skills that we need to do that. That involves a long-term investment programme, but we do not think that it will change the need to keep developing those skills for the future.

Rona Mackay (Strathkelvin and Bearsden) (SNP): Good morning. I would like to ask you about the process for prompt follow-up when risks and areas for improvement are identified in an audit. Can you explain how quickly you follow those up and why prompt follow-up has been identified as a priority for 2018-19?

Caroline Gardner: Can you refer me to the page that you are looking at, so we can focus on it?

Rona Mackay: I do not have the page in front of me at the minute.

09:45

Caroline Gardner: It operates in two ways. First, all of the audit work that we do is based on a proper understanding of the risks in the specific audited body. There are some risks that the auditor has to assume in planning their audit work, and a key one of those is the risk of material misstatements in the financial statements themselves.

Beyond that, everybody will have different risks. There are specific risks that we need to think about with regard to the new social security agency because of the scale of payments involved, the people affected and the importance of the payments to people's lives. The risks that are associated with things such as the common agricultural policy futures programme IT system are quite different from those and are closer to the sort of area that Mr Beattie was just asking about.

In that context, the starting point of the auditor's work every year is to make sure that they understand the organisation that they are auditing, what the risks are likely to be and what that means for the audit work that they carry out.

In Audit Scotland, our internal and external auditors go through a similar process. It is informed, to an extent, by our approach to risk management as a board, which is to make sure that we understand it. The process is obviously also designed to test that understanding and make sure that we have not missed things and that our response to a risk is the right one.

That feeds directly into the internal audit programme that is agreed by our audit committee with our internal auditors, and the results are reported back. We have quite a rigorous and transparent system in which the internal auditors' recommendations are reported back to the audit committee of the board on a regular cycle, together with updates from the management team on what progress we have made and what is still outstanding. The internal auditors do an annual report that provides assurance to the audit committee and the board that the process is working well, and that recommendations have not been lost as a result of that. There is a parallel between the two, but the process operates very rigorously within Audit Scotland.

Rona Mackay: Does the fact that it has been identified as a priority for improvement suggest that there was a weakness before?

Caroline Gardner: No. I think that that is referring to the audit work that we do on audited bodies. It is a recognition of the fact that there are increasing pressures on audited bodies as financial pressures continue to affect them and demand continues to rise.

We are seeing new areas of pressure, such as the new financial powers and, potentially, the UK's withdrawal from the European Union. Therefore the need to ensure that we focus on the most important risks is rising in priority each year.

Diane McGiffen might want to add to that.

Diane McGiffen: On the audit work that we do, the approach is also about how we discuss priorities within teams and how we prioritise resources, and about enabling us to do that a bit more quickly than we might have done in the past, which requires us internally to have good information about how we are deploying everyone. It is a continuous, on-going improvement process. We are always asking ourselves how we can get better at doing this. This year we are saying that we really think that there is something in this for us to focus on.

Rona Mackay: Thank you.

Alison Johnstone (Lothian) (Green): Good morning. On page 19 of the annual report, Audit Scotland states that a priority for 2018-19 is to "streamline" your audit work. However, on page 36, you state that fee income from audited budgets exceeded budget by £0.7 million due to additional work that was undertaken by in-house teams and external audit firms.

Can you explain how audit work might be streamlined in 2018-19, given the experience of 2017-18, when additional work was undertaken by in-house teams and external audit firms?

Caroline Gardner: I will kick off, if I may, on the reference to streamlining on page 19, and then I will ask Diane McGiffen and Stuart Dennis to pick up from there.

In a sense, this follows on directly from the question that Rona Mackay just asked. The expectations on us and the range of things that we are required to do are expanding, with new financial powers, increasing pressures and EU withdrawal all in the mix. We are conscious that we need to make sure that we prioritise the audit work that we do in individual audited bodies.

One benefit of the public audit system in Scotland is that we are able to benchmark the approaches that the Audit Scotland teams take with those that are taken by the various firms that carry out audit work on my behalf and that of the Accounts Commission.

There are some differences in the audit methodologies and the approaches that are taken. There is scope for making sure that people are carrying out that risk assessment and planning process and that it really drives through the audit work that they do—that they are clear about why they are carrying out each piece of audit work and that they are not carrying out audit work that is not related to the risks and priorities in that body.

There is a balance to be struck. We clearly need to make sure that we have a wider view of the body and that our antennae are open for other problems that we should follow up, but there is scope to streamline the audit approach in some areas and, more particularly, its application in individual bodies. Beyond that, we carry out the work that is required in an individual body when particular risks arise.

Diane McGiffen: In our model, there is always scope for appointed auditors and audited bodies to agree additional fees for additional audit work. That is not necessarily the same as saying that the audit was not streamlined. In a particular year, an audited body may be dealing with something for which it would like additional audit coverage, and it would agree an additional fee for that.

We are trying to do two things at the same time: we are making sure that our core audit provides risk-based coverage while being streamlined in terms of costs and how we are delivering it, and we are also giving auditors the ability to agree additional fees, if necessary, for additional work that is beyond the scope of what they were planning to do.

I will hand over to Stuart Dennis in a moment to tell you more about the additional fees that we generated in the past year. We monitor the situation closely and know what additional fees are being agreed between auditors and audited bodies. We follow that closely so that we can form a view about whether it is appropriate, but there is scope for the auditor on the ground to agree something locally.

Alison Johnstone: As a commission, we are seeking assurances that Audit Scotland has sufficient resources, reasonable plans and realistic budgets in place to complete the planned audits.

Caroline Gardner: We can absolutely give you that assurance.

The other thing to add to what Diane McGiffen has said is that, as well as having the ability to agree additional fees, if we think that additional audit work is required we can, effectively, impose an additional fee. One of the reasons why income was above budget last year was that additional fees were required for the work that we carried out at the Scottish Police Authority, for example, where a range of problems emerged during the

audit planning process, and in the audit of the European agricultural funds. The problems that arose from the limits of the ability of the CAP futures IT system to do what was required meant that additional audit work was required to fulfil the EU's requirements.

We have that safeguard that we can impose an additional fee when required, but you have my assurance that we have the resources that we need to fulfil our responsibilities, with the support of this commission and the additional resources that you have approved for us over the past couple of years.

Stuart Dennis (Audit Scotland): I can add a small amount. As the Auditor General said, a lot of the income came from the additional complexities around the European agricultural fund. We have a core indicative fee for what we are expecting to audit, but complex issues sometimes arise. One example was Aberdeen City Council, which had a corporate bond. That was a unique area, so the council agreed an additional fee for that with the audit firm. There are specific areas across the board for which an additional fee will be charged for extra work.

Alison Johnstone: On the issue of local government, Audit Scotland states on page 36 of its annual report that £0.4 million of additional fee income was raised due to—as you have said—

"complexity and additional work within the local government sector".

In its budget proposal for 2018-19, considered by the commission in January 2018, Audit Scotland provided for a minimal increase of £18,000 in the fee income that it estimates as being receivable from the local government sector. Are you satisfied that the complexities and matters requiring additional work and fees in 2017-18 have been resolved and that the budget proposal for 2018-19 remains realistic, particularly in relation to the local government sector?

Caroline Gardner: It is certainly realistic overall. As the commission knows, we have refined the approach that we take to recovering our income through fees. Three-quarters of it comes through fees to audited bodies and about a quarter comes through the funds that are approved by this commission. With the board's support and encouragement, we have moved to a position where we now plan each year's budget on a sector-based basis and then reconcile that at the end of the year. Within local government and the other sectors that pay for their audit, there is always the ability for additional fees to be raised, where the work merits that, and that is one of the mechanisms that we use for balancing income and expenditure by sector. The complexities tend to arise at the level of an individual body, rather than

the sector as a whole, and that body will pay for the work that is required as a result of that, but we now monitor and report the sector balance in that way. It is something that the board has been keen to encourage, and I know that the commission has shown an interest in it as well.

Alison Johnstone: You have repeatedly advised us that audited bodies require certainty in respect of the cost of the audit. The additional work that was carried out in 2017-18 appears to have been unplanned and unbudgeted, so I think that the commission would like to seek an assurance that the additional costs in 2017-18 will not keep recurring.

Diane McGiffen: It may be helpful if we were to set out for you what is covered in the audit that we set the budget around, and the opportunities and need that we have as we deliver the audit to adjust fees as necessary. We try to keep that to a minimum, but I am afraid that it will always be necessary in some cases, because we have to recover the costs of additional work that is required. In the years that Stuart Dennis outlined, we had particular issues with the European agricultural funds audit. We are taking stock on the planning for those audits for next year, to see whether there were any systemic issues or whether they were one-off issues.

Prior to the start of the audit year every November we consult the Accounts Commission, in relation to local government, and the Auditor General, in relation to health and central Government, in order to take stock of the fee levels that we propose for those audits, and we will use the intelligence that we have from the year in practice to see what we are recommending. There will always be some departure from the budget that we set. That is unavoidable and it would not be right for me to assure you otherwise, but perhaps after the meeting we could give you a breakdown in greater detail of exactly what that was. Please be assured that we will examine all of that as we set fees for the autumn.

There is a dynamic process for preparing the budget that comes to you, preparing the audit fees budget and discussing everything with stakeholders. It is an iterative process that goes on all the time, but on some individual audits that is not possible, because events will have happened that we have to respond to.

Alison Johnstone: Are there ever occasions when unexpected increases in costs are a real issue for local government?

Caroline Gardner: No. The point that I would like to add to what Diane McGiffen has outlined for you is that the audit fees for the body are set on the assumption that they have in place good systems of internal control, that they are able to

prepare their financial statements and that those financial statements do not undergo significant change between the time when they are provided to the auditor and the end of the audit. In most cases, that assumption is sound and we are able to deliver the audit for the fee that is set out in the plan. However, in the case of the SPA over the past three or four years, we have seen real problems with some elements of the financial statements and a lot of additional work has been required to get them to the point where they can be audited and can be queried by the auditors.

Those are the sorts of circumstances where additional work is carried out, so an additional fee is required to recover the costs. If the audited body has in place robust systems and strong approaches to producing its financial statement, we deliver the audit for the amount of the fee that was originally planned. A lot of that variation is in the control of the audited bodies. It is a small number of audits and a small proportion of our overall costs, but we have made that more transparent and we are happy to give you a breakdown of the figures, if that would be useful to the commission.

The Chair: That breakdown would be very useful.

10:00

Bill Bowman (North East Scotland) (Con): I mention for the record that I am a member of the Institute of Chartered Accountants of Scotland and used to be a KPMG partner.

Professional training represents a significant investment not just in money, but in time when staff are not available to do their professional work. On page 10, you state that Audit Scotland has

"worked with ... graduate trainees to improve the trainee scheme",

but on page 23 you show that there has been a decrease in the number of trainees achieving exam success, from a peak of 92.7 per cent in 2015-16 to 88 per cent in 2017-18, and on page 36 you say that training and recruitment costs were £0.1 million "less than budget".

What actions are being taken to identify the reasons for the recent decrease in exam performance by trainees? How will it be addressed? Why was the training budget underspent? Can that be linked to the reduction in exam success?

Caroline Gardner: Our trainee scheme is a very important part of our overall workforce planning and is part of the overall approach that Diane McGiffen outlined earlier in the meeting. It is worth being clear to start with that our success

rate is still very high for professional examinations. ICAS has no concerns, and we discuss the matter with it regularly. Because of the numbers of students that we have going through, quite a small number can have a significant-looking impact on the pass rate. I ask Diane to talk you through the approach that we are taking to the trainee scheme, and the action that we are taking.

Diane McGiffen: I am very happy to do so. We began training in the ICAS scheme in 2010, and 38 trainees qualified across the 2010 to 2014 intakes. It takes about four years to qualify. I add, just to give you a sense of scale, that our total intake since we began is 92 trainees.

The 2016 intake of eight trainees got their exam results in January 2018, and 100 per cent of that cohort passed at the first attempt. In any year, we have people at different stages of training. The 2015 intake of 11 trainees sat various examinations last year and there were four examination failures. Those were single failures of a part of the exam, and they are all being resat. Two of the trainees have already passed, I think, and two are resitting in the current year, 2018-19.

We monitor the exam results closely and support the students closely, and we discuss the results with ICAS and with managers. ICAS believes that we have a good training scheme, and we have—as the Auditor General said—very strong results. What you see each year is a snapshot of people at different stages, but please be assured that we look at the matter very closely. We celebrate all the passes with our colleagues and we provide support to help them to get through to the next stage if, unfortunately, they have been unsuccessful.

The overall percentages vary each year because, if the numbers are relatively small, they can adjust the overall figure. Typically, 30 to 40 exams are sat in a year, but it depends on the numbers and the stages that people are at.

As we say in the annual report, over the past year we have been working with the cohort of trainees—who are a key part of our workforce—to understand how they would like the scheme and the support that we provide to work for them: we have had some brilliant initiatives this year that have gone very well. A cohort of trainees who have been developing their training skills have delivered training to the next cohort about what it is like as a trainee to do final-year accounts, for example. That has been really successful both for the people delivering the training, who have experienced something that will stand them in good stead when they are in front of audit committees and so on, and for the trainees who, when they face that experience for the first time, will have heard from and been coached directly by their peers about how to go about it and what to

do. We are continually enriching the scheme, which is very important.

We look closely at the exam results. We understand the process for, and experience of, every single person, and we have in place plans for every one of them. The position at the end of the year is not a concern in its own right.

I know that that was a detailed answer, but I know that the issue is important to the commission—it is important to us—but I wanted to give you an insight into the level at which we manage the graduate trainee scheme.

Bill Bowman: Maybe you could bring a trainee to the commission, to enrich their experience—if that is what it would do for them. [Laughter.]

Diane McGiffen: We currently bring trainees to the Public Audit and Post-legislative Scrutiny Committee.

Bill Bowman: How do you reward exam success?

Diane McGiffen: Our scheme has a cash payment for first-time exam passes. As part of our recent pay and reward negotiations, we have increased the amount. I am slightly sad to say that that is, I think, the first time in 14 years that we have done that. Although it is a small token, it is valued by trainees.

Bill Bowman: What are the consequences of not passing first time?

Diane McGiffen: There is support to try again and discussions about how the course and work are going. If there were repeated failures to progress, we would have a conversation about whether it was the right career choice for the person.

Bill Bowman: Do you have people in that circumstance?

Diane McGiffen: Occasionally, we do.

Bill Bowman: Generally, do you get people through?

Diane McGiffen: Generally, yes—we get people through. I would need to go back to check the data, but my sense is that we pick up in the first year or so if the scheme is not working for someone.

Rona Mackay: Page 22 of your report says that you have

"carried out an efficiency review of performance management and how we use our time."

What was the outcome of that review? What improvement actions have been identified? I know that we routinely ask you about that topic, but will you fill us in on the position?

Diane McGiffen: I am happy to do so. The outcome of this year's reviews is that there is a need to integrate our time-recording systems. Our systems are fit for purpose, but they operate on two different packages, which means that there is a cost to us to process and bring together the information. The time-recording systems exist in that form for good historical reasons, but it is time to move on. Following the review, we have been working to develop an implementation plan. We will report back to the audit committee and the board this year.

We are looking to draw together our systems. There is a heap of IT complexity behind the issue, which I am happy to talk about.

Rona Mackay: You might lose me entirely. [Laughter.]

Diane McGiffen: Working through how the different systems work together now, how we future proof and how we manage data are tricky issues to resolve, but we have a way forward and we are working on its implementation. As I said, we will discuss the issue with the audit committee, which is, similarly, interested in that area.

Rona Mackay: Will the process give you an indication of how to measure improvement?

Diane McGiffen: Yes. We have loads of data, and the new approach will make it much easier for individuals to extract data for managers to use, and for everyone to know in real time how we are working and so on. At the moment, that is more difficult to do than it should be. As I said, the systems are fit for purpose and they give us good data, but they require more work than we want to put into them. Better options are available.

Rona Mackay: Will that mainly be achieved through IT?

Diane McGiffen: Yes—although there will be a mix of things. It is partly an IT project, and it is partly a culture change project—as is the case for all IT projects—in order to simplify time-recording codes and so on behind the scenes. We have a good project team working on it and we have had lots of dialogue in the business about it. We have clear agreement about the goal and we are working on the implementation plan.

Rona Mackay: I will take a different tack. On page 34, you report that, in 2017-18,

"273 new issues of concern"

were raised, that "Twenty-seven of those items" arose

"as prescribed persons under the Public Interest Disclosure Act 1998".

and that "prescribed persons" are sometimes "referred to as 'whistleblowers'". That is quite an increase on previous years. Could you expand on that? In general, how are "new issues of concern" dealt with?

Caroline Gardner: We take very seriously those contacts from members of the public—we sometimes get them from MSPs and others— because they are an important way for us to keep our feelers out there about what is going on in an individual audited body. If we receive a number of complaints about a council or health board, that alerts us to the possibility that the auditor might want to have a closer look at it.

Because of that, and because of the range of issues that such contacts from members of the public can cover, over the past few years we have concentrated on fine tuning the approach that we use to handle them, on making sure that it is properly resourced, and that we are very clear about what we can and cannot look at. Some things are not within our area of responsibility, in which case we try to signpost the concerned person to somebody who can help them. In cases in which we can deal with the issue that has been raised, we felt that we could do that more quickly and more satisfactorily than we had done it in the past, so the procedure is on our website and is very closely monitored by the management team and the audit committee.

A range of issues of concern about audited bodies can be raised, from concerns about how decisions have been made to sell or buy local assets, to concerns about whether to continue or reduce public services, or about how a contract was let. The issues that are raised vary a great deal. We produce a very detailed annual report on complaints handling that provides more information on the subject, but the key feature is variation.

Diane McGiffen: From an operational point of view, we provide an opportunity for people to raise concerns—which can come from a number of sources—through our website, as the Auditor General said, through auditors or through correspondence. We have a small team who handle all correspondence. They document it, review it and share the information from it. Every Monday, all the members of the leadership team in Audit Scotland get an email that documents any changes in the correspondence and how those have been handled, along with the responses that have been issued, the relevant timescales and whether those have been met. Those are discussed actively with teams in relation to the audited bodies concerned and the use of public money. A variety of actions might follow that, and we track and manage them all.

This year, there have been some changes. In the past, there have been years in which a particular sector or a particular topic has featured

more strongly in correspondence or in concerns that members of the public have raised. This year, no pattern is particularly dominant; it is simply the case that there has been a volume increase across a number of fronts.

Rona Mackay: My next question was going to be whether there is a recurring theme in the new issues of concern that have been raised.

Diane McGiffen: There is nothing that is particularly distinctive compared with previous years, except in some isolated cases. The team produce an annual report for the audit committee and the board, and we look systemically at which issues come up and why they come up. This year, there have been volume increases, but no new issues for us to deal with.

Rona Mackay: Has the increase, which is significant, resulted in additional audit work for you?

Diane McGiffen: On occasion, it has resulted in additional work. Sometimes, an issue of concern will be raised when we are already actively auditing an area, so investigation of that will be folded into work that is already planned.

Rona Mackay: So, there has been nothing terribly surprising this year—no issue has stood out. There has just been a general upsurge.

Diane McGiffen: Some of the issues that were raised with us were issues on which an audit was already being carried out and reported on in public, and some correspondents simply wished to contribute to our knowledge base.

Rona Mackay: Does anyone else want to comment?

10:15

Caroline Gardner: If we look at the new issues of concern, we can see that the trend over the past couple of years has been downwards, but there is a lot of variation from year to year. A couple of years ago, we received an awful lot of correspondence about one particular issue in the west of Scotland. It showed up in the numbers, but it did not require additional audit work because we were already looking at it.

On the whole, the issues tend be quite small in the overall scheme of what we do, although they are clearly important to the people who contact us. The amount of extra work by the audit team that is needed to resolve the issues does not blow the budget, because we plan to do some of that work anyway; we do our best to accommodate the extra work. Only if the issue is very significant do we need to consider whether there is a requirement to ask the audited body for an additional fee if there has been a failure on its part, or to reallocate

resources within the audit plan to deal with the issue. However, that is unusual.

Bill Bowman: Do you have a total of the revenues and the assets in all the financial audits that you perform? That would give us an idea of the scale. You might not know the answer to that, so you can perhaps tell us later.

Caroline Gardner: I can give you an indication of the total. However, as you know, one of the challenges is that lots of related party transactions are included. The overall expenditure is more than £40 billion, at the moment. On the assets and liabilities, about three years ago we tried to produce an estimate of what a balance sheet for Scotland would like look. I think that we came up with a figure of about £120 billion of assets and liabilities. However, I would need to come back to you on what is included in and excluded from that figure.

Bill Bowman: I am not asking you to do a lot of work. It would just be good to get a feel for the size of the clientele.

Caroline Gardner: I can refer you back to the figure that we produced three or four years ago. The £40 billion expenditure figure is the more robust one. That is the overall devolved budget that is spent in Scotland.

Bill Bowman: That is what Audit Scotland audits.

Caroline Gardner: That is what is audited on behalf of me, as the Auditor General, and the Accounts Commission for local government. As you know, we appoint firms of auditors to do about a third of the work.

Ian Leitch: Yes: they do a third.

Bill Bowman: On the financial statements, you have a process for dealing with complaints. Page 34 of the report says that one complaint

"about a recruitment campaign ... was upheld."

I will not ask about the details of that complaint, but what action has been taken to ensure that the circumstances that resulted in that upheld complaint have been addressed and will not recur?

Caroline Gardner: We got that matter wrong. During a recruitment campaign, we were informed of a candidate's additional support needs in advance. However, on the day, we failed to take those needs into account and the candidate complained to us. We investigated what had happened and apologised to them. We have tightened our procedures to ensure that that does not happen again.

Bill Bowman: If someone complains and is not happy, what can they do?

Caroline Gardner: We respond through our complaints process. We have a complaints procedure for people who wish to complain about our work and the actions that we have taken. That process has within it levels that you would expect—including, where necessary, a review by a member of the board. If the complainant is not happy, they can complain to the Scottish Public Services Ombudsman, which has happened, on occasion.

Bill Bowman: Has that happened recently?

Caroline Gardner: I think that there was one referral to the ombudsman during 2017-18, but the ombudsman concluded that we had handled the complaint properly and was not minded to investigate it further.

Bill Bowman: During the past year, a member remarked in the chamber that they did not know about something because the auditors had not raised it. I read in the newspaper recently that a chief executive at an employment tribunal had said that they did not know about something because the auditors had not raised it. We will set aside the rights and wrongs of the specific cases. I am sure that your reports, engagement and contracts all make clear the responsibilities of the auditors and the responsibilities of management, but do you need to do more to make boards and chief executives or other senior people aware of their and your responsibilities?

Caroline Gardner: We have been reflecting on that issue over the past few months for reasons that you will understand. In many ways, it is difficult to know what more we can do. As Bill Bowman said, in the letters of appointment to the firms, it is very clear what their responsibilities are. The Accounts Commission and I produce a statement—"Public audit in Scotland"—which makes clear our responsibilities and the responsibilities of boards and those who are charged with governance. That runs through the "Code of audit practice", the annual audit plan and the annual audit report. The annual audit report is a full-form document that accompanies the financial statements to the audit committee and the board at the end of each year, and is then published on our website as well as being available through the audit committee papers.

In the case of national health service bodies and central Government bodies, all those documents—the financial statements and the annual audit reports—are laid in Parliament: they are public documents. We try to be clear about what people's responsibilities are. Most such documents are laid in Parliament by the Government. For the NHS, they are sent to the Scottish Government health directorate for laying; I assume that the directorate has a process for reviewing them for any significant items and for taking action where it

needs too. We engage with it regularly about our concerns.

As members of the Public Audit and Post-Legislative Scrutiny Committee, Bill Bowman and Colin Beattie know that we have reported on a number of those issues through the formal statutory section 22 process, as well. I struggle to know what else we can do to ensure that people who are charged with governance take that responsibility seriously, but it is obviously a concern if that is not happening routinely.

Bill Bowman: There is always a risk that blaming you becomes a standard response. What you describe is fair enough, but it sounds a little bit passive compared with recording your concerns with the bodies when you meet them face to face to do your planning or your closure.

Caroline Gardner: I assure you that that happens routinely. Our auditors meet the audited body's director of finance and his or her team regularly, particularly at the planning stage and during the final accounts period. Because the annual audit report is a public document, there is a process of reviewing the draft of it to ensure that any comments that they have are taken into account, so there should be no surprises in it.

The auditors routinely attend audit committees across the public sector and present their findings to them. There is a concern that, in some instances, an audit committee is unwilling or unable to fulfil its responsibilities in the way that you and I would expect it to. The auditors will continue to engage with it and make as clearly as they can the points about the issues that such a committee needs to be sighted on.

The most persuasive levers that we have are, first, that we report in public, and secondly the role of the parliamentary Public Audit and Post-Legislative Scrutiny Committee, which is very much focused on following up the issues. However, we have been reflecting on what it means that some of those statements have been made over the past few months.

Alison Johnstone: Pay for senior staff is a matter of public interest. I note that, on page 54 of the annual report, Audit Scotland reports that the highest-paid member of Audit Scotland is paid 3.4 times the median remuneration paid to Audit Scotland staff. Do you have any idea how that compares to the wider public sector?

Caroline Gardner: We think that it is not atypical for the wider public sector and is probably quite low, but not for reasons for which we can take much credit, to be frank. There are two reasons for that. One is that my salary is set not by Audit Scotland but by the Parliament—I am an office-holder of Parliament—and that sets the context for our pay overall. Secondly, we have

fewer low-paid staff than many public bodies. Most of our staff are professionally qualified accountants and we do not have many staff in close-to-living-wage roles. The ratio tends to be smaller than it would be for a council or a health board for those reasons rather than reasons to do with our pay policy.

Is there anything that you want to add to that, Diane?

Diane McGiffen: No. That is fair. The ratio has stayed in a pretty similar area over time; it has not shifted much. We are an accredited Scottish living wage employer and we have extended Scottish living wage provisions to contracts that we let for cleaning services, for example, and built them into the contracts.

We are conscious of the low-pay agenda and we actively discuss it with the Public and Commercial Services Union, our trade union, every year. The figures have been pretty stable over time. The composition of our workforce is dissimilar to that of large public sector bodies, which makes direct comparisons difficult.

Alison Johnstone: Thank you for your comments.

The Chair: A comparison between Audit Scotland's budget proposal for 2017-18 and the actual expenditure on page 80 of the annual report and accounts shows that Audit Scotland significantly underspent on a number of budget lines, with the exception of fees and expenses to appointed audit firms, other accommodation costs and staff recruitment. Obviously, we welcome any cost savings, but are those underspends recurring and will they form the basis of future budget proposals?

Caroline Gardner: I do not think that we had a significant underspend at all in the year. I think that our overall underspend was about £0.6 million, of which £0.2 million was to do with the pension adjustments that we are required to make at the end of the financial year and about £0.4 million was due to a limited number of underspends. Rather than mislead the commission, I ask Stuart Dennis to keep me straight on what made up the £0.4 million underspend.

Stuart Dennis: Principally, it would have been made up of training and consultancy costs, which we have a budget for and which is where the management contingency is. We saved there.

A big reduction from 2016-17 is shown on page 80. In 2016-17, we had the national fraud initiative, which costs around £190,000. We did not have that in 2017-18, but it is in the budget for 2018-19. We need to have a budget allocation for that every two years.

The Chair: There are significant drops in things such as training and, to get down to the nitty-gritty, stationery and printing.

Caroline Gardner: Schedule 4 on page 80 shows the actuals for 2017-18 and 2016-17. There are some differences between the two years. That is partly to do with our continuing drive to generate efficiencies where we can do so without affecting the quality of the work. As Stuart Dennis said, between 2017 and 2018, the £200,000 that is required for the national fraud initiative, which is a biennial exercise, was taken out. That shows up in legal and other professional fees. The differences are actual to actual between 2016-17 and 2017-18.

The Chair: I would like to whip through one or two items that stick out for me in the report. Page 12 mentions a new audit quality framework. Would it be possible to get a copy of that? I am not going to interrogate you about it but, out of interest, can members see it?

Ian Leitch: Yes.

Caroline Gardner: Of course. That has been a big area of investment for us this year. We will happily let you have a copy of the framework and a copy of the annual audit quality report that we publish.

The Chair: Perfect. On page 11 of the report, you say that you have

"implemented a new approach to auditing Best Value".

Out of interest, would it be possible to get details of that, as well?

Caroline Gardner: Certainly.

The Chair: Page 36 mentions

"reduced consultancy expenditure and training costs".

We have talked about training costs. There has been a significant drop in them. What drove the drop in consultancy expenditure? How have you been able to accommodate that?

Caroline Gardner: The consultancy expenditure is a budget that we maintain because of the range of topics that our performance audit programme in particular can cover. We need to ensure that we have the professional expertise to carry out our work, and sometimes that means bringing in specialist support to help us. However, we can bring in that support in other ways. For example, we have had a significant number of secondments from other public bodies to help us with that. The commission will see a trade-off between agency and secondment costs versus consultancy costs. That is part of what happened there.

The Chair: I refer to the cash-equivalent transfer value at 31 March 2018, on page 54. You

can tell me if I have got this wrong, but does that imply that some of the people who are mentioned are reaching their pension cap?

Caroline Gardner: Yes, it does.

The Chair: Indeed, one has exceeded it.

Caroline Gardner: Yes.

The Chair: Are there any implications for employment?

10:30

Caroline Gardner: There are implications for an individual's personal tax affairs. As commission members will know, over the past few years, the UK Government has introduced both a lifetime allowance limit and an annual allowance limit. A number of people who are employed across the public sector and who are in or are reaching their mid-50s are likely to be breaching those caps, which were introduced at a high level—I think they were initially £1.8 million—and have gradually been reduced to a point at which they are now about £1 million.

Therefore, the implications are for the tax liabilities of the individuals themselves, and will need to be met by them. As the Public Audit and Post-legislative Scrutiny Committee has discussed, there is at least a risk that it will affect future career decisions that individuals take. However, I can only speak for myself and say that, in my personal circumstances, my role is a privilege and I fully intend to see out the end of my term of office.

The Chair: We are relieved.

Caroline Gardner: Thank you, chair.

The Chair: I turn to page 56 of the annual report. I am looking at the staff report and the information under gender balance. Overall, the balance is slightly in favour of the female side, which is fine. However, there seems to be a huge disparity under management.

Caroline Gardner: The disparity is that, in a management team of four, three of us are women and one is a man.

The Chair: That puts into perspective the fact that it is a small team.

Caroline Gardner: Yes.

Ian Leitch: Yes.

The Chair: Page 59 deals with early retiral and severance. You have an on-going voluntary early release arrangement.

Caroline Gardner: We do not have an on-going voluntary release arrangement. We have a policy for voluntary severance and, each year, the board

considers whether there is a business case for making a voluntary severance scheme available within the terms of that policy. As we say in the report, last year, five members of staff left under that policy. However, it is not a standing scheme— it is not available unless the board agrees that there is a business case for it.

The Chair: Is it the case that the board will periodically go out to the staff and say that, for a limited period, voluntary release is available?

Ian Leitch: We expect the Auditor General and the chief operating officer to advise us if there is a particular issue. For example, if two offices are merged into one, issues will arise at the new office location, such as duplication of front-office staff. We will look at that and, if we see a case for it, we will approve a scheme for that year. However, each year, we have to be satisfied before we will give the green light. If there is no case, there will not be a scheme.

The Chair: The Auditor General has been looking at the business case for early or voluntary release in other public bodies. In this case, the total cost was £156,000.

Caroline Gardner: The total cost for five departures was £156,000. The policy that we have is that, in order for there to be a business case for an individual to go, as well as the savings from the post that is being released, we have to generate savings of 25 per cent that will continue into the future. There is both a scheme that applies overall and a business case for invoking it in a particular year. Individual applications are then judged against that criterion to make sure that it is good value for money for the public purse and that the governance stands up.

Diane McGiffen might want to add to that.

Diane McGiffen: Every year, we produce a governance report for the remuneration committee to track the delivery of savings from previous departures under the early release scheme. It is an annual feature of that committee's governance of staffing matters in the business.

The Chair: Turning to page 70 of the annual report, I have a couple of quick questions. Will you remind me what "intangible assets" are? I know that I ask you that every year.

Caroline Gardner: You do ask me every year, chair, and every year I tell you that they are software licences, which we are required to capture in that way.

The Chair: Of course they are. Moving down, there is a section on current assets. Within that, you have prepayments of £508,000. What are those?

Caroline Gardner: I will bring in Stuart Dennis. Will you point us to the exact page reference, chair?

The Chair: It is note 9 on page 70, on current assets. There has been quite a significant increase in current assets, or receivables, at least.

Caroline Gardner: I think it will be to do with the way in which we bill audited bodies for their audit fees and pay the firms for the work that they have carried out. There is a work-in-progress calculation, which always tries to match the amount of work that we have billed and the amount we have paid for with the point in the financial year at which the accounts are prepared.

The Chair: It is about timing.

Caroline Gardner: Exactly. In effect, there is a mix of prepayments and accruals.

The Chair: Let us move on to current liabilities, which is the next item on that page. Deferred income is £585,000.

Stuart Dennis: That would be the same. It is where we have invoiced—

The Chair: It is the other side.

Stuart Dennis: Yes, but in advance.

The Chair: The final question that we want to ask is about internal audit. Audit Scotland has internal auditors—are they in-house or are they bought in?

Caroline Gardner: We have just appointed BDO LLP for a three-year term. Diane McGiffen can tell you more about that.

Diane McGiffen: The chair of the audit committee, Heather Logan, leads on that matter with the audit committee and supports the board. Through the procurement register, we put out to tender this year for internal audit services and BDO was appointed for three years. It made a submission to us and we are maintaining our level of investment in internal audit at about the same level as in previous years. There is a full three-year programme of work that is broken down by year. That is fully discussed with the audit committee, as are the terms of reference for each individual piece of work. The work is reported to the audit committee and shared with the external auditors, as are all the audit committee papers.

The Chair: Can you remind me how much it costs?

Diane McGiffen: I think that it is about £27,000 or £29,000.

Stuart Dennis: It is £27,000.

The Chair: Is that £27,000 a year?

Stuart Dennis: Yes.

Bill Bowman: Let us go back to the ICAS reports. Perhaps I missed it in the papers, but could you say a little bit more about what ICAS does?

Caroline Gardner: Yes. In a sense, it goes back to the chair's short question about the quality framework and the annual audit quality reports. We recognised that there are increasing risks in audited bodies, given the financial pressures that they are under, and that our recent appointment round had, again, generated price and cost savings in the firms that we use and the benchmarking that we do with our own teams. At that point, we had appointed ICAS for a period of six years to carry out reviews of the financial statement audits that were carried out by our in-house teams, which had been very helpful to us in providing assurance and in identifying areas in which we could improve our audit approach.

I was conscious that that gave us only a partial view across the work that is carried out on behalf of me and the Audit Commission and that there was no direct external review of the financial statements audit work that was carried out by the firms that we appoint. The Financial Reporting Council, the Institute of Chartered Accountants in England and Wales and ICAS regulate those firms in different ways, but it is very unlikely that they would look at any of the audits that the firms carry out on our behalf. The review of the performance audit and best-value audit work was done by means of peer review with the other audit agencies.

As part of the new audit quality framework, we have put in place a clear understanding of the role of hot reviews and cold reviews under the international standard on quality control. We have also put in place an ICAS contract that covers all the audit work and all the audit providers over the five-year term of the appointments. The annual audit quality report pulls all that together with other sources of assurance around elements of the International Auditing and Assurance Standards Board's quality framework, primarily to provide me, the Audit Commission and the board with assurance about the quality of audit work but also as part of the accountability to the SCPA and more widely.

Bill Bowman: Who selects the files that ICAS reviews?

Caroline Gardner: ICAS does.

Bill Bowman: That is absolutely clear—it is not you deciding, "We won't do this one this year."

Caroline Gardner: Absolutely—it is ICAS's decision. That was very much part of the approach that we put out to tender. ICAS won the tender, but whoever won would have had full freedom to choose whichever audits they thought appropriate.

Ian Leitch: The question of quality is a matter that the board, and I in particular, have taken an interest in. The question that we all asked was whether the very competitive nature of the quotes that we received was to the detriment of the quality that we were going to get. That is why we spent so much time on the tender. Some of the information that we were given is set out in the audit quality annual report, which you have asked for.

We are conscious, against the background of other matters elsewhere in the commercial world, of the need to be on top of the issue of quality and to ensure an independent element of it. You can be assured that your board is very much alert to that issue.

Bill Bowman: Does the review focus on internal work, not just contracted-out work?

Caroline Gardner: It covers all the audit work—

Ian Leitch: All of it.

Caroline Gardner: Sixty-five per cent of it is in-house, so internal work is obviously very important. We have done that for longer—I believe since about 2010. The shift is that it is now being done on a common basis across all the audit work.

Bill Bowman: Are the details in the audit quality annual report?

Caroline Gardner: Yes.

Ian Leitch: Yes.

Alison Johnstone: You have previously published information on EU withdrawal, and you have mentioned a couple of times this morning its potential implications. In one of your reports, you said that 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. Does that apply to Audit Scotland?

Caroline Gardner: It does. We have had to think hard about what EU withdrawal means for our work, for the bodies that we audit and for us. We have built on the approach that we have taken to the new financial powers by developing a small team of people whose job is to do the thinking, the research and the understanding but then to work with colleagues in all the audits to help them think about what withdrawal means for their particular audits.

We are in a good place with this year's audit planning guidance. We have been clear with auditors that the likely effects are going to be on funding, the workforce and regulation and that they will apply differently in different audited bodies. As part of the planning process that we discussed earlier, the auditors should be thinking about and discussing that with the bodies that they audit.

Internally, we are thinking about what EU withdrawal means for the seven or so staff that we have who are from other EU countries, who will have concerns about their future ability to live and work in Scotland. We are making sure that we support them. We are also doing the best that we can, given the level of uncertainty that we all face, to think about what EU withdrawal might mean in terms of additional audit work for the Scottish Government or for bodies that are particularly affected by it. However, at the moment, lacking a crystal ball, we are having to just make sure that our plans are resilient and can respond to different scenarios, depending on what happens over the next nine months or so.

Alison Johnstone: Thank you. It is clearly a challenge.

The Chair: Members have no other questions. Does the Auditor General or the chair of the board have anything to add before we wind up?

Ian Leitch: Just my thanks.

The Chair: Thank you very much for attending the committee.

10:43

Meeting suspended.

10:44

On resuming—

The Chair: I welcome to the meeting Steven Cunningham, a partner, and Jillian So, the audit manager, from Alexander Sloan. Are there any comments that you would like to make before we open our questioning?

Steven Cunningham (Alexander Sloan): Good morning, chair. I apologise for our late arrival. I confirm that we have received all the information and explanations that will allow us to undertake our audit for the year that ended on 31 March 2018. I also confirm that there were no limitations on the scope of our audit work.

I will give you a brief overview of our work. Alexander Sloan was appointed to carry out the external audit of the 2018 financial statements of Audit Scotland. During the year, we attended all audit committee meetings of Audit Scotland. We attended Audit Scotland offices to carry out interim audit work in February and the final audit work was carried out in May. Our work was carried out in accordance with international standards for auditing.

We reviewed all internal audit reports during the year and held discussions with the internal auditor.

As I have mentioned, we received all the information and the explanations that were required to carry out our work, and our audit was completed without any problems.

In accordance with our tender and quality control procedures, the audit file and accounts have also been subject to a second partner audit review.

On the basis of our audit work, we form an opinion on whether the accounts give a true and fair view, whether they have been prepared in accordance with international financial reporting standards—as interpreted and adapted by the financial reporting manual—and to confirm that they have been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions by Scottish ministers.

Being satisfied with the audit evidence, we signed our audit report on 12 June. Our audit report is unmodified—that is, we are satisfied that the accounts give a true and fair view and are in accordance with the legislation and the accounting rules. There are no significant matters to bring to the attention of the commission or other readers of the accounts.

The Chair: Thank you—that answers my first question. How does Alexander Sloan assure itself that the internal audit process that is undertaken is robust and in accordance with the appropriate standards?

Steven Cunningham: We attend all the audit committee meetings with the internal auditor. Prior to those meetings, we are also in attendance at a private closed session at which the internal auditor is present. We hold discussions about and review all the papers that are presented to the committee. On the basis of that, we make a decision on whether we are satisfied with the internal audit work that has been carried out and on whether there are any implications for the external audit.

The Chair: What about the internal audit programme?

Steven Cunningham: We get to see the internal audit programme and have the opportunity to comment on it if we consider that there are any areas missing that should be in the programme.

The Chair: You are satisfied that the process is robust.

Steven Cunningham: Yes, I am.

The Chair: Do you receive internal audit reports?

Steven Cunningham: Yes, we receive all the reports in the audit year, which we review to identify whether there are any audit implications.

The Chair: There is nothing of concern of which you are aware.

Steven Cunningham: No, nothing that would cause any concern for the audit of the financial statements.

Rona Mackay: I want to clarify an issue that you more or less covered in your opening statement. In your report to those charged with governance and in your report to the audit committee of Audit Scotland, did you raise any matters that the commission should be aware of?

Steven Cunningham: No. No matters arose in our audit work that we consider that the commission should be aware of.

Rona Mackay: Was there anything in your own side notes that you wanted to keep a record of in case such actions were repeated?

Steven Cunningham: No. Once we have carried out the audit work, we have a closing meeting that is attended by the chief operating officer and the director of audit. That is the vehicle through which we would clarify matters, but there were no matters of any significance that we needed to bring to the board of Audit Scotland or to you.

Bill Bowman: We rely greatly on what you say. There are highly technical accounting requirements on pension costs and the calculation of liabilities. Are you satisfied with all the disclosures in the accounts?

Steven Cunningham: Yes. We spend a lot of time in the audit looking over and considering the assumptions and making sure that they are reasonable before they go into the final accounts.

Bill Bowman: I may have missed this, but do you disclose the materiality level?

Steven Cunningham: No, we do not do that as a practice.

Bill Bowman: You do not. Can you tell us what it is?

Steven Cunningham: I do not have that figure, but I will get a note of that to you if you want.

Bill Bowman: Were you here earlier to hear that Audit Scotland audits about £120 billion of assets?

Steven Cunningham: Yes.

Bill Bowman: Are you comfortable in auditing the auditor of that huge amount?

Steven Cunningham: Yes, we are. We believe that we have in place all the procedure to carry out an efficient audit.

Bill Bowman: Just an efficient audit?

Steven Cunningham: Sorry—an efficient and effective audit.

The Chair: Audit Scotland has included in its accounts £1.6 million of income that relates to work that is completed but not yet charged to audited bodies. Are you satisfied that that calculation is robust?

Steven Cunningham: A prime focus of the audit is the work-in-progress calculation. We spend a lot of time on reviewing the calculation—we look at it from the angle of the agreed fees, the proportion of work carried out and how the calculation is done to make sure that we are happy with it.

The Chair: Do members have any other questions?

Bill Bowman: Nothing other than the usual question about whether there is anything else that we should know.

Steven Cunningham: No, there is nothing further.

The Chair: Do you have any other comments to make before I wind up?

Steven Cunningham: I have no other comments to make, thank you.

The Chair: In that case, I thank you for your attendance.

10:50
Meeting continued in private until 11:17.

The deadline for corrections to this edition is:

Monday 23 July 2018

The Scottish Parliament
Pàrlamaid na h-Alba

Purpose

1. This paper invites the Board to note the annual review of the Codes of Conduct and re-approve the codes for a further year.

Background

2. As part of our corporate governance arrangements the Board reviews and re-approves our corporate governance policies and Codes of Conduct.

3. There are two Codes of Conduct, one for Board members and one for Audit Scotland staff.

4. Normally the Standing Orders, Financial Regulations, Scheme of Delegation and Codes of Conduct are re-approved in August each year. However, due to changes in the Management Team with the retirement of the Assistant Auditor General in December 2017 the Standing Orders, Financial Regulations and Scheme of Delegation were re-approved by the Board at its meeting on 29 November 2017. These came into effect on 1 January 2018. Therefore, only the Codes of Conduct have been reviewed at this time.

Review

5. The review of the Codes of conduct found that:

    - The Members' Code of Conduct remains consistent with the Scottish Governments model code of conduct for devolved public bodies.

      However, the following sections have been updated to reflect legislation and good governance practice:

      o   Paragraphs 30 and 31 – the section on appointment to partner organisations has been deleted. This section of the model code is more applicable to other central government bodies and local councils where members and senior staff may be appointed to an arm's length external organisations or partnerships. The section has been replaced with text on other appointments and conflicts of interests. The text reflects that being used by SCPA in its current recruitment campaign for a new Board member.

      o   Paragraph 84 has been added to reflect the Lobbying (Scotland) Act 2016.

    - The staff Code of Conduct is still up to date. Minor changes have been made to the Ethics section and the Compliance Partner table to better align with the Audit Scotland's Ethical Standard Application Guide which will be presented to the Board in September for re-approval.

Recommendation

6. The Board is invited to note the reviews and re-approve the Codes of Conduct for a further year.

Members' Code of Conduct

AUDIT SCOTLAND

Contents

Guidance on the Code of Conduct

Introduction

1. The Scottish public has a high expectation of those who serve on the boards of public bodies and the way in which they should conduct themselves in undertaking their duties for the public body. You must meet those expectations by ensuring that your conduct is above reproach and by embracing our core values, which are:

    - Independence, integrity and objectivity.

    - Valuing people and ensuring equality and fairness.

    - Effective communication.

2. As a member of Audit Scotland, it is your responsibility to make sure that you are familiar with, and that your actions comply with, the provisions of this Code of Conduct.

3. You must observe the rules of conduct contained in this Code. It is your personal responsibility to comply with these and review regularly, and at least annually, your personal circumstances with this in mind, particularly when your circumstances change. You must not at any time advocate or encourage any action contrary to the Code of Conduct.

4. The Code has been developed in line with the key principles listed in paragraph 6 and provides additional information on how the principles should be interpreted and applied in practice. No Code can provide for all circumstances and if you are uncertain about how the rules apply, you should seek advice from the Chief Operating Officer. You may also choose to consult your own legal advisers and, on detailed financial and commercial matters, seek advice from other relevant professionals.

5. You should familiarise yourself with the Scottish Government publication "On Board – a guide for board members of public bodies in Scotland". This publication will provide you with information to help you in your role as a member of a public body in Scotland and can be viewed on the Scottish Government website.

Key principles of the Code of Conduct

6. The general principles upon which this Code of Conduct are based are:

    Duty

    You have a duty to uphold the law and act in accordance with the law and the public trust placed in you. You have a duty to act in the interests of Audit Scotland of which you are a member and in accordance with its core functions and duties.

Selflessness

You have a duty to take decisions solely in terms of public interest. You must not act in order to gain financial or other material benefit for yourself, family or friends.

Integrity

You must not place yourself under any financial, or other, obligation to any individual or organisation that might reasonably be thought to influence you in the performance of your duties.

Objectivity

You must make decisions solely on merit and in a way that is consistent with the functions of Audit Scotland when carrying out public business including making appointments, awarding contracts or recommending individuals for rewards and benefits.

Accountability and stewardship

You are accountable for your decisions and actions to the public. You have a duty to consider issues on their merits, taking account of the views of others and must ensure that Audit Scotland uses its resources prudently and in accordance with the law.

Openness

You have a duty to be as open as possible about your decisions and actions, giving reasons for your decisions and restricting information only when the wider public interest clearly demands.

Honesty

You have a duty to act honestly. You must declare any private interests relating to your public duties and take steps to resolve any conflicts arising in a way that protects the public interest.

Leadership

You have a duty to promote and support these principles by leadership and example, to maintain and strengthen the public's trust and confidence in the integrity of Audit Scotland and its members in conducting public business.

Respect

You must respect fellow members of Audit Scotland and its employees and the role they play, treating them with courtesy at all times. Similarly, you must respect members of the public when performing duties as a member of Audit Scotland.

7. You should apply the principles of this Code to your dealings with fellow members of Audit Scotland, its employees and other stakeholders. Similarly, you should also observe the principles of this Code in dealings with the public when performing duties as a member of a public body.

General conduct

8. The rules of good conduct in this section must be observed in all situations where you act as a member of Audit Scotland.

Conduct at meetings

9. You must respect the chair, your colleagues and employees of Audit Scotland in meetings. You must comply with rulings from the chair in the conduct of the business of these meetings.

Relationships with Board Members, employees of Audit Scotland and others

10. You will treat your fellow board members and any staff employed by Audit Scotland with courtesy and respect. It is expected that fellow board members and employees will show you the same consideration in return. It is good practice for employers to provide examples of what is unacceptable behaviour in their organisation. Public bodies should promote a safe, healthy and fair working environment for all. As a board member you should be familiar with the policies of Audit Scotland in relation to bullying and harassment in the workplace and also lead by exemplar behaviour.

11. Relationships may be developed with you by others to influence our work or to acquire confidential or sensitive information for personal gain. Those seeking to develop a relationship with you may also offer a financial or other benefit to supply them with information. These relationships are inappropriate and bring risks to your personal reputation and that of Audit Scotland (see Section on Bribery and Corruption). You must inform the Chair of the Board and Chief Operating Officer of any such approaches, relationships or offers of financial or other benefits, and you should discuss any concerns about any such issues as soon as possible so that Audit Scotland can support and advise you.

Remuneration, allowances and expenses

12. You must comply with any rules of Audit Scotland regarding remuneration, allowances and expenses.

Bribery and corruption

13. Bribery is the offering, giving, receiving, or soliciting of any item of value or advantage to influence the actions of an official or any other person in charge of a public or legal duty.

14. It is important that you are aware that it is a serious criminal offence for you to:

    - give, receive or solicit a bribe (i.e. to corruptly receive or give any gift, loans, fee, reward or advantage) in return for doing or not doing anything
    - show favour or disfavour to any person in the course of your work with Audit Scotland.

15.   It is also important to be aware that an act of bribery by an individual may render Audit Scotland liable of committing an offence.

16.   Audit Scotland has a zero tolerance to bribery and corruption therefore corrupt actions, including bribery, can lead to dismissal and prosecution.

Gifts and hospitality

17.   You must never ask for gifts or hospitality.

18.   You must not accept any offer by way of a gift or hospitality which could give rise to a real or substantive personal gain or reasonable suspicion of influence on your part to show favour, or disadvantage, to any individual or organisation. You should also consider whether there may be any reasonable perception that any gift received by your spouse or cohabitee or by any company in which you have a controlling interest, or by a partnership of which you are a partner, can or would influence your judgement. The term 'gift' includes benefits such as relief from indebtedness, loan concessions, or provision of services at a cost below that generally charged to members of the public.

19.   You are personally responsible for all decisions connected with the offer or acceptance of gifts or hospitality offered to you and for avoiding the risk of damage to public confidence in Audit Scotland. As a general guide, it is usually appropriate to refuse offers except:

- isolated gifts of a trivial character, the value of which must not exceed £50;

- normal hospitality associated with your duties and which would reasonably be regarded as appropriate; or

- gifts received on behalf of Audit Scotland.

20.   You must not accept any offer of a gift or hospitality from any individual or organisation which stands to gain or benefit from a decision Audit Scotland may be involved in determining, or who is seeking to do business with us, and which a person might reasonably consider could have a bearing on your judgement. If you are making a visit in your capacity as a member of Audit Scotland then, as a general rule, you should ensure that Audit Scotland pays for the cost of the visit.

21.   You must not accept repeated hospitality from the same source.

22.   Members of Audit Scotland should familiarise themselves with the terms of the Bribery Act 2010 which provides for offences of bribing another person and offences relating to being bribed.

23.   You **must declare the giving and acceptance of any gifts or hospitality received by you or gifts and hospitality declined in your capacity as a member of Audit Scotland** to the Chief Operating Officer who will record the declaration in a register kept for that purpose.

      Audit Scotland only recognises and approves the giving of gifts or hospitality if recorded in the register and the expenditure is detailed in our financial accounting system. All reimbursement

claims for gifts or hospitality given through expenses must be in accordance with the remuneration, allowances and expenses policy.

To assist Members the following guidance indicates items that do not require recording or disclosure:

- Working lunches at audited bodies, partner firms, working groups/committees/boards, professional institutes and other public bodies.

- Meals and accommodation incidental to the attendance at conferences, seminars and workshops.

- Giving or receiving gifts of modest value such as a pen or book.

Items that do require disclosure would therefore include:

- Isolated gifts in excess of £50.

- Meals in external restaurants whether working or not.

- Attendance at functions organised/hosted by professional bodies eg Institute Annual Dinners.

- Receptions held by public bodies, partner firms or other parties where there is a widespread range of attendees eg gallery viewings.

- Functions where the focus of the event is an awards ceremony which involves a public sector element.

- Meals paid for by visiting delegations from other audit offices, organisations and Parliaments/Governments.

- Provision of accommodation, travel or corporate hospitality to others.

24. Details of any gift or hospitality will be made available for public inspection through publication of the register on Audit Scotland's website.

Confidentiality requirements

25. Audit Scotland carries out its work in the public interest and is committed to the principle of openness. However, there may be times when you will be required to treat discussions, documents or other information relating to the work of Audit Scotland in a confidential manner. You will often receive information of a private nature which is not yet public, or which perhaps would not be intended to be public. There are provisions in other legislation, such as the Data Protection Act 2018 and the Freedom of Information (Scotland) Act 2002, on the categories of confidential and exempt information and you must always respect and comply with the requirement to keep such information private.

26. It is unacceptable to disclose any information to which you have privileged access, for example derived from a confidential document, either orally or in writing. In the case of other documents and information, you are requested to exercise your judgement as to what should or should not be made available to outside bodies or individuals. In any event, such

information should never be used for the purpose of personal or financial gain, or used in such as way as to bring Audit Scotland into disrepute.

27. Breaches of confidentiality or information security will be treated with utmost seriousness and could prompt an investigation. Any wilful breach such as, unauthorised access or supply of information to others could lead to termination of your position with Audit Scotland and could lead to a criminal prosecution under Data Protection legislation. If you are in any doubt about a matter of confidentiality or information security, please check with the Chief Operating Officer.

28. If you are involved in an act that could cause Audit Scotland reputational risk or bring the organisation into disrepute e.g. you are arrested or charged for a criminal offence, you must inform Audit Scotland at the earliest available opportunity.

Use of Audit Scotland's facilities

29. Members of Audit Scotland must not misuse facilities, equipment, stationery, telephony, computer, information technology equipment and services, or use them for party political or campaigning activities. Use of such equipment and services, etc must be in accordance with Audit Scotland's policy and rules on their usage. Care must also be exercised when using social media networks not to compromise your position as a member of Audit Scotland.

30.

Other Appointments

31. Non-Executive Members must seek the approval of the SCPA prior to accepting any additional office, employment or appointment or engaging in any other occupation.

Conflicts of Interest

32. You may not hold any other office, employment or appointment or engage in any other occupation which would conflict with your responsibilities and duties as a member of Audit Scotland.

Registration of Interests

Introduction

33. The following paragraphs set out the kinds of interests, financial and otherwise which you have to register. These are called 'Registerable Interests'. You must at all times ensure that these interests are registered, when you are appointed and whenever your circumstances change in such a way as to require change or an addition to your entry in the Register. It is your duty to ensure any changes in circumstances are reported within one month of them changing. It is a breach of this Code not to comply with these requirements.

34. You should review regularly and at least once a year your personal circumstances. The interests which require to be registered are those set out in the following paragraphs and relate to you. It is not necessary to register the interests of your spouse or cohabitee.

Remuneration

35. You have a registrable interest where you receive remuneration by virtue of being:

   • employed;

   • self-employed;

   • the holder of an office;

   • a director of an undertaking;

   • a partner in a firm; or

   • undertaking a trade, profession or vocation or any other work.

36. In relation to 34 above, the amount of remuneration does not require to be registered and remuneration received as a member does not have to be registered.

37. If a position is not remunerated it does not need to be registered under this category. However, you must note that unremunerated directorships may need to be registered under the category of 'Related undertakings'.

38. If you receive any allowances in relation to membership of any organisation, the fact that you receive such an allowance must be registered.

39. When registering employment, you must give the name of the employer, the nature of its business, and the nature of the post held in the organisation.

40. When registering self-employment, you must provide the name and give details of the nature of the business. When registering an interest in a partnership, you must give the name of the partnership and the nature of its business.

41. When registering a directorship, it is necessary to provide the registered name of the undertaking in which the directorship is held and give a broad indication of its business.

42. Where you undertake a trade, profession or vocation, or any other work, the detail to be given is the nature of the work and its regularity. For example, if you write for a newspaper, you must give the name of the publication and the frequency of articles for which you are paid.

43. Registration of a pension is not required as this falls outside the scope of the category.

Related undertakings

44. You must register any directorships held which are themselves not remunerated but where the company (or other undertaking) in question is a subsidiary of, or a parent of, a company (or other undertaking) in which you hold a remunerated directorship.

45. You must register the name of the subsidiary or parent company or other undertaking and the nature of its business, and its relationship to the company or other undertaking in which you are a director and from which you receive remuneration.

46. The situations to which the above paragraphs apply are as follows:

     •   You are a director of a board of an undertaking and receive remuneration declared under remuneration - and

     •   You are a director of a parent or subsidiary undertaking but do not receive remuneration in that capacity.

Contracts

47. You have a registrable interest where you (or a firm in which you are a partner, or an undertaking in which you are a director or in which you have shares of a value as described in 50 below) have made a contract with the public body of which you are a member:

     •   under which goods or services are to be provided, or works are to be executed; and

     •   which has not been fully discharged.

48. You must register a description of the contract, including its duration, but excluding the consideration.

Houses, land and buildings

49. You have a registrable interest where you own or have any other right or interest in houses, land and buildings, which may be significant to, of relevance to, or bear upon, the work and operation of Audit Scotland to which you are appointed.

50. The test to be applied when considering appropriateness of registration is to ask whether a member of the public acting reasonably might consider any interests in houses, land and buildings could potentially affect your responsibilities to the organisation to which you are appointed and to the public, or could influence your actions, speeches or decision making.

Interest in shares and securities

51. You have a registerable interest where you have an interest in shares comprised in the share capital of a company or other body which may be significant to, of relevance to, or bear upon, the work and operation of (a) the body to which you are appointed and (b) the nominal value of the shares is:

    (i) greater than 1% of the issued share capital of the company or other body; or

    (ii) greater than £25,000.

52. Where you are required to register the interest, you should provide the registered name of the company in which you hold shares; the amount or value of the shares does not have to be registered.

Non-financial interests

53. You may also have a registerable interest if you have non-financial interests which may be significant to, of relevance to, or bear upon, the work and operation of Audit Scotland to which you are appointed. It is important that relevant interests such as membership or holding office in other public bodies, clubs, societies and organisations such as trades unions and voluntary organisations, are registered and described.

54. In the context of non-financial interests, the test to be applied when considering appropriateness of registration is to ask whether a member of the public might reasonably think that any non-financial interest could potentially affect your responsibilities to the organisation to which you are appointed and to the public, or could influence your actions, speeches or decision-making.

Related party disclosure

55. Related Party Disclosures is a requirement of International Accounting Standard 24. It is a requirement of the Code of Conduct that Board Members and Directors sign an annual declaration at the financial year end stating that you were not aware of any related party transactions in the year.

56. A related party is a person or entity that is related to the entity that is preparing its financial statements.

    (a) A person or a close member of that person's family is related to a reporting entity if that person:

    (i) has control or joint control over the reporting entity;

    (ii) has significant influence over the reporting entity; or

    (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

    (b) An entity is related to a reporting entity if any of the following conditions applies:

(i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment defined benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Declaration of interests

Introduction

57. The key principles of the Code, especially those in relation to integrity, honesty and openness, are given further practical effect by the requirement for you to declare certain interests in proceedings of Audit Scotland. Together with the rules on registration of interests, this ensures transparency of your interests which might influence, or be thought to influence, your actions.

58. Public bodies inevitably have dealings with a wide variety of organisations and individuals and this Code indicates the circumstances in which a business or personal interest must be declared. Public confidence in Audit Scotland and its members depends on it being clearly understood that decisions are taken in the public interest and not for any other reason.

59. In considering whether to make a declaration in any proceedings, you must consider not only whether you will be influenced but whether anybody else would think that you might be influenced by the interest. You must, however, always comply with the objective test ('the objective test') which is whether a member of the public, with knowledge of the relevant facts, would reasonably regard the interest as so significant that it is likely to prejudice your discussion or decision making in your role as a member of Audit Scotland.

60. If you feel that, in the context of the matter being considered, your involvement is neither capable of being viewed as more significant than that of an ordinary member of the public, nor likely to be perceived by the public as wrong, you may continue to attend the meeting and participate in both discussion and voting. The relevant interest must however be declared. It is your responsibility to judge whether an interest is sufficiently relevant to particular proceedings to require a declaration and you are advised to err on the side of caution. If a board member is unsure as to whether a conflict of interest exits, they should seek advice from the board chair.

61. As a member of Audit Scotland you might serve on other bodies. In relation to service on the boards and management committees of limited liability companies, public bodies, societies and other organisations, you must decide, in the particular circumstances surrounding any matter, whether to declare an interest. Only if you believe that, in the particular circumstances, the nature of the interest is so remote or without significance, should it not be declared. You must always remember the public interest points towards transparency and, in particular, a possible divergence of interest between Audit Scotland and another body. Keep particularly in mind the advice in paragraph 31 of this Code about your legal responsibilities to any limited company of which you are a director.

Interests which require declaration

62. Interests which require to be declared, if known to you may be financial or non-financial. They may or may not cover interests which are registrable under the terms of this Code. Most of the interests to be declared will be your personal interests but, on occasion, you will have to consider whether the interests of other persons require you to make a declaration. The

paragraphs which follow deal with (a) your financial interests (b) your nonfinancial interests and (c) the interests, financial and non-financial, of other persons.

63. You will also have other private and personal interests and may serve, or be associated with, bodies, societies and organisations as a result of your private and personal interests and not because of your role as a member of Audit Scotland. In the context of any particular matter you will need to decide whether to declare an interest. You should declare an interest unless you believe that, in the particular circumstances, the interest is too remote or without significance. In reaching a view on whether the objective test applies to the interest, you should consider whether your interest (whether taking the form of association or the holding of office) would be seen by a member of the public acting reasonably in a different light because it is the interest of a person who is a member of Audit Scotland as opposed to the interest of an ordinary member of the public.

Your financial interests

64. You must declare, if it is known to you, any financial interest (including any financial interest which is registerable under any of the categories prescribed in the remuneration section of this Code).

65. There is no need to declare an interest which is so remote or insignificant that it could not reasonably be taken to fall within the objective test.

66. You must withdraw from the meeting room until discussion of the relevant item where you have a declarable interest is concluded. There is no need to withdraw in the case of an interest which is so remote or insignificant that it could not reasonably be taken to fall within the objective test.

Your non-financial interests

67. You must declare, if it is known to you, any non-financial interest if:

    (i) that interest has been registered under Non Financial Interests (paragraphs 52 and 53) of the Code; or

    (ii) that interest would fall within the terms of the objective test.

68. There is no need to declare an interest which is so remote or insignificant that it could not reasonably be taken to fall within the objective test.

69. You must withdraw from the meeting room until discussion of the relevant item where you have a declarable interest is concluded. There is no need to withdraw in the case of an interest which is so remote or insignificant that it could not reasonably be taken to fall within the objective test.

The financial interests of other persons

70. The Code requires only your financial interests to be registered. You also, however, have to consider whether you should declare any financial interest of certain other persons.

71. You must declare if it is known to you any financial interest of:-

    (i) a spouse, a civil partner or a co-habitee;

    (ii) a close relative, close friend or close associate;

    (iii) an employer or a partner in a firm;

    (iv) a body (or subsidiary or parent of a body) of which you are a remunerated member or director;

    (v) a person from whom you have received a registerable gift or registerable hospitality;

    (vi) a person from whom you have received registerable expenses.

72. There is no need to declare an interest if it is so remote or insignificant that it could not reasonably be taken to fall within the objective test.

73. You must withdraw from the meeting room until discussion of and voting on the relevant item where you have a declarable interest is concluded. There is no need to withdraw in the case of an interest which is so remote or insignificant that it could not reasonably be taken to fall within the objective test.

74. This Code does not attempt the task of defining "relative" or "friend" or "associate". Not only is such a task fraught with difficulty but is also unlikely that such definitions would reflect the intention of this part of the Code. The key principle is the need for transparency in regard to any interest which might (regardless of the precise description of relationship) be objectively regarded by a member of the public, acting reasonably, as potentially affecting your responsibilities as a member of Audit Scotland and, as such, would be covered by the objective test.

The non-financial interests of other persons

75. You must declare if it is known to you any non-financial interest of:-

    (i) a spouse, a civil partner or a co-habitee;

    (ii) a close relative, close friend or close associate;

    (iii) an employer or a partner in a firm;

    (iv) a body (or subsidiary or parent of a body) of which you are a remunerated member or director;

    (v) a person from whom you have received a registerable gift or registerable hospitality;

    (vi) a person from whom you have received registerable expenses.

76. There is no need to declare an interest if it is so remote or insignificant that it could not reasonably be taken to fall within the objective test.

77. There is only a need to withdraw from the meeting if the interest is clear and substantial.

Making a declaration

78. You must consider at the earliest stage possible whether you have an interest to declare in relation to any matter which is to be considered. You should consider whether agendas for meetings raise any issue of declaration of interest. Your declaration of interest must be made as soon as practicable at a meeting where that interest arises. If you do identify the need for a declaration of interest only when a particular matter is being discussed you must declare the interest as soon as you realise it is necessary.

79. The oral statement of declaration of interest should identify the item or items of business to which it relates. The statement should begin with the words "I declare an interest". The statement must be sufficiently informative to enable those at the meeting to understand the nature of your interest but need not give a detailed description of the interest.

Frequent declarations of interest

80. Public confidence in Audit Scotland is damaged by perception that decisions taken by us are substantially influenced by factors other than the public interest. If you would have to declare interests frequently at meetings in respect of your role as a board member you should not accept a role or appointment with that attendant consequence. If members are frequently declaring interests at meetings then they should consider whether they can carry out their role effectively and discuss with their chair. Similarly, if any appointment or nomination to another body would give rise to objective concern because of your existing personal involvement or affiliations, you should not accept the appointment or nomination.

Lobbying and access to members of public bodies

Introduction

82. In order for Audit Scotland to fulfil its commitment to being open and accessible, it needs to encourage participation by organisations and individuals in the decision-making process. Clearly however, the desire to involve the public and other interest groups in the decision-making process must take account of the need to ensure transparency and probity in the way in which Audit Scotland conducts its business.

83. You will need to be able to consider evidence and arguments advanced by a wide range of organisations and individuals in order to perform your duties effectively. Some of these organisations and individuals will make their views known directly to individual members. The rules in this Code set out how you should conduct yourself in your contacts with those who would seek to influence you. They are designed to encourage proper interaction between members of public bodies, those they represent and interest groups.

84. The Lobbying (Scotland) Act 2016 (the Act) makes provisions about lobbying a member of the Scottish Parliament, a member of the Scottish Government, a junior Scottish Minister, a special adviser or the permanent secretary. Communications with the Scottish Government and Parliament by Audit Scotland are not classed as regulated lobbying by the provisions in section 22 (d) of the Schedule to the Act. This exemption only applies to engagement by members on Audit Scotland business and members should be mindful of the legislation if engaging with any of the above in any other capacity.

Rules and guidance

85. You must not, in relation to contact with any person or organisation who lobbies, do anything which contravenes this Code of Conduct or any other relevant rule of Audit Scotland or any statutory provision.

86. You must not, in relation to contact with any person or organisation who lobbies, act in any way which could bring discredit upon Audit Scotland.

87. The public must be assured that no person or organisation will gain better access to, or treatment by, you as a result of employing a company or individual to lobby on a fee basis on their behalf. You must not, therefore, offer or accord any preferential access or treatment to those lobbying on a fee basis on behalf of clients compared with that which you accord any other person or organisation who lobbies or approaches you. Nor should those lobbying on a fee basis on behalf of clients be given to understand that preferential access or treatment, compared to that accorded to any other person or organisation, might be forthcoming from another member of Audit Scotland.

88. Before taking any action as a result of being lobbied, you should seek to satisfy yourself about the identity of the person or organisation who is lobbying and the motive for lobbying. You may choose to act in response to a person or organisation lobbying on a fee basis on behalf of clients but it is important that you know the basis on which you are being lobbied in order to ensure that any action taken in connection with the lobbyist complies with the standards set out in this Code.

89. You should not accept any paid work:

    • which would involve you lobbying on behalf of any person or organisation or any clients of a person or organisation

    • to provide services as a strategist, adviser or consultant, for example, advising on how to influence Audit Scotland and its members. This does not prohibit you from being remunerated for activity which may arise because of, or relate to, membership of Audit Scotland, such as journalism or broadcasting, or involvement in representative or presentational work, such as participation in delegations, conferences or other events.

90. If you have concerns about the approach or methods used by any person or organisation in their contacts with you, you must seek the guidance of Audit Scotland.

Appendix 1: Definitions

1. "Remuneration" includes any salary, wage, share of profits, fee, expenses, other monetary benefit or benefit in kind. This would include, for example, the provision of a company car or travelling expenses by an employer.

2. "Undertaking" means:

   (a) a body corporate or partnership; or

   (b) an unincorporated association carrying on a trade or business, with or without a view to profit.

3. "Related undertaking" is a parent or subsidiary company of a principal undertaking of which you are also a director. You will receive remuneration for the principal undertaking though you will not receive remuneration as director of the related undertaking.

4. "Parent undertaking" is an undertaking in relation to another undertaking, a subsidiary undertaking, if a) it holds a majority of voting rights in the undertaking; or b) it is a member of the undertaking and has the right to appoint or remove a majority of its board of directors; or c) it has the right to exercise a dominant influence over the undertaking (i) by virtue of provisions contained in the undertaking's memorandum or articles or (ii) by virtue of a control contract; or d) it is a councillor of the undertaking and controls alone, pursuant to an agreement with other shareholders or councillors, a majority of voting rights in the undertaking.

5. "Group of companies" has the same meaning as "group" in section 474(1) of the Companies Act 2006. A "group", within s 474(1) of the Companies Act 2006, means a parent undertaking and its subsidiary undertakings.

6. "A person" means a single individual or legal person and includes a group of companies.

7. "Any person" includes individuals, incorporated and unincorporated bodies, trade unions, charities and voluntary organisations.

8. "Spouse" does not include a former spouse or a spouse who is living separately and apart from you.

9. "Cohabitee" includes a person, whether of the opposite sex or not, who is living with you in a relationship similar to that of husband and wife.

10. "Code" code of conduct for members of public bodies.

Code of Conduct

Staff policy

AUDIT SCOTLAND

Contents

Code of Conduct

Introduction

1. Audit Scotland and our staff must demonstrate high standards of corporate and personal conduct. This can be achieved by embracing our core values, which are:

   - Independence, integrity and objectivity.

   - Valuing people and ensuring equality and fairness.

   - Effective communication.

2. This Code of Conduct gives you clear and helpful advice about the standards of behaviour expected of you as a member of staff. The Code will be reviewed regularly and is subject to change. A serious breach of the Code may lead to disciplinary action.

3. In addition, you are expected to comply with the principles of the Ethical Standards for Auditors issued by the Financial Reporting Council. Guidance on the application of those standards can be found in the Staff Handbook ('Ethical Standards'), which must be read as part of the annual Fit and Proper process. Our Ethical Standards Application Guide has five main sections which cover:

   - General requirements and guidance.

   - Financial, business, employment and personal relationships.

   - Long association with the audit engagement and with entities relevant to engagements.

   - Fees, remuneration and evaluation policies, gifts and hospitality, litigation.

   - Non-audit / Additional services provided to entities.

4. You should also keep to the Codes of Conduct of the professional bodies of which you are a member.

5. The general principles upon which this Code of Conduct is based are:

   - **Duty** - You have a duty to uphold the law and act in accordance with the law and the public trust placed in you. You have a duty to act in the interests of Audit Scotland of which you are a staff member and in accordance with its core functions and duties.

   - **Selflessness** - You have a duty to take decisions solely in terms of public interest. You must not act in order to gain financial or other material benefit for yourself, family or friends.

   - **Integrity** - You must not place yourself under any financial, or other, obligation to any individual or organisation that might reasonably be thought to influence you in the performance of your duties.

   - **Objectivity** - You must make decisions solely on merit and in a way that is consistent with the functions of Audit Scotland when carrying out public business including making appointments, awarding contracts or recommending individuals for rewards and benefits.

- **Accountability and stewardship** - You are accountable for your decisions and actions to the public. You have a duty to consider issues on their merits, taking account of the views of others and must ensure that Audit Scotland uses its resources prudently and in accordance with the law.

- **Openness** - You have a duty to be as open as possible about your decisions and actions, giving reasons for your decisions and restricting information only when the wider public interest clearly demands.

- **Honesty** - You have a duty to act honestly. You must declare any private interests relating to your public duties and take steps to resolve any conflicts arising in a way that protects the public interest.

- **Leadership** - You have a duty to promote and support these principles by leadership and example, and to maintain and strengthen the public's trust and confidence in the integrity of Audit Scotland and its members in conducting business.

- **Respect** - You must respect colleagues and the role they play, treating them with courtesy at all times. Similarly, you must respect members of the public when performing duties as a staff member of Audit Scotland.

Diversity and Equality

6. We value and promote diversity and equality of opportunity. We expect you to carry out your work following the principles within our Diversity and Equality policy.

Relationships

7. You may have contact with audited bodies, other organisations or members of the public. You should deal fairly, equitably and consistently with those you come in contact with, and you should always be polite and portray a positive and professional image of Audit Scotland.

8. People may develop a relationship with you to influence our work or to acquire confidential or sensitive information for personal gain. They may also offer a financial or other benefit to supply them with information. These relationships are inappropriate and bring risks to your personal reputation and that of Audit Scotland (see Bribery and Corruption paragraphs 39 - 41). You must tell your line manager of any such approaches, relationships or offers of financial or other benefits, and you should do this as soon as possible so that Audit Scotland can support and advise you.

9. Audit Scotland recognises that close personal or domestic relationships with colleagues may exist or develop during the course of their employment. In order that Audit Scotland's business is conducted and perceived to be conducted in a professional and proper manner it is necessary to distinguish between, and take account of, personal relationships which overlap with professional ones in the workplace. If you have any close personal or domestic relationships where that relationship may impinge on your duties and responsibilities this must be declared in confidence to your line manager or senior manager. If necessary upon disclosure of such a relationship and after consultation with both parties, reasonable

arrangements will be made to ensure that future working arrangements and potential conflicts do not arise.

Contractors, suppliers and consultants

10. You must be fair and impartial in your dealings with contractors, suppliers and consultants. If you are involved in the procurement or tendering process to appoint contractors, suppliers or consultants you must follow Audit Scotland's procurement handbook, and any other guidance issued.

11. If you have access to confidential information on tenders or costs for contractors, suppliers or consultants you must not show that information to any unauthorised person or organisation.

12. All private relationships with actual or potential contractors, suppliers or consultants must be declared, as set out in paragraph five below.

Independence, objectivity and conflicts of interest

13. It is important that you carry out your work with independence and objectivity, and that you do not allow any private interest to influence your decisions. You must not use your position to further your own interests or the interests of others who do not have a right to benefit from our work.

14. You, or a member of your family or household, may have a private interest which relates to the work of Audit Scotland. It may be a financial one or one which a member of the public might reasonably think could influence your judgement. For example, you may be a member of a public body, an organisation or club and membership might lead to a conflict of interest with your work. This also applies to membership of organisations or clubs which are not open to the public e.g. Freemasonry.

15. You must declare all such interests to your Compliance Partner / Compliance Manager. A Compliance Partner is appointed for each business group within Audit Scotland. The best way of making such a declaration is to use the Fit & Proper Self-Assessment Form. This information is then retained in a secure area of ishare for three years, after which it is destroyed. The Compliance Partner / Manager will contact you and discuss any issues arising from your disclosure, as appropriate.

16. Fit & Proper Self-Assessment forms are completed by all new staff and other workers when starting their employment / assignment with Audit Scotland. Audit Scotland annually requests that the Form is refreshed. If, between the annual cycle, your circumstances change and you have information that should be reported to the Compliance Partner then it is your responsibility to do so immediately.

17. The Fit & Proper Self-Assessment form is available to download from the Staff Handbook within ishare. Your completed form should be emailed to your business groups Compliance Partner using the email address on the form. Business group Compliance Partners are:

Business Group	Compliance Partner
Audit Services	Fiona Kordiak
Corporate Services	Diane McGiffen
Performance Audit & Best Value	Fraser McKinlay

Openness, disclosure and protection of information

18. Audit Scotland carries out its work in the public interest and is committed to the principle of openness. You should follow the Freedom of Information (Scotland) Act and our FOI policy.

19. There are occasions when information gathered during the course of your work must be kept confidential, both inside and outside the organisation and after leaving Audit Scotland. For example, when its disclosure would prejudice an investigation, breach confidentiality or contravene Data Protection legislation. This does not apply where there is a legal duty to provide information. You should follow our information management policy and procedures, including completing information management training if asked to do so.

20. We take information security very seriously. You must protect our information from inappropriate access, abuse, loss or damage. You must report any instance of this as quickly as possible and help fully in any investigation. Any breach of confidentiality or security may lead to an investigation under our discipline policy. Any wilful breach, such as unauthorised access or supply of information to others, could lead to the termination of your employment and to a criminal prosecution under Data Protection legislation. If you are in any doubt about a matter of confidentiality or security, please check with your manager.

21. If you are involved in an act that could cause Audit Scotland reputational risk or bring us into disrepute, e.g. you are arrested or charged for a criminal offence, you must tell Audit Scotland as soon as possible.

Paid employment outside Audit Scotland

22. We will normally allow you to undertake paid employment outside Audit Scotland in your own time unless there is a conflict of interest, or it is likely to have an adverse effect on the work of Audit Scotland or on your own performance. A conflict of interest can arise where a member of staff seeks to do work for an audited body or to carry out work which relates to the work of Audit Scotland. Outside employment can adversely affect the work of Audit Scotland if it damages the organisation's reputation. It can affect your own performance if it significantly reduces your ability to carry out your duties. If you do work outside Audit Scotland you must first get the approval of your director/assistant director and then advise the Human Resources team. This procedure is in your interests and will protect you. It will also allow us to meet our

legal obligations in relation to family friendly benefits and Working Time Regulations. You are not allowed to use the equipment and resources of Audit Scotland in any outside employment.

23. If you receive a fee for a publication, broadcast, speech or lecture where you have used official information or your own work experience you must remit that fee to Audit Scotland. This also applies to external work carried out in working hours which attracts a fee. You may keep tokens of appreciation such as book tokens or commemorative items. You should let the Chief Operating Officer know of any tokens received as it will be recorded in a register kept for that purpose.

Hospitality

24. You should not accept or offer hospitality connected with your work unless you can justify it and be sure that it will not lead to criticism from colleagues or the public. In general, modest hospitality may be acceptable in some circumstances for example, a sandwich lunch.

25. Accepting, declining or giving of hospitality should be declared and recorded in the register kept for that purpose. When accepting or giving hospitality, you should get approval from your director/assistant director and then let the Chief Operating Officer know. Hospitality given must be recorded in the register and the expenditure detailed in our financial accounting system. You must make sure that you charge the hospitality to the hospitality code 1255 and the appropriate cost centre for your business group. All reimbursement claims for hospitality given through expenses must follow the travel and expenses policy.

26. To help you decide what to declare, the following guidance may be useful:

Reporting hospitality received

27. Items not requiring declaration and recording are:
    - Working lunches at audited bodies, partner firms, working groups/committees, boards, professional institutes and other public bodies.
    - Meals and accommodation related to attendance at conferences, seminars and workshops.

28. Items that would require disclosure include:
    - Meals in external restaurants, whether working or not.
    - Attendance at functions organised/hosted by professional bodies.
    - Receptions held by public bodies, partner firms or other parties where there is a widespread range of attendees, e.g. gallery viewings.
    - Functions where the focus of the event is an awards ceremony which involves a public-sector element.
    - Meals paid for by visiting delegations from other audit offices and Parliaments/ Governments.

29. You should not accept offers to attend social or sporting events unless it would be of benefit to Audit Scotland or where Audit Scotland would expect to be represented.

30. In exceptional circumstances it may be appropriate to accept hospitality in order to avoid embarrassment or offence for example, hospitality offered from overseas hosts when we are carrying out international work.

31. You should not accept repeated hospitality from the same source.

Reporting hospitality declined

32. Any offers of hospitality that you decline must be recorded.

Reporting hospitality given

33. Items not requiring declaration and recording are:
    - Working lunches when hosting meetings and conferences with audited bodies, partner firms, working groups/committees/boards, professional institutes and other public bodies. Lunches should be modest in scale and may typically consist of a buffet/sandwiches and tea and coffee throughout the day.
    - Travel costs as part of recruitment.
    - Consultant travel and accommodation costs where this is part of the consultant's fee.

34. Items that would require disclosure would therefore include:
    - Meals provided in external restaurants whether working or not.
    - Meals provided to international visitors/groups.
    - Provision of overnight accommodation.
    - Provision of travel, e.g. flights or train tickets.
    - Hospitality at or the provision of theatre or sporting event tickets.

Gifts

35. As a general rule, you must not accept personal gifts although you may keep isolated gifts of a trivial character such as a pen or diary, the token value of which must not exceed £50. Sometimes it may be appropriate to accept a gift of more than token value, for example where refusal would embarrass Audit Scotland or damage an important relationship. The acceptance of such a gift should be approved by your director/assistant director. Where an inappropriate gift is received and you are unable to return it or the donor refuses to accept its return, you should report the circumstances to your director/assistant director.

36. All gifts above token value will belong to Audit Scotland and are not a personal gift to you. The Chief Operating Officer keeps a register to record gifts, whether they are accepted or declined and to show that acceptance was authorised. The International Liaison Manager keeps a subsection of the gifts register for work with other countries. Any gifts received while carrying out work for other countries should be recorded in the register.

37. The giving of gifts is generally limited to international visits, the rules for which are set out in the Policy on visits, and the provision and acceptance of gifts & hospitality in relation to work with other countries. Gifts to visiting delegations are given as mementoes of their visit to Audit Scotland. They should of modest value (e.g., book, Quaich, paper weight) and should exclude alcohol. Gifts given to non-international visitors or organisations should be recorded in the hospitality and gifts register. Items that would not require disclosure are modestly priced books and pens; alcohol should not be given as a gift.

38. Gifts recorded in the register must have the expenditure detailed in our financial accounting system. You must make sure that you charge the gift to the hospitality code 1255 and the appropriate cost centre for your business group. All reimbursement claims for gifts given through expenses must follow the travel and expenses policy.

Bribery and corruption

39. Bribery is the offering, giving, receiving, or soliciting of any item of value or advantage to influence the actions of an official or any other person in charge of a public or legal duty.

40. It is a serious criminal offence for you to:

- give, receive or solicit a bribe (i.e., to corruptly receive or give any gift, loans, fee, reward or advantage) in return for doing or not doing anything

- show favour or disfavour to any person in the course of your work.

41. An act of bribery by an individual may make Audit Scotland liable of committing an offence. We have a zero tolerance to bribery and corruption, and such an act can lead to dismissal and prosecution.

Use of resources

42. You and your colleagues serve the public, and you must remember this principle when you use Audit Scotland's equipment, materials and resources to ensure value for money and economy, efficiency and effectiveness.

43. The equipment of Audit Scotland is available to you for use in your personal affairs, provided that:

- it is in your own time

- the cost of any consumables, e.g. paper, postage, telephone calls is met by you

- you are not receiving any fee or reward for the purpose

- you don't store your personal (non-work related) information on Audit Scotland equipment you follow our policy on the use of electronic media such as email and the Internet.

Appointments

44. All appointments must be made on merit. If you are involved in the recruitment and selection process and have any kind of relationship which might affect your ability to be impartial, it

must be declared to your director/assistant director. Your director/assistant director and the person chairing the selection process will decide whether you can take part in the process. The same procedure must be followed in other HR processes such as grievance, discipline or performance reviews.

45. You must not try to influence board members or a colleague either directly or indirectly to secure your own appointment or promotion, or the appointment or promotion of another person. You must report any instances of this occurring to your director/assistant director and the HR & OD Manager.

Media

46. 46. In your work with Audit Scotland, any contact with the media is likely to come from the Audit Scotland Communications team. If you are approached directly by the media, you should speak with the Communications Manager or one of the communications officers, unless circumstances make that impossible and it is better for you to respond to the media enquiry. In this case you must tell the Communications team afterwards. More detailed advice for Audit Services staff can be found in the Audit Manual. Media training is available for staff most likely to need it. Contact the Communications team or your line manager for more information.

Political neutrality

47. 47. The public expects you to carry out your work in a politically neutral way. You must follow our policies, despite any personal views, and you must not do anything which might call into question the independence and political neutrality of Audit Scotland. You have the right to be a member of a political party, but it would be unsuitable to take part in high profile public party-political activity. If you are in any doubt, you should take advice from your director/assistant director.

Health and safety at work

48. We have a duty to ensure that all reasonable steps are taken to provide staff with a safe and healthy working environment. We will comply with the Health and Safety at Work Act, any other associated legislation and statutory codes of practice.

49. You have a duty under the Health and Safety at Work Act for the health, safety and welfare of yourself and others, including members of the general public who may be affected by what you do or fail to do at work. You must comply with our Health and Safety policy and cooperate with us in our compliance with health and safety legislation.

Fair and reasonable treatment at work

50. You should expect fair and reasonable treatment from your colleagues and managers. If you feel that you have been unfairly treated or have been discriminated against, there is a grievance procedure that you can use.

51. We expect you to support and comply with our policies, practices and procedures, both in your dealings with colleagues and those outside the organisation. You should not do anything which might undermine or adversely affect any position or decision of Audit Scotland.

52. We also have a whistleblowing policy. You should refer to this if you feel that you have been required to act in a way, or have become aware of practices in the organisation, which might be illegal, improper, unethical or in conflict with the principles of this Code.

Purpose

1. To invite the Board to consider the proposed meeting schedule for the Board and its committees during 2019.

Background

2. At its meeting in October each year the Board typically agrees it's schedule of meeting dates for the year to come. Between 2015/16 and 2017/18 the Board has typically met on eight occasions each year.

3. We have reviewed the content, timing and profile of board work from previous years to inform the schedule for the year to come. In doing so we have also considered key dates and actions, for example the timing of meetings to take account of:

- the budget submission

- the annual assurances process

- the annual report and accounts

- review dates for strategies, plans, policies and procedures

- performance reporting

- meetings of parliamentary committees and the Accounts Commission.

4. A proposed schedule of meeting dates is attached as appendix 1 and a schedule of indicative board items is attached as appendix 2.

5. The Standing Orders provide for any additional meetings to be called should they be required.

Recommendations

6. The Board is invited to consider the proposed meeting dates for 2019.

Proposed meeting schedule 2019

Audit Committee	Human Resources and Remuneration Committee	Board
		29 January 2019[+]
27 February 2019*	27 February 2019*	
		20 March 2019[+]
22 May 2019*	22 May 2019*	1 May 2019[+]
5 June 2019 (AR&Accs) [+]		5 June 2019 (AR&Accs)[+]
4 September 2019*	4 September 2019*	18 September 2019[+]
13 November 2019*	13 November 2019*	27 November 2019[+]

* Committee meetings will be held in the Glasgow office.
[+] Board meetings will be held in EH1 and EH2, West Port and will be open to the public.

Indicative Work Programme 2019 – Audit Scotland Board

29 January 2019	20 March 2018	1 May 2019	5 June 2019	18 September 2019	27 November 2019
Agenda items include: • Standing items • Environmental scan • Publication programme • SCPA report on budget submission • Openness and transparency • Best companies results	Agenda items include: • Standing items • Q3 performance reporting • Annual report and accounts timeline and outline plan • NFPs update • Equality outcomes • Board development	Agenda items include: • Standing items • Draft Annual report and accounts • Review of information, governance and security policies	Agenda items include: • Standing items • Q4 performance reporting • Annual report and accounts • Annual reporting • Governance and assurance reporting	Agenda items include: • Standing items • Q1 performance reporting • Audit Scotland's draft budget submission • PSRA Annual statements • Openness and transparency/meeting schedule • Review of FOI, EIR and records management policies	Agenda items include: • Standing items • Q2 performance reporting • Audit Scotland's budget submission • Review Scheme of delegation/Financial regulations and Standing orders • Board development/self evaluation

Agenda

Friday 28 September 2018, 11.45am

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

AUDIT SCOTLAND

1. Welcome and apologies

2. Declarations of interest

3. Decision on items to be taken in private   For approval

Standing items

4. Chair's report – verbal update

5. Accountable Officer's report – verbal update

6. Accounts Commission Chair's report – verbal update

7. Review of minutes:
   - Board meeting, 22 August 2018   For approval

8. Review of action tracker   For information

Business performance

9. Q1 Financial performance report   For information

Governance

10. Annual review of information governance policies   For approval
    - Freedom of Information policy
    - Records Management Policy

11. Any other business

12. Review of meeting

13. Date of next meeting: 31 October 2018

Items to be taken in private

14. Audit quality and reputational risk   For information

    [Item to be taken in private to support the effective conduct of business – information intended for future publication]

15. 2018/19 Spring budget revision   For approval

    [Item to be taken in private to support the effective conduct of business – information intended for future publication]

16. 2019/20 Budget   For approval

    [Item to be taken in private to support the effective conduct of business – information intended for future publication]

Items to be taken in private continued

17. Audit Scotland Draft British Sign Language plan 2018-24   For approval

[Item to be taken in private to support the effective conduct of business – information intended for future publication]

Minutes

Wednesday 22 August 2018, 10.15am

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

Present:

I Leitch (Chair)
C Gardner
G Sharp
H Logan
R Griggs

Apologies:

None

In attendance:

D McGiffen, Chief Operating Officer
M Walker, Assistant Director, Corporate Performance and Risk
A Devlin, Corporate Governance Manager (item 12)
J Webber, Senior Executive Assistant

1.   Welcome and apologies

The Chair welcomed members and attendees to the meeting of the Audit Scotland Board, the agenda and papers for which had been published on Audit Scotland's website on Monday 20 August 2018.

2.   Declarations of interest

Russel Griggs advised of his interest with Mines Association Scotland, a Charity which receives funding from East Ayrshire Council. The Chair noted Russel's interest.

3.   Decision on items to be taken in private

The members noted there were no items to be taken in private.

4.   Chair's report

Ian Leitch provided a verbal update on regular meetings with Diane McGiffen and Caroline Gardner on general business matters and of meetings with Parliamentary officials on various issues.

The Chair advised he will be discussing the continued development of the Audit Quality assurance framework in the coming weeks.

The members welcomed the update.

5.   Accountable Officer's report

Caroline Gardner advised the Board of Parliamentary engagement which included the meeting with the Scottish Commission for Public Audit (SCPA) on Wednesday 20 June, the report of which is at Item 11 of the agenda, together with sessions at the Public Audit and Post Legislative Scrutiny (PAPLS) Committee on the Colleges Overview report, Forth Replacement Crossing and the National Fraud Initiative.

Caroline highlighted forthcoming reporting on performance audits including Children and Young People's mental health and potential Section 22 reports.

Caroline advised of the developing work on new financial powers, social security and EU withdrawal.

Caroline advised of her attendance at PAPLS business planning meeting on 6 September 2018, and at the Education Committee.

Caroline advised she had written to the Scottish Government on the audit and accountability framework.

The Board noted the recruitment campaign currently underway to secure a new Audit Director, the appointment of Gilliam Woolman as the Chair of LASAAC and Caroline's role as professional adviser to the House of Commons panel recruiting the new Controller and Auditor General.

The Board noted the update and welcomed the intention to bring further updates on the New financial powers, constitutional changes and EU withdrawal.

6. Accounts Commission Chair's report

Graham Sharp invited the Board to note that the Accounts Commission meeting on 9 August had considered useful briefings on housing and rural issues.

Graham advised the Best Value Assurance Report on Glasgow City Council would be published on Thursday 23 August 2018.

The Board noted the Accounts Commission meeting in September would consider the Local Government Overview following the Best Value Assurance Report on West Dunbartonshire Council in June and the follow up report.

Graham invited the Board to note forthcoming meetings with East Ayrshire, West Dunbartonshire and Fife councils to discuss the outcomes from best value reports and engagement events scheduled in September and October with councils.

Graham provided an update on the new members of the Accounts Commission. Andrew Burns, and Andy Cowie who attended their first meeting in August. He also advised of a further two members joining later in the year bringing a valuable and diverse range of experience to the Accounts Commission.

Graham advised that the Strategic Scrutiny Group met on Tuesday 21 August 2018 and considered shared risk assessments of local government.

Graham invited the Board to note that the Accounts Commission will hold its mid-year Strategy session on 12 September 2018 at which it will consider how the Commission and its members engage and promote its work.

The Board welcomed the update.

7. Review of minutes

Board meeting, 6 June 2018

The Board considered the minutes of the meeting of 6 June 2018, which had been previously circulated, and agreed these were an accurate record of the meeting, subject to a minor correction at item 6.

8. Review of actions tracker

The Board noted the updates provided by the action tracker.

Heather Logan sought clarification on ASB70 and Diane McGiffen advised that the title of the action should be revised to Audit Quality and it consolidated discussions in both the Audit Committee and Board about the impact of FRC reports on audit quality. The September report would provide a briefing on the wide range of Audit Quality risks and Audit Scotland's response.

Diane also advised of the discussion with Audit Partners at its meeting on Monday 20 August on Audit Quality.

9.   Q1 Corporate performance report

Martin Walker, Assistant Director, Corporate Performance and Risk introduced the Q1 Corporate performance report, which had been previously circulated.

Martin invited the Board to note that strong performance continued, highlighting the outputs published. Martin advised the Board that the Performance and Risk Management Group had reviewed and changed the assessment in relation to people performance from amber to green (Page 5) before inviting any comments or questions.

Heather noted that there was some duplication between the performance report (item 9) and the Becoming World Class Update Report (item 10) and questioned whether these should be combined. Martin confirmed that that there was some duplication and advised that Management Team valued the overview of the strategic improvement programme.

Heather asked about impact reports and the value they offer. Caroline advised that impact reports are significant and Fraser McKinlay, Director of Performance Audit and Best Value is considering the balance of reporting in impact reports and the focus we want them to have.

Heather sought more information on Audit Scotland's membership with Quality Scotland and efficiency reviews. Diane advised that Quality Scotland provide training on a variety of improvement techniques including EFQM and lean reviews and advised Business Support Services are conducting lean reviews on a range of operational support processes building on the more strategic efficiency reviews of previous years on accommodation, audit procurement and how people use their time.

Under Making a Difference, Heather asked about the number of downloads and asked whether Audit Scotland had considered the use of pop up surveys to gauge interest and seek feedback. Martin advised that he would discuss this option with the Communications team.

Heather asked how the value of e-hubs is assessed. Martin advised that positive feedback had been received through social media on the benefit of online resources. In addition, Diane advised that offering e-hubs provides a way of disseminating outputs and resources produced during the audit process. Martin advised that the e-hubs also gives longevity to our work as people access previous reports on related issues.

Heather noted the data on pages 19 to 21 and advised she would value seeing the expenditure on consultancy in future quarterly reports.

Graham Sharp noted the fluctuations in the average cost per audit day and the changes between the Audit Services Group (ASG) and the Performance Audit and Best Value Group (PABV). Martin Walker advised that this reflected the seniority and skills mix of colleagues applied to performance audits based on the subject area. Graham asked for further information in due course.

Russel Griggs asked how we review the value added to audited bodies of the audit work in addition to the data in the performance reports. Diane advised that auditors gather feedback on an ongoing basis from audited bodies and that we undertake stakeholder surveys as part of the Audit Quality Framework. Further development work is underway in this area.

Russel noted the small increase in sickness and the data on staff turnover. Diane advised the Health Safety and Wellbeing Committee has been actively reviewing sick absence, the approach to case management and that the HR team work closely with the relevant managers on individual cases.

The Board reflected on the amount of parliamentary engagement, welcomed the Forth Crossing report and noted the continuing impact of best value audits.

The Chair noted there were fewer audit days recorded in the year to date and asked whether this would result in an underspend across the year as a whole. Diane advised members that Management Team had considered a very early budget projection on Tuesday 21 August and Audit Scotland is not at this stage forecasting a significant underspend.

The Chair sought clarification on the resilience of our systems and how we are considering the issues around the move from ishare to Office 365 and SharePoint online. Martin advised that a report on digital security is scheduled to go to the Audit Committee on 19 September 2018 and on the resilience of our IT systems, and the Q2 Becoming World Class report would provide further information on the migration to the new systems.

Following discussion, the Board welcomed the report.

Action ASB77   **Martin Walker to discuss with the Communications team the use of pop up surveys to gauge interest and seek feedback from stakeholders. (September 2018)**

Action ASB78   **Martin Walker to include expenditure data on consultancy in future quarterly reporting. (November 2018)**

Action ASB79   **Martin Walker and Stuart Dennis to discuss with Graham Sharp what further information on the average cost per audit day for Performance Audit and Best Value group would be helpful. (September 2018)**

10. Q1 Becoming world class improvement programme report

Martin Walker introduced the report Q1 Becoming world class improvement programme, a copy of which had been previously circulated.

Martin invited the Board to note the performance reported during the first quarter of 2018/19 and welcomed any questions.

Russel Griggs noted the potential resource implications of EU withdrawal and what preparations were being made. Caroline Gardner advised that Management Team had held a summit discussion on Tuesday 21 August with the team who are monitoring new financials powers, social security and EU withdrawal and key managers. During that discussion, Management Team had considered the impact of a deal or no deal withdrawal including the potential impact on audit responsibilities (the EAFA audit), funding streams and the complexities of the devolved powers from Westminster to Scotland, together with the risks for resourcing and what that might mean for Audit Scotland.

Heather referred to her earlier observations on the potential duplication of the report. The members recognised the value of both reports and Caroline advised the team will reflect on the discussion ahead of the next reporting cycle.

Following discussion, the Board welcomed the report.

11. Scottish Commission for Public Audit: Report on Audit Scotland's 2017/18 Annual report and accounts

Diane McGiffen, Chief Operating Officer, introduced the Scottish Commission for Public Audit's report on Audit Scotland's 2017/18 Annual report and accounts, which had been previously circulated.

The Board discussed the report and looked forward to continuing engagement with the SCPA.

Following discussion, the Board welcomed the report.

12. Annual review of Codes of Conduct

Alex Devlin, Corporate Governance Manager, joined the meeting.

Alex Devlin, Corporate Governance Manager, introduced the annual review of Codes of Conduct, which had been previously circulated.

Alex invited the Board to consider and approve the amended Codes of Conduct.

The Board reflected on the new provisions and welcomed the review in advance of the SCPA's recruitment of a new member to the Audit Scotland Board.

The members noted the importance of the registers of interest being comprehensive and the declaration of interest at meetings in terms of the real and perceived independence and neutrality of the Board. The members also discussed the formality of the process in declaring interests.

Heather noted there was no provision that members required to step down from any roles which they had with any audited body. In addition, Heather asked that the wording be amended which related to anyone arrested or charged with a criminal activity.

Alex Devlin agreed to circulate revised wording taking on board the issues raised in discussion.

Following discussion, the Board agreed to approve the Members Code of Conduct subject to amendments by correspondence.

Action ASB80   Alex Devlin to circulate the revised wording to members for information. (August 2018)

Alex Devlin, Corporate Governance Manager, left the meeting.

13. Proposed Board and Committee meeting schedule 2019

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the proposed Board and Committee schedule 2019, which had been previously circulated.

The Board welcomed the proposed schedule of meetings and indicative work programme for 2019.

Following discussion, the Board agreed the schedule.

14. Any other business

The Chair advised that Professor Russel Grigg's term of office concluded at the end of September 2018 and that this may be his last Board meeting. The Chair wished to record his and the Board's appreciation of his services to the Board and its Committees. He thanked Russel for his Chairing of the Human Resources and Remuneration Committee and his contribution over the course of his tenure on the Board.

15. Review of meeting

The members agreed that business had been well considered and dealt with timeously and the Chair thanked everyone for their contribution.

16. Date of Next Meeting

It was noted that the next Audit Scotland Board meeting was scheduled for 10.15am on Wednesday 26 September 2018 in the offices of Audit Scotland, 102 West Port, Edinburgh.

Post meeting note: The next meeting of the Audit Scotland Board has changed to Friday 28 September 2018.

Ref	FORUM	Agenda Item No	Item Title	Action Description	Meeting Date	Due Date	Responsible	Assigned to	Complete/Ongoing	Reported Yes/No	Progress Notes
ASB64	Board	5	Accountable Officer's Report	An update report on developments within the Appointments and Assurance and Professional Support teams to be scheduled.	29/11/2017	28/03/2018	Diane McGiffen/Fiona Kordiak	Diane McGiffen/Fiona Kordiak	Ongoing		A verbal update was provided at the meeting on 28 March with a report to be scheduled later in the year.
ASB70	Board	11	2018 Audit Scotland staff conference update	A discussion on audit quality and reputational risk to be scheduled following consideration of the Annual Audit Quality report.	31/01/2018	22/08/2018	Diane McGiffen	Fiona Kordiak	Complete	No	The report at item 10 will be considered by the Board on 28/09/2018.
ASB76	Board	22	2017/18 Annual report on Audit quality	The Appointments and Assurance team to provide a published copy of the report to members.	06/06/2018	30/06/2018	Elaine Boyd	Elaine Boyd	Complete	Yes	The report was published on our website at the same time as the Annual report and Accounts in June 2018 and a link has been shared with members.
ASB77	Board	9	Q1 Corporate performance report	Martin Walker to discuss with the Communications team the use of pop up surveys to gauge interest and seek feedback from stakeholders.	22/08/2018	30/09/2018	Martin Walker	James Gillies	Ongoing	No	A verbal update will be provided at the meeting on 28/09/2018.
ASB78	Board	9	Q1 Corporate performance report	Martin Walker to include expenditure data on consultancy in future quarterly reporting.	22/08/2018	30/11/2018	Martin Walker	Martin Walker	Ongoing	No	Expenditure data will be reported in the Q2 report scheduled to come to the Board in November 2018.
ASB79	Board	9	Q1 Corporate performance report	Martin Walker and Stuart Dennis to discuss with Graham Sharp what further information on the average cost per audit day for Performance Audit and Best Value group would be helpful.	22/08/2018	30/11/2018	Martin Walker / Stuart Dennis	Stuart Dennis	Ongoing	No	A verbal update will be provided at the meeting on 28/09/2018.
ASB80	Board	12	Annual review of Codes of Conduct	Alex Devlin to circulate the revised wording to the Code of Conduct for members for information.	22/08/2018	31/08/2018	Alex Devlin	Alex Devlin	Complete	No	The revised Code of Conduct for members was emailed, comments received and a further revised code emailed to members on 20/09/2018.

AUDIT SCOTLAND BOARD ACTION TRACKER 2018/19

Q1 Financial performance report

Corporate Finance Manager

Item 9

26 September 2018

Purpose

1. This report presents the financial results for the three months to 30 June 2018.

Background

2. The detailed finance performance report for the three months to 30 June 2018 is provided as Appendix 1 to this paper and Appendix 2 details budget virements to the approved operational budget.

3. The report was discussed by Management Team on Tuesday 31 July 2018.

Discussion

4. In the three months to 30 June 2018, Audit Scotland's Net Operating Expenditure was £1,180k which was £56k less than budget.

5. In-house income for 2017-18 audits was in total £34k less than budget with an adverse volume variance of £70k reduced by a positive price variance of £30k. Prior year income of £6k related to charitable trust fees within the local government sector.

6. Fee income earned for 2017-18 audits carried out by external firms net of fees and expenses paid to the firms was £49k better than budget. Income recognition was £203k higher than budget and this was offset by fees and expenses payable to the external firms being £154k higher than budget.

7. Staff costs including agency expenditure was £24k less than budget.

8. Other expenditure contributed £16k to the favourable position. The main areas of reduced costs were recorded in training/recruitment £10k and property costs £7k.

9. More detailed variance analysis and explanation is provided in Appendix 1 attached to this report.

Virement

10. Following approval of an operational budget by the Board on 28 March 2018 further budget virements have been made to allocate the Audit Quality provision and also to fund the increase in pay award. A detailed reconciliation of the virements is provided in Appendix 2.

Recommendation

11. The Board is invited to note the financial results for the 3 months to 30 June 2018.

AUDIT SCOTLAND

FINANCE REPORT

Headline Results

The summary financial position to 30 June 2018:

£000	Annual Budget	Actual	Budget	Var.	% Var.	Prior Year	Note
Fee Income - In House	7,589	2,044	2,078	(34)	1.6%	2,105	1
Fee Income - Audit Firms	4,603	1,637	1,434	203	-14.2%	1,498	2
Central Charges	5,453	1,363	1,363	0	0.0%	1,376	
Rebate	0	0	0	0	-	0	
Interest	0	0	0	0	-	5	
Other Income	0	1	0	1	-	30	
IAS 19 Income	0	0	0	0	-	0	
TOTAL INCOME	**17,645**	**5,045**	**4,875**	**170**	**3.5%**	**5,014**	
Approved auditors	4,125	1,498	1,344	(154)	11.5%	1,381	2
Staff salaries and oncosts	15,628	3,845	3,886	41	-1.1%	3,726	3
Payroll provisions incl. severance	109	0	0	0	-	0	
Agency and secondment costs	70	19	2	(17)	850.0%	54	3
IAS 19 Pension costs	100	0	0	0	-	0	
Property costs	936	208	215	7	-3.3%	211	
Travel and subsistence	906	227	230	3	-1.3%	204	
Legal, professional and consultancy	919	54	53	(1)	1.9%	37	
Training	483	49	61	12	-19.7%	52	4
Recruitment	105	27	25	(2)	8.0%	31	4
Printing and office costs	271	66	62	(4)	6.5%	53	
Information technology	458	115	114	(1)	0.9%	92	
Audit	60	16	15	(1)	6.7%	15	
Depreciation	383	94	96	2	-2.1%	92	
Other costs	65	7	8	1	-12.5%	7	5
EXPENDITURE	**24,618**	**6,225**	**6,111**	**(114)**	**1.9%**	**5,955**	
NET OPERATING (EXPENDITURE)	**(6,973)**	**(1,180)**	**(1,236)**	**56**	**-4.5%**	**(941)**	

FINANCE REPORT

Income and Expenditure Summary

1.   Fee Income – In House

Variances arise in fee income as a result of volume and price differences. Volume variances occur when audit work is carried out at different times and/or durations than the previous year. Price variances reflect the difference in actual fees to indicative fees originally budgeted and is based on additional work undertaken and agreed with the audited body.

The table below shows the performance by sector at 30 June 2018 for the in-house audits:

	2017/18 Audit Year			Prior Years	Total
	Volume		Price		
	WIP %	£	£	£	£
Local Government	-1.29	-55	+15	+6	-34
Health	+0.04	+1	-	-	+1
FE	-36.83	-16	-	-	-16
Central Government	+3.27	+31	+15	-	+46
Non-statutory	-3.98	-31	-	-	-31
Total – June 18	**-1.00**	**-70**	**+30**	**+6**	**-34**

Local Government

Local Government audits are 1.29% behind plan leading to an adverse volume variance of £55k. The positive price variance of £15k is due to increased fees being applied to local government bodies with the most significant increases being applied to North Lanarkshire Council, Aberdeenshire Council, Angus Council and Scottish Borders Council. The £6k prior year fee income relates to charitable trust fees for 2016/17 audits at Moray and East Lothian councils.

Health

All health audits are complete and within the expected fee. The minor positive volume variance is due to completion being slightly ahead of plan.

Further Education (FE)

ASG undertake 2 FE audits, Dundee & Angus College and Edinburgh College. When comparing the wip percentages with the audit firms the figure shown is a fair representation of the position of the audits. In this instance the variance to phased plan will smooth out in the next quarter.

Central Government

Central Government chargeable audits are 3.27% ahead of schedule leading to a positive volume variance of £31k. The positive price variance of £15k is attributable to increased fees being applied to audited bodies with the most significant increases being applied to the Scottish Police Authority and Scottish Land Commission.

Non-statutory

The European Agricultural Fund Account (EAFA) audits are slightly behind schedule by 3.98% but are 12.2% ahead of the reported position in 2017/18. It is projected that this variance will reduce by the end of the next quarter.

FINANCE REPORT

2.   Fee income and expenditure – Audit Firms

The positive income variance of £203k should be offset with the adverse expenditure variance of £154k for approved auditors. Effectively this approach highlights a net favourable variance of £49k on chargeable audits.

Audit firms can negotiate fee increases within set parameters above indicative fees with audited bodies. Primarily increases in fees will relate to increased complexity and additional work undertaken for which the audited body has agreed to pay an additional fee.

The table, below, shows the performance for approved auditors by sector to 30 June 2018:

	2017/18 Audit Year		Prior Year	Total
	Volume		Price	Price	
	WIP %	£	£	£	£
Local Government	+1.33	+36	+38	-	+74
Health	+0.72	+7	+28	+3	+38
Water	+15.00	+21	-	-	+21
FE	+3.26	+13	-	+12	+25
Central Government	+9.46	+36	+9	-	+45
Total – June 18	**+2.44**	**+113**	**+75**	**+15**	**+203**

Local Government

Audits on the local government sector are 1.33% ahead of plan leading to a favourable volume variance of £36k. In addition audit firms have agreed fees above expected fees leading to a price variance of £38k. The most significant increases to fees have been agreed by Aberdeen City Council, City of Edinburgh Council and Midlothian Council.

Health

Health audit completion was 0.72% ahead of trajectory based on the prior year actuals. All 2017/18 audits are complete which has generated a positive volume variance of £7k. In addition to the volume variance there is a £28k price variance recognised in the accounts for 2017/18 audits. This is mainly due to agreed fees being higher than expected for 3 health boards (Lothian, Ayrshire & Arran and Highland). The prior year income of £3k is in relation to an additional audit fee for the 2016/17 audit of NHS Health Scotland.

Water

The favourable volume variance is due to completion of the audit ahead of the planned trajectory which was based on prior year actual.

Further Education (FE)

Progress on 2017/18 audits is 3.26% ahead of schedule leading to the recognition of £13k fee income ahead of plan. As at the end of June there have been no changes to the expected fee. The prior year fee income of £12k relates to fee increases agreed by Moray College and Glasgow Kelvin College.

Central Government

Central government audits are ahead of schedule leading to a positive volume variance of £36k. The £9k price variance is mainly due to the recognition of agreed fee increases for Crown Estate Scotland and Historic Environment Scotland.

FINANCE REPORT

3.   **Staff & Agency Costs**

Business Group	Annual Budget £000	Actual £000	Budget £000	Variance £000	Actual Average w.t.e.	Budget w.t.e.	Note
ASG staff costs	7,835	2,006	1,959	(47)	147.6	140.7	a)
ASG agency & secondments	70	0	2	2			
NFP staff costs	480	72	75	3	5.8	5.8	b)
NFP agency & secondments	0	0	0	0			
PABV (incl Professional Support) staff costs	3,773	878	943	65	59.1	64.4	c)
PABV agency & secondments	0	0	0	0			
CSG (incl Audit Assurance) staff costs	1,996	500	499	(1)	36.3	35.3	d)
CSG agency & secondments	0	12	0	(12)			
Business Support staff costs	649	148	162	15	17.3	18.1	e)
Business Support agency & secondments	0	7	0	(7)			
Governance & Other staff costs	1,104	243	248	6	18.0	20.0	f)
Governance & Other agency & secondments	0	0	0	0			
Total staff costs	**15,837**	**3,846**	**3,886**	**41**	**284.1**	**284.4**	
Total agency & secondments	**70**	**19**	**2**	**-17**			

a) In the first 3 months of the year the average number of staff employed in ASG has been 6.9 w.t.e. more than the funded budget. The establishment is based on 145.1 w.t.e. with the application of a 3% vacancy/turnover factor reducing the funded w.t.e. to 140.7. Overall the additional cost of employing the increased staffing level (£95k) has been partially funded by the reduction in average actual salary costs per employee (£48k). From 1 May 2.2 w.t.e. staff moved to new financial powers teams. As in previous years there will be an intake of professional trainees in October and current projections indicate that there will be sufficient staff turnover to accommodate this.

b) As part of the budget submission the SCPA approved a budget to increase staff resources to meet the demands of additional new financial powers. Following an internal recruitment exercise staff have been identified to fill positions to meet this additional work. During April and May the staff have been moving across to the new financial powers teams taking on their additional responsibilities. As the year progresses the average w.t.e. will increase to planned levels to meet the increased budget allocation. The minor underspend year to date is due to lower average salary costs.

c) PABV is on average 5.3 w.t.e. below budget (£78k) and this is being reduced by the average actual salary cost being above plan (£13k). From 1 April 2 w.t.e. staff moved to new financial powers and a further 3.5 w.t.e. staff transferred on 1 May. A significant recruitment exercise has been undertaken in May/June and it is projected that vacant positions will be filled by September.

d) The average staff resource requirements in CSG has been higher than the funded w.t.e. (£14k) due to the 3% vacancy factor. This overspend is currently funded by the favourable variance on average actual salary costs (£13k) and savings within other expenditure budget headings. Agency costs have been incurred to provide essential cover for vacancies.

e) Business support w.t.e. below funded figure (£9k) due to one supernumerary member of staff currently providing maternity cover in Human Resources and a manager vacancy that has now been filled. In addition to a positive volume variance the actual average salary costs are better than budget (£6k). Agency expenditure covers a vacant post and plans are in place to fill this position on a permanent basis.

f) The reduced w.t.e. in Governance & Other is due to two non-exec vacancies within the Accounts Commission (£6k).

FINANCE REPORT

4.   **Training and recruitment**

Training expenditure underspend is mainly due to reduced expenditure on external training courses. The expenditure pattern for quarter 1 is in line with previous years and a review of the budget phasing will be undertaken to more accurately reflect the pattern of expenditure. The overspend on recruitment is due to the significant recruitment campaign undertaken in May and June to bring in a mix of qualified and unqualified staff to backfill vacancies generated through the creation of teams to work on new financial powers.

5.   **Other costs**

The main reason for the underspend is attributable to the allocation of a budget for complaints/correspondence with no expenditure incurred year to date.

Management Contingency

The 2018/19 budget includes a contingency allocation of £150k which is controlled by the Management Team. The budget is included within the legal, professional and consultancy subjective heading.

To date no allocations have been made from the Management Contingency.

Capital Expenditure and Funding

Capital investment for the three months to June 2018 was £12k, with the total available budget for 2018/19 being £175k.

The £12k year to date expenditure is on IT hardware comprising 4 laptops and an Apple Macbook Pro.

Stuart Dennis
Corporate Finance Manager
22 August 2018

AUDIT SCOTLAND

Appendix 2

BUDGET VIREMENT

AUDIT SCOTLAND BUDGET: 2018/19

£(000)'s	SCPA Approved 2018-19	Operational Budget 2018-19	INCREASE PAY AWARD	MGT CONTINGENCY	1% VACANCY INCREASE	2018/19 FEE INCREASE	L&D SAVING	QUALITY	AAAT	Proposed Budget 2018-19
Basic Salaries	11,372	11,372	201		(70)				74	11,577
Employer's On costs	3,439	3,439	64		(24)				22	3,501
Agency Staff	70	70								70
Payroll provisions	730	730						(250)		480
Former AGS pension	25	25								25
Pension Adjustments	100	100								100
Accounts Commission Members	164	164	2							166
	15,900	15,900	267	-	(94)	-	-	(250)	96	15,919
Approved Auditors	3,991	4,081	44							4,125
Rent & Rates	525	525								525
Accommodation Costs	410	410								410
Travel & Subsistence	894	894								894
Legal & Professional Fees	615	615							154	769
Printing & Stationery	148	148								148
Training	528	528					(45)			483
Recruitment	105	105								105
Communications (telephone, postage)	46	44								44
Insurance	79	79								79
Information technology	456	458								458
Internal Audit	30	30								30
External Audit	30	30								30
Other	65	65								65
Depreciation	384	384								384
Management Team Contingency	150	296		(146)						150
	8,456	8,692	44	(146)	-	-	(45)	-	154	8,699
GROSS ADMINISTRATIVE COSTS	24,356	24,592	311	(146)	(94)	-	(45)	(250)	250	24,618
Corporation Tax	-	-	-	-	-	-	-	-	-	-
Bank Interest	-	-								-
Secondment Income	-	-								-
Other Income	-	-								-
OTHER INCOME	-	-	-	-	-	-	-	-	-	-
NET EXPENDITURE	24,356	24,592	311	(146)	(94)	-	(45)	(250)	250	24,618
FEES & CHARGES INCOME	(17,383)	(17,619)	-	-	-	(26)	-	-	-	(17,645)
NET OPERATING COST	6,973	6,973	311	(146)	(94)	(26)	(45)	(250)	250	6,973

Purpose

1. This report invites the Audit Scotland Board to note the annual review of Audit Scotland's information governance policies and re-approve them for a further year.

Background

2. Audit Scotland has in place policies and procedures to ensure compliance with the Freedom of Information (Scotland) Act 2002 (FOISA), the Data Protection Act 2018 (DPA) and the Public Records (Scotland) Act 2011 (PRSA).

3. The policies are reviewed each year to ensure they are up-to-date and are submitted to the Knowledge, Information and Technology Governance Group (KITGG), Management Team and Board for approval and as part of the annual assurance process leading to the Accountable Officers Governance Statement.

Annual review of information governance policies

4. A review of our Freedom of Information (FOI) and Records Management (RM) policies took place in June 2018. The review found that both policies were up-to-date and that only minor changes required. PCS has not been consulted as the changes were minor.

5. The KITGG and Management Team have reviewed the policies and recommended they proceed to the Board for re-approval.

6. The Data Protection policy was reviewed in March and re-approved by the Board on 2 May 2018 to reflect changes required by the introduction of the new General Data Protection Regulation and Data Protection Act 2018.

7. Audit Scotland has been informed that our Records Management Plan (RMP) which was approved by the Keeper of the Records in 2013 will have to be resubmitted in July 2019 for assessment by the Keepers team.

Recommendations

8. The Board is invited to note the annual review of Audit Scotland's information governance policies and re-approve them for a further year.

Freedom of Information and Environmental Information Policy

Owned and maintained by:	Corporate Governance Manager				
Approved from:	August 2018	Next review:	August 2019	Version:	09

Introduction

1.   The Freedom of Information (Scotland) Act 2002 (FOISA) and the Environmental Information (Scotland) Regulations 2004 (EIRs) places a duty on us to prepare and implement systems and processes to comply with the legislation. Under these Acts a person who requests information from a Scottish public authority which holds it is entitled to be given it by the authority.

Our approach

2.   Reporting in public is a principle of the public audit model. It contributes to openness and transparency in the conduct of public bodies in Scotland. Our audit work is carried out in the public interest and we believe that it is enhanced by the principles of the Freedom of Information and Environmental Information legislation. We embrace the legislation and are committed to its continued successful implementation.

3.   There are some special considerations which relate to the audit process and these are recognised in the legislation. We will make use of relevant exemptions and exceptions only where we consider that this is necessary in the public interest.

4.   We have one Publication Scheme covering the Auditor General, the Accounts Commission and Audit Scotland and we will follow a consistent approach to information handling and requests.

5.   A professional relationship with the bodies we audit and other stakeholders is very important. If a request is made to us for disclosure of information obtained from a public body as part of our audit work we will, where reasonably practical, consult the body before complying with the request. We will also continue to liaise with other audit and scrutiny bodies in developing best practice in this area.

Scope

6.   This policy applies to the Auditor General, the Accounts Commission and Audit Scotland.

Roles and responsibilities

7. Audit Scotland provides support to the Auditor General and the Accounts Commission and therefore we have established clear information management roles and responsibilities. The Auditor General is Audit Scotland's Accountable Officer and to support her duties under this legislation we have established the Knowledge, Information & Technology Governance Group (KITGG).

8. It is the KITGG's remit to ensure that information risks are assessed and mitigated to an acceptable level by having in place robust policies, procedures and processes.

9. The KITGG have established an Information Requests Panel to meet and decide on using exemptions in complex FOI requests and exceptions in EIR requests.

Information we hold

10. We are committed to openness and transparency in our work. We are committed to supplying information to a request unless there is a valid reason for withholding it under the legislation.

11. When a request is received for information you must not alter, deface, block, erase, destroy or conceal applicable information with intent to prevent disclosure. To do so is an offence under the Act and will result in action under Audit Scotland's disciplinary policy and could incur a risk of personal prosecution.

Training and awareness

12. We are committed to full staff awareness and training in Freedom of Information, Environmental Information and Data Protection legislation and its implications for our work. We are committed to maintaining effective systems for information requests to meet our obligations under this legislation.

13. Guidance on the application of FOISA and the EIRs are available on ishare.

Charges

14. Audit Scotland may invoke a charge for providing information, which is not contained in our publication scheme, in accordance with the costing threshold within FOISA and the EIRs.

15. When a request is estimated to exceed £600 to fulfil, we will, whenever possible, attempt to narrow its scope and provide what we can within the threshold rather than refusing it outright.

Supplementary documentation

16. The following documents should be used to support and supplement this policy:

- Freedom of Information (Scotland) Act 2002
- Freedom of Information (Scotland) Act 2002 section 60 and 61 codes of practice
- Environmental Information (Scotland) Regulations 2004

Records Management Policy

Owned and maintained by:	Corporate Governance Manager				
Approved from:	August 2018	Next review:	August 2019	Version:	06

Introduction

1. The Public Records (Scotland) Act 2011 (the Act) places a duty on us to prepare and implement a records management plan which sets out proper arrangements for the management of our public records.

2. We recognise that the efficient management of our knowledge, information and records is essential to support our work, to facilitate our governance and management, to manage risk and to comply with our legal obligations under the Act and other legislation as enacted from time to time.

3. Records, like any other company asset, are vital to our past, present and future work. They show decisions made and the steps taken towards those decisions. Records and the information they contain form part of our corporate memory and therefore must be managed systematically from creation to disposal.

4. Records help with our professional standards and best practices.

Scope

5. This records management policy applies to Audit Scotland, the Accounts Commission and the Auditor General.

Definition

6. A record is information in any medium, created, received and maintained as evidence and information by an organisation or person, in pursuance of legal obligations or in the transaction of business.

Roles and responsibilities

7. The Chief Operating Officer is responsible for ensuring there are appropriate arrangements for managing information and records.

8. In support of the Chief Operating Officer the Corporate Governance Manager is responsible for the day-to-day records management arrangements for Audit Scotland, the Accounts Commission and the Auditor General. The security of our electronic information systems is the responsibility of Audit Scotland's Digital Services Manager.

9. It is the Knowledge, Information & Technology Governance Group's (KITGG) role to ensure this policy remains relevant, represents good practice and is implemented effectively.

10. However, records management is the responsibility of everyone and this principle is embedded in our Code of Conduct. We are all expected to ensure the effective management of our records and the information we collect, create, store, share and dispose of, and to under go training as required.

The principles of good records management

11. It is our policy to fully comply with the Public Records (Scotland) Act 2011 and to apply the guiding principles of records management to ensure that information is available when and where it is needed, in an organised and efficient manner, and in a well maintained environment.

12. We must therefore ensure that our records are:

1. Authentic
It must be possible to prove that records are what they purport to be and who created them is known, by keeping a record of their management through time. Where information is later added to an existing document within a record, the added information must be signed and dated. With electronic records, changes and additions must be identifiable through audit trails.

2. Accurate
Records must accurately reflect the transactions and other business activities that they describe.

3. Accessible
Records must be readily available when needed.

4. Complete
Records must be sufficient in content, context and structure to reconstruct the relevant activities and transactions that they describe.

5. Comprehensive
Records must document the complete range of an organisation's business.

6. Compliant
Records must comply with any record keeping requirements resulting from legislation, audit rules, professional standards and other relevant regulations.

7. Effective
Records must be maintained for specific purposes and the information contained in them must meet those purposes. Records will be identified and linked to the business process to which they are related.

8. Secure

Records must be securely maintained to prevent unauthorised access, alteration, damage or removal. They must be stored in a secure environment, the degree of security reflecting the sensitivity and importance of the contents. Where records are migrated across changes in technology, the evidence preserved must remain authentic and accurate.

13. Guidance in support of this policy has been prepared and is available to all staff in ishare.

Training and awareness

14. It is vital that everyone understands their information and record management responsibilities as set out in this policy. Therefore, directors and managers will ensure that staff are appropriately trained/briefed on how to manage records in accordance with this policy and our records management guidance.

15. In addition, training has been established to ensure that all staff are aware of their information obligations regarding Data Protection, Data Security and Freedom of Information.

Supplementary documentation

16. The following Acts, policies, standards, procedures and guides should be used to support and supplement this policy:

- Public Records (Scotland) Act 2011

- Data Protection Act 2018 & General Data Protection Regulation (GDPR)

- Freedom of Information (Scotland) Act 2002 (FOISA)

- Audit Scotland's Data Protection Policy

- Audit Scotland's Freedom of Information Policy

- Audit Scotland's Clear Desk and Screen Policy

- Audit Scotland's Information Security Management Policy

- FOSIA section 61 Code of Practice on records management

- Managing records - a staff guide

- Procedure for transferring information to the National Archive of Scotland

- Audit Scotland's records retention schedule

- Audit requirements:

  o Audit standards eg ISA's

  o Audit Services audit and MKI guidance

  o Performance Management Framework.

Agenda

Wednesday 31 October, 10.15am

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

AUDIT SCOTLAND

1. Welcome and apologies

2. Declarations of interest

3. Decision on items to be taken in private .... For approval

Standing items

4. Chair's report – verbal update

5. Accountable Officer's report – verbal update

6. Accounts Commission Chair's report – verbal update

7. Review of minutes:
   - Board meeting, 28 September 2018 .... For approval

8. Review of action tracker .... For information

Business performance

9. Environmental and sustainability annual report 2017/18 .... For approval

Governance

10. Review of Ethical standard policy on application .... For information

11. External reviews of information management arrangements .... For information

12. 2019 Board and Committee meeting schedule .... For approval

Conclusion

13. Any other business

14. Review of meeting

15. Date of next meeting: 28 November 2018

Items to be taken in private

16. 2019/20 SCPA Budget proposal .... For approval

    [Item to be taken in private to support the effective conduct of business – information intended for future publication]

17. Discussion on proposals for Board development activity 2019 .... For discussion

    [Item to be taken in private to support the effective conduct of business]

Minutes

Friday 28 September 2018, 12.00pm

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

AUDIT SCOTLAND

Present:

I Leitch (Chair)
C Gardner
G Sharp
H Logan
R Griggs

Apologies:

None

In attendance:

D McGiffen, Chief Operating Officer
M Walker, Assistant Director, Corporate Performance and Risk
S Dennis, Corporate Finance Manager (items 9,15, 16)
M Taylor, Audit Director (item 9)
A Devlin, Corporate Governance Manager (item 10)
F Kordiak, Director of Audit Services (item 14)
J Mansell, Communications Adviser (item 17)
Elizabeth Gorrie, Communications Officer (item 17)
J Webber, Senior Executive Assistant

1. Welcome and apologies

The Chair welcomed members and attendees to the meeting of the Audit Scotland Board, the agenda and papers for which had been published on Audit Scotland's website on Monday 24 September 2018.

2. Declarations of interest

There were no declarations of interest.

3. Decision on items to be taken in private

The members noted that items 14, 15, 16 and 17 would be taken in private to support the effective conduct of business as the information is intended for future publication.

4. Chair's report

Ian Leitch provided a verbal update on regular meetings with Diane McGiffen and Caroline Gardner on general business matters and liaising with the Scottish Commission for Public Audit on the forthcoming Board appointment.

The members welcomed the update.

5. Accountable Officer's report

Caroline Gardner advised of her attendance at the Education Committee business planning meeting on 12 September 2018, the Justice Committee meeting on 25 September 2018 which discussed Scottish Police Authority and Scottish Fire Rescue performance with HMICS, the Finance Committee on 26 September 2018 which considered pre-budget scrutiny and risks in

the Scottish budget and attendance at the Public Audit and Post Legislative Scrutiny Committee on 27 September 2018 which had considered the joint report on Children and Young People's Mental Health and the Forth Replacement Crossing.

Caroline advised she was speaking at the Inter-Parliamentary Financial Information Network on Thursday 4 October.

Caroline also advised that the Scottish Parliament Corporate Body and Scottish Government accounts had been signed and that a Section 22 report on the latter had been laid. She invited the Board to note that 30 September was a key audit deadline for audit colleagues.

Caroline invited the Board to note the publication of the Superfast broadband for Scotland report on 20 September 2018 and the forthcoming publication of the joint report on Health and Social Care Integration scheduled for November 2018.

Caroline advised members of her ongoing involvement as professional adviser to the UK parliamentary panel appointing the next Comptroller and Auditor General and her involvement on the judging panel for the Scottish Public Sector Awards.

The members welcomed the update.

6. Accounts Commission Chair's report

Graham Sharp invited the Board to note that the Accounts Commission meeting on 13 September 2018 had considered the draft Local Government Financial overview report and a draft of the joint Health and Social Care Integration report which is due to go to clearance in November.

Graham advised members that the Commission have received a number of useful briefings which included a review of the circumstances around Grenfell Tower, the actions taken by the Council and the impact of changes in legislation.

Graham advised that at its recent strategy seminar the Accounts Commission members had focussed on how they report on their work, communicate with stakeholders and how to measure the impact of the different products.

He also advised that recent external engagement had included a visit to Clyde Gateway with colleagues from Audit Scotland, attendance at the SOLACE conference on 21 September 2018 and Accounts Commission engagement events Chief Executives and Council leaders in Edinburgh, Inverness and Glasgow.

The Board welcomed the update.

7. Review of minutes

Board meeting, 22 August 2018

The Board considered the minutes of the meeting of 22 August 2018, which had been previously circulated, and agreed that these were an accurate record of the meeting.

8. Review of actions tracker

Martin Walker provided a verbal update on action ASB77 advising that pop up surveys have been discounted as they can be a distraction from what readers are looking to read and that we direct readers to specific areas on Audit Scotland's website to share feedback.

On action ASB79 Martin advised Graham that a meeting would be arranged to discuss the information we currently have and what additional information might be helpful.

9. Q1 Financial performance report

Stuart Dennis, Corporate Finance Manager, joined the meeting.

Stuart Dennis, Corporate Finance Manager introduced the Q1 Financial performance report, which had been previously circulated.

Stuart invited the Board to note the performance reported in the first quarter.

Graham Sharp queried the level of fee income for local government between audit firms and Audit Scotland. Stuart advised that as well as an inherent timing difference, phasing in the budget was on a different basis for firms and Audit Scotland resulting in the firms being slightly ahead of the in-house teams.

Caroline advised that budgetary pressures were more significant this year than previously.

Following discussion, the Board welcomed the report.

Stuart Dennis, Corporate Finance Manager, left the meeting.

10. Annual review of information governance policies

Alex Devlin, Corporate Governance Manager, joined the meeting.

Alex Devlin, Corporate Governance Manager introduced the Freedom of Information report and the Records Management Policy, which had been previously circulated.

Alex invited the Board to approve the minor amendments to the policies.

Heather Logan asked about the timing of the policies coming to the Board for approval. Alex advised that the policies had been updated in June and considered by the Knowledge, Information and Technology Governance Group (KITGG) prior to consideration by Management Team.

Heather Logan asked whether any testing had been undertaken as part of the records management policy on the completeness of Audit Scotland's archive integrity. Alex advised Digital Services recover the systems at regular intervals and he would liaise with them to consider incorporating testing as part of the process.

Following discussion, the Board approved the Freedom of Information policy with a further update of the Records Management policy to be considered by the Board.

Action ASB81: Alex Devlin to liaise with Digital Services to incorporate testing archive integrity as part of the Records Management Policy. (October 2018)

Action ASB82: A further update of the Records Management policy to be considered by the Board. (November 2018)

Alex Devlin, Corporate Governance Manager, left the meeting.

11. Any other business

There was no further business.

12. Review of meeting

The members agreed that business had been well considered and the Chair thanked everyone for their contribution.

On behalf of the Board, the Chair presented Russel Griggs with a small gift and expressed the Boards thanks for Russel's contribution during his term of appointment.

13. Date of next meeting

It was noted that the next Audit Scotland Board meeting was scheduled for 10.15am on Wednesday 31 October 2018 in the offices of Audit Scotland, 102 West Port, Edinburgh.

Items taken in private

14. Audit Quality and reputational risk

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

Fiona Kordiak, Director of Audit Services, introduced the Audit Quality and reputational risk report, which had been previously circulated.

Fiona invited the Board to consider and discuss the key issues highlighted by recent high profile collapses of companies who had received unmodified audit opinions, the role of audit in the escalation of issues of concern and the wider regulatory framework.

The Chair welcomed the report.

During detailed discussion, the Board considered the reputational impact for individual accounting firms and audit institutions. There was discussion about attracting people to the audit profession and a discussion about the appropriate scale and quality of inhouse practice. Members also discussed the link between the risks identified in opinions and the detail set out in the longer form annual reports of audited bodies.

Turning to Section 22 and 102 reports, the Board discussed how auditors identify and escalate issues to the Auditor General and/or Controller of Audit. Fiona described the review and refinement of the reporting process currently underway.

Heather Logan commended the report and suggested it be updated and considered annually by the Board. In addition, as Chair of the Audit Committee, Heather offered her role as an independent observer of the Audit Quality Committee.

Following discussion, the members commended the report welcoming the assurance it provided and agreed this would be reviewed and reported annually. In addition, the Board agreed Management Team would develop a communication strategy around reporting and the safeguards of independence and quality in the Scottish Public Audit model.

Action ASB83:   Fiona Kordiak to report annually to the Board. (September 2019)

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

15. 2018/19 Spring budget revision

Stuart Dennis, Corporate Finance Manager, joined the meeting.

Stuart Dennis, Corporate Finance Manager introduced the 2018/19 Spring budget revision, which had been previously circulated.

Stuart invited the Board to approve the annual submission of a request to the SCPA for an amendment to our 2018/19 budget to meet pensions charges provided through the Annually Managed Expenditure.

The Chair sought clarification on whether pension costs could be better budgeted for and dealt with in the budget submission process.

Stuart advised that the current Revenue budget provides for the employer pension contributions that Audit Scotland make in year and is deducted from the estimated total IAS19 pension cost provided by the actuary. The total estimate of IAS19 pension costs for 2018/19 from the actuary

is £5m and the budget for employer pension contributions is £2.1m, which leads to a funding request of £2.9m to fund the shortfall through Annuity Managed Expenditure (AME).

Following discussion, the Board welcomed the clarity of explanation around the provision for pension charges and approved the 2018/19 Spring budget revision.

16. 2019/20 Budget

Mark Taylor, Audit Director, joined the meeting.

Stuart Dennis, Corporate Finance Manager introduced the 2019/20 Budget paper, which had been previously circulated

Stuart invited the Board to consider and approve the proposed assumptions on which a draft budget submission would be prepared.

The Board noted the assumptions included the second year of additional funding for New financial powers, an increase to the Management Contingency budget, a 1.9% increase to fees budget, continued commitment to investment in audit quality and a pay award assumption of 2%.

The Board discussed the potential risks and impact around the UK budget setting, EU withdrawal and additional pensions risks.

During detailed discussion, the Board considered the increasing complexity of audit and the need to ensure sufficient time and resource is available to accommodate this and discussed the impact of the early closure of account proposals, recognising the significant resourcing implications this would have for workforce planning and securing additional resources.

Heather Logan asked when the next procurement exercise would commence. Stuart advised planning will commence at the start of next year due to the size of the procurement exercise and Diane advised of continuing engagement with appointed auditors.

Following discussion, the Board welcomed the report and approved the assumptions for the proposed budget.

Action ASB84: Stuart Dennis to prepare the 2019/20 budget submission. (October 2018)

Stuart Dennis, Corporate Finance Manager, and Mark Taylor, Audit Director, left the meeting

17. Audit Scotland Draft British Sign Language plan 2018-24

Joanna Mansell, Communications Adviser, and Elizabeth Gorrie, Communications Officer, joined the meeting.

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the Audit Scotland Draft British Sign Language plan 2018-24, which had been previously circulated.

Martin advised the Board that the draft plan covered Audit Scotland's role as public auditor and as an employer. Joanna Mansell advised the consultation had received positive feedback and informed the plan which was submitted for the Board's approval.

The Board welcomed the proportionate approach taken to provide training for interested colleagues to help understand the needs of and support for British Sign Language users. Elizabeth Gorrie advised that 26 colleagues had signed up for the training to date.

Following discussion, the Board approved the plan and members requested access to the training.

Action ASB85: **Elizabeth Gorrie to organise access to the online British Sign Language training for Board members. (October 2018)**

Joanna Mansell, Communications Adviser, and Elizabeth Gorrie, Communications Officer, left the meeting.

AUDIT SCOTLAND BOARD ACTION TRACKER 2018/19

Ref	FORUM	Agenda Item No	Item Title	Action Description	Meeting Date	Due Date	Responsible	Assigned to	Complete/Ongoing	Reported Yes/No	Progress Notes
ASB64	Board	5	Accountable Officer's Report	An update report on developments within the Appointments and Assurance and Professional Support teams to be scheduled.	29/11/2017	30/11/2018	Diane McGiffen/Fiona Kordiak	Diane McGiffen/Fiona Kordiak	Ongoing		A verbal update was provided at the meeting on 28 March with a report scheduled for November 2018.
ASB70	Board	11	2018 Audit Scotland staff conference update	A discussion on audit quality and reputational risk to be scheduled following consideration of the Annual Audit Quality report.	31/01/2018	22/08/2018	Diane McGiffen	Fiona Kordiak	Complete	Yes	A report was considered by the Board on 28/09/2018.
ASB77	Board	9	Q1 Corporate performance report	Martin Walker to discuss with the Communications team the use of pop up surveys to gauge interest and seek feedback from stakeholders.	22/08/2018	30/09/2018	Martin Walker	James Gillies	Complete	Yes	A verbal update was provided at the meeting on 28/09/2018.
ASB78	Board	9	Q1 Corporate performance report	Martin Walker to include expenditure data on consultancy in future quarterly reporting.	22/08/2018	30/11/2018	Martin Walker	Martin Walker	Ongoing	No	Expenditure data will be reported in the Q2 report scheduled to come to the Board in November 2018.
ASB79	Board	9	Q1 Corporate performance report	Martin Walker and Stuart Dennis to discuss with Graham Sharp what further information on the average cost per audit day for Performance Audit and Best Value group would be helpful.	22/08/2018	30/11/2018	Martin Walker / Stuart Dennis	Stuart Dennis	Complete	No	A meeting took place on 10/10/18 to discuss the information required.
ASB80	Board	12	Annual review of Codes of Conduct	Alex Devlin to circulate the revised wording to the Code of Conduct for members for information.	22/08/2018	31/08/2018	Alex Devlin	Alex Devlin	Complete	No	The revised Code of Conduct for members was circulated to members on 17/10/2018.
ASB81	Board	10	Annual review of information governance policies	Alex Devlin to liaise with Digital Services to incorporate testing archive integrity as part of the Records Management Policy.	28/09/2018	31/10/2018	Alex Devlin	Alex Devlin	Complete	No	Digital Services undertake a monthly check across all files, users and servers with any recovery issues reported and resolved.
ASB82	Board	10	Annual review of information governance policies	A further update of the Records Management policy to be considered by the Board. (November 2018)	28/09/2018	27/11/2018	Alex Devlin	Alex Devlin	Ongoing		The report at item 11 of today's agenda will be considered by the Board.
ASB83	Board	14	Audit Quality and reputational risk	Fiona Kordiak to report annually to the Board. (September 2019)	28/09/2018	Sep-19	Fiona Kordiak	Alex Devlin	Complete	No	This has been added to the annual reporting schedule.
ASB84	Board	16	2019/20 Budget	Stuart Dennis to prepare the 2019/20 budget submission.	28/09/2018	31/10/2018	Stuart Dennis	Stuart Dennis	Complete	No	The SCPA proposal will be considered at Item 16 of today's meeting.
ASB85	Board	17	Audit Scotland Draft British Sign Language plan 2018-24	Elizabeth Gorrie to organise access to the online British Sign Language training for Board members.	28/09/2018	31/10/2018	Joanna Mansell	Colin Pentland	Ongoing		A verbal update will be provided at the meeting on 31/10/2018.

Purpose

1. This report provides an update on progress against our carbon reduction targets as set out in our Climate Change Plan 2015/16-2019/20. The Board is invited to approve the annual report and consider future areas of focus.

Background

2. The Climate Change (Duties of Public Bodies: Reporting Requirements) (Scotland) Order 2015 requires listed public bodies to prepare a Climate Change Plan and to report annually their progress in reducing carbon emissions. The attached draft report fulfils this requirement. It will be published on-line through the Sustainable Scotland Network portal alongside those of over public bodies.

Key messages

3. We continue to make good progress in reducing our carbon emissions and are ahead of our 2019/20 target to reduce annual carbon emissions to no more than 292 tCO2e. Significant reductions have made across all sources of emissions i.e. energy, transport and waste compared to our 2014/15 baseline.

4. While this is to be welcomed, we must recognise that most of the areas where significant reductions in carbon emissions were possible have now been delivered, for example the 2016 Edinburgh office move. Further significant reductions are unlikely to be achieved and this will need to be reflected in the targets we set in our next Climate Change Plan.

5. We will continue our momentum and further reduce our impact on the environment with a focus on reducing travel and energy emissions, by considering our wider social impact and increasing staff awareness of environmental issues.

6. The Carbon Scrutiny Board which used to consider carbon reduction initiatives has now been replaced by The Green Future Team (GFT), with extended membership drawn from across Audit Scotland. The GFT has identified a number projects to take forward, as set out in Page 16 of the draft annual report. Some of these are corporate initiatives where carbon savings are an indirect benefit of efficiency savings, such as reduced use of computer servers through greater use of cloud-based applications. Others are more about seeking to influence individual behaviours, such as participating in Climate Week 1-5 October 2018.

Recommendations

7. The Board is invited to consider and approve the Green Future annual report and discuss any areas of focus in relation to environmental issues.

Environmental and Sustainability

Annual Report 2017/18
DRAFT

AUDIT SCOTLAND

Who we are

The Auditor General and the Accounts Commission work together to deliver public audit in Scotland:

- The Auditor General's role is to appoint auditors to Scotland's central government, the NHS and other bodies and to report to Parliament on their financial health and performance.

- The Accounts Commission is the public spending watchdog for local government. It holds councils in Scotland to account and help them improve.

Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit.

Audit Scotland provides audit services to the Auditor General and the Accounts Commission. Through our work, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We do this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money

- reporting our findings and conclusions in public

- identifying risks, making clear and relevant recommendations.

There are three principles which guide our work:

- Auditors are independent of the organisations they audit.

- We report in public.

- We look at more than financial statements.

Above all, we support public scrutiny that is fair, equal and open, and that leads to better financial management and value for money.

Contents

Summary

Key Messages

1. We continue to make good progress in reducing our carbon emissions and are ahead of our 2019/20 target to reduce our annual carbon emissions to no more than 292 tCO2e (Exhibit 1). So far, we have achieved an overall 32 per cent reduction in our carbon footprint compared to our 2014/15 baseline year, and a 56 per cent reduction against our 2008/09 baseline.

Exhibit 1: Audit Scotland's carbon emissions 2008/09 to 2017/18

We achieved out target to reduce our annual carbon emissions to no more than 426 tCO2 by 2012/13 and are on track to achieve our target of no more than 292 tCO2 by 2019/20
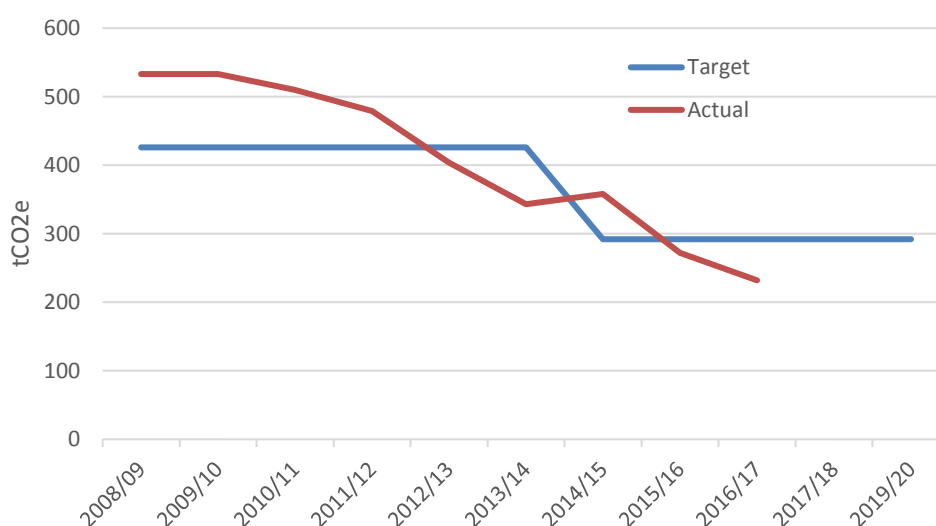
2. Savings achieved in 2017/18 include:

   - Energy - We reduced our energy consumption to 404,199 kwh representing a 26 per cent reduction in emissions compared to our 2014/15 baseline.

   - Transport – Across all transport types, we reduced the total kilometres travelled to 1,002,281 representing a 35 per cent reduction in emissions compared to our 2014/15 baseline.

   - Waste - we reduced our waste emissions to eight tCO2e, representing a 54 per cent reduction in emissions compared to our 2014/15 baseline.

3. Going forward, during the remainder of our climate change plan 2015 -2020 we will focus on developing sustainability policies, identifying projects that help to further reduce our energy and transport emissions, and projects that positively influence staff behaviours. This will include:

   - Developing a new biodiversity policy
   - Introducing climate change induction training for staff

Environmental and Sustainability

- Greater use of cloud-based applications to reduce energy consumption

- Promoting more sustainable means of travel.

Background

4.   Scotland has ambitious targets to reduce greenhouse gas emissions and, along with other public-sector bodies, Audit Scotland has a key leadership role in taking forward this agenda. Our Climate change plan 2015-2020 sets our base line year and targets to be achieved by 2019/20.

5.   We are committed to further reducing our carbon emissions and to making how we work more sustainable. We report publicly on sustainability issues through our annual carbon emission report and by supplying relevant information to the Sustainable Scotland Network (SSN).

6.   Sustainability is linked to other corporate publications published on our website including our Annual Report and Accounts, Public Audit in Scotland, and Corporate Plan 2018-21.

7.   Audit Scotland has a clear structure for managing climate change activity. The Audit Scotland Board, following consideration by Audit Scotland's Management Team, approves our Climate Change Plan and carbon-saving targets. This approach ensures endorsement and clear leadership at the highest level. The Green Future Team, comprising representation from across Audit Scotland, will continue to provide long-term organisational momentum for embedding sustainability across the organisation.

8.   The roles and responsibilities of the groups involved in leading, managing and holding us to account for our carbon management performance are set out in Appendix 1.

Performance in reducing carbon emissions

9. Audit Scotland's property estate comprises of three offices. We are tenants in each office and each building is occupied by multiple tenants. The landlords are responsible for the supply of gas and water and for equipment relating to gas, water and heating / air conditioning. Audit Scotland does not own or manage land and therefore has limited opportunity to carry out biodiversity work.

10. We continue to make good progress in reducing our carbon footprint against our 2014/15 baseline and are ahead of our 2019/20 targets. Examples of how we are reducing our carbon footprint are included in the following sections on energy, transport, waste and water.

11. Our Climate Chane Plan 2015-2020 sets out our approach to sustainability issues, establishes the base line year to 2014/15 and sets targets to be achieved by 2019/20. All references to targets are the 2019/20 targets and all percentage changes are against our 2014/15 base line.

Our overall carbon emissions

Carbon Footprint		Summary
Target: Reduce annual overall carbon emissions to no more than 292 tCO2e by 2019/20		We continue to make good progress against our 2014/15 baseline and are ahead of our 2019/20 targets
Performance to date: Our carbon emissions in 2017/18 were 232 tCO2e		

12. So far, we have achieved a 32 per cent reduction in our carbon footprint against our 2014/15 baseline year, and a 56 per cent reduction against our first baseline in 2008/09 (Exhibit 2). The Sustainable Scotland Network requires us to report our carbon emissions against our staff whole time equivalent numbers and against our annual financial turnover. In reducing our carbon emissions since 2014/15, we also improved our performance against these measures.

Exhibit 2: Carbon emissions since the 2014/15 baseline

We continue to make good progress against our 2014/15 baseline and are ahead of our 2019/20 targets.

Year	2008/09 First baseline year	2014/15 Revised baseline year	2015/16	2016/17	2017/18	Target 2019/20
Carbon emissions (tCO2e)	533	343	358	272	232	292

Year	2008/09 First baseline year	2014/15 Revised baseline year	2015/16	2016/17	2017/18	Target 2019/20
Percentage change in emissions compared to 2014/15 baseline		0%	+4%	-21%	-32%	-15%
Carbon emissions by staff Whole Time Equivalent (tCO2e/WTE)	1.8	1.3	1.3	1.0	0.9	<1.0
Carbon emissions by floor space (tCO2e/m^2)	0.2	0.1	0.1	0.1	0.1	
Carbon emissions by financial turnover (tCO2e/£M)	20.0	14.0	14.2	10.7	8.7	

13. We are achieving reductions in energy, transport and waste emissions. Further details of these reductions are included in the appropriate sections below. Appendix 2 outlines the sources of Audit Scotland's carbon emissions and their related expenditure.

Reducing our energy related emissions

Energy		Summary
Target: Reduce annual energy related carbon emissions to no more than 100 tCO2e by 2019/20		We are ahead of our 2019/20 target to reduce energy related emissions
Performance to date: Our energy related carbon emissions in 2017/18 were 93.8 tCO2e		

14. Our offices are fitted with technology to improve our use of electricity. The office temperature is regulated using thermostats and timed to operate only during office hours. Ceiling lights automatically turn off after a period of inactivity in an area. Our offices work on a 'hot desk' basis and we have less work stations that whole time equivalent staff

15. We use thin client terminals and laptops that collectively use less energy than traditional desktop computers. In 2018/19, we plan to adopt Chromebooks, which will continue to reduce our energy consumption further.

16. Where possible we are reducing the amount of equipment we use by reducing the number of IT servers and using more cloud-based services. In moving to our new Edinburgh office in autumn 2016, we reduced the number of printers from 21 to four.

17. We use hot taps for tea and coffee making and do not have kettles or toasters in our Edinburgh and Glasgow offices.

18. Our 'Time, Place, Travel' policy encourages staff to work from their most convenient location and, along with flexible working and hot desking in our offices, benefits our transport emissions.

19. In 2017/18, our energy emissions were 94 tCO2e (equivalent to 404,199 kwh), which is 31 tCO2e (26 per cent) lower than our 2014/15 baseline year and already 6 tCO2e below our 2019/20 target (Exhibit 3).

Exhibit 3: Energy related carbon emissions

We are ahead of our 2019/20 target to reduce energy related emissions.

Year	2014/15 baseline year	2015/16	2016/17	2017/18	Target 2019/20
Energy related carbon emissions (tCO2e)	125	167	110	94	100
Percentage change in emissions compared to 2014/15 baseline		34%	-12%	-26%	-20%

Reducing our transport related carbon emissions

Transport	Headline
Target: Reduce annual transport related carbon emissions to no more than 183 tCO2e by 2019/20	We are ahead of our 2019/20 target to reduce transport related emissions. This has been achieved through an overall reduction in travel and a switch to greater use of rail travel.
Performance to date: Our transport related carbon emissions in 2017/18 were 128.8 tCO2e	

20. Transport emissions arise from business travel by air, car and rail and are the biggest contributor to our carbon emissions. We aim to reduce emissions associated with business travel to 183 tCO2e by 2019/20. We estimate this to be equivalent to about 1,074,000 kilometres. We will do this through our policies and staff behaviours. Since our baseline year we have reduced the total kilometres travelled year on year.

21. We promote train travel over air and provide policies and equipment to empower staff to consider their travel options. Our 'Time, place, travel' guidelines allow staff to use other sites as bases that may be closer to home and therefore reduce their travel time and distances. We routinely use video and telephone conferencing to allow staff to attend meetings 'virtually' without traveling.

22. We have closed our 'company car' scheme to new employees and promoted staff. Existing scheme members will continue to have access to company cars, but staff turnover means the number of vehicles in the fleet is reducing. We provide facilities for cycling to work and, promoted a bike-to-work scheme in 2016 and will run another in 2018/19. Staff can also use travel loans for annual travel passes. Each of our three offices only have two parking spaces.

Air travel

23. We have seen a 12 per cent decrease in the number of flights since 2014/15, resulting in a reduction of 995 kilometres. Most of our air travel involves domestic flights to the Scottish islands. Our mix of domestic, short-haul and long-haul flights fluctuates from year to year.

Business car travel

24. While business car travel fluctuates from year to year, there is a downward trend from 2014/15. We have reduced the total business car travel by 132,620 km (27 per cent) since 2014/15.

Rail travel

25. The reduction in air and car travel has seen a corresponding rise in train travel, with an increase of 193,690 km (77 per cent). This equates to an increase in emissions of 7 tCO2e. Rail travel now forms the biggest proportion of business kilometres travelled.

26. Overall, transport related carbon emissions were 129 tCO2e (equivalent to 1,002,281km of business travel) in 2017/18. This is 54 tCO2e (35 per cent) lower than our baseline year and means we are ahead of our 2019/20 target (Exhibit 4).

Exhibit 4: Transport related carbon emissions

We are ahead of our 2019/20 target to reduce transport related emissions.

Year	2014/15 baseline year	2015/16	2016/17	2017/18	Target 2019/20
Transport related carbon emissions (tCO2e)	199	172	154	129	183
Business travel (Km)	1,074,756	1,062,834	1,066,765	1,002,281	1,074,756
Percentage change in emissions compared to 2014/15 baseline		-14%	-23%	-35%	-8%

Reducing our waste related carbon emissions

Waste	Summary
Target: Reduce waste related carbon emissions to no more than 11 tCO2e by 2019/20	We are ahead of our 2019/20 target to reduce waste related emissions.
Performance to date: Our waste related carbon emissions in 2017/18 were 8.2 tCO2e	

27. Waste emissions include paper and board manufacture, mixed recycling and refuse to landfill. All our offices have facilities for recycling paper, cardboard, metal cans and plastic.

Paper

28. We continue to benefit from our office rationalisation programme during which we reduced our printers by 17 and as a result reduced associated number of cartridges, paper and energy used. We changed the way staff use our printers. They are now required to use their ID

passes to collect items sent to print, resulting in 15,526 pages that were sent to print but not actually printed. Our printer paper meets the EU Ecolabel standard and all printers are defaulted to print double sided and in greyscale.

Recycling

29. Staff mostly use reusable cups for hot and cold drinks. Previously staff used over 4,500 disposable cups a year, but during 2017/18 we changed our disposable cups to compostable cups.

Landfill waste

30. We sent eight tonnes of waste to landfill in 2017/18 which is a 74 percent reduction against our 2014/15 baseline year.

31. Total waste emissions are significantly below our baseline year due to completion of our office rationalisation programme completed in 2015/16. Waste emissions of eight tCO2e in 2017/18 were three tCO2e lower than our 2019/20 target, representing a 54 per cent reduction against our baseline year (Exhibit 5).

Exhibit 5: Waste related carbon emissions

We are ahead of our 2019/20 target to reduce waste related emissions
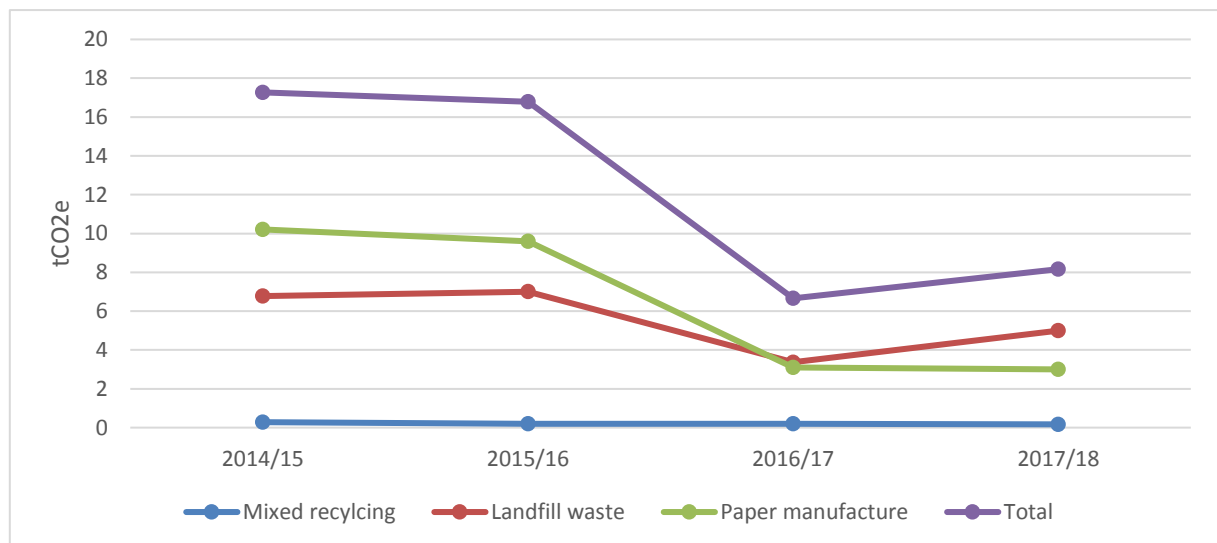
Water

32. Our three offices are in multi-tenanted buildings in which the landlord controls the water supply. Audit Scotland is not able to record the actual water used and we estimate our water emissions based on the number of workstations and staff in each of our offices.

33. We operate with fewer workstations than whole-time equivalent staff due to operating flexible working patterns and our teams may work from any location, including home or client's offices.

34. In 2017/18, water related carbon emissions were estimated at 1 tCO_2e which is 1 tCO_2e lower than our target for 2016/17 and on course to meet our 2019/20 target. Emissions are lower because of the office rationalisation programme completed in 2015/16.

Validation of figures

35. Audit Scotland's Corporate Performance Officer reviews the data contained within this report. It is not subject to peer review or external validation. Going forward we will explore options for external validation of our data.

Other sustainability related issues

Procurement

36. We focus on embedding sustainability into our procurement activity and we include sustainability clauses in our procurement standard terms and conditions.

Adaptation

37. As a listed body under Schedule 1 of the Climate Change (Scotland) Act 2009, Audit Scotland is required to report on climate adaptation. Adaptation is the adjustments we make in response to actual or anticipated climate change. Climate change projections indicate that Scotland will experience:

    - higher temperatures
    - increased, and more intense, rainfall
    - more frequent floods and landslides.

38. We have reviewed and assessed the impacts that more frequent adverse weather events may have on our activities. We determined that we require no additional specific actions to reduce the potential impact of climate change-related weather events.

39. Audit Scotland has well-established business continuity planning arrangements and in the event of a major incident, all staff can access their business information and work from home or alternative sites. A staff survey in 2015/16 showed 89 per cent could work from home or another location for more than two days if necessary, and 56 per cent for more than a month.

Biodiversity

40. The Nature Conservation (Scotland) Act 2004 places a statutory duty on all public sector bodies in Scotland to further the conservation of biodiversity and the Wildlife and Natural Environment (Scotland) Act 2011 introduced a requirement for all public bodies to make a report publicly available on their compliance with biodiversity duty. Biodiversity duty reports are required every three years. We aim to report on Biodiversity annually within our annual sustainability report.

41. Audit Scotland does not own or manage land and therefore has a smaller opportunity to carry out activities for biodiversity.

42. We support biodiversity through:

    - Reducing our carbon footprint.
    - Minimising waste and reducing waste to landfill through recycling.
    - Using EU Ecolabel certified paper
    - Reducing the total kilometres we travel on business and choosing more sustainable travel options.
    - Raising awareness of biodiversity and sustainability issues.

Looking ahead

43. Between 2008/09 and 2017/18 we achieved a significant reduction (56 per cent) in our carbon footprint from 533 to 232 tCO2e. While we are currently ahead of our 2019/20 climate change targets we will identify ways to further reduce our carbon emissions. Our targets will be reviewed and updated in our next Climate Change Plan, due to be published in 2020.

44. We will continue our momentum and further reduce our impact on the environment. Although we recognise that future reductions will be harder to achieve we can continue to reduce our environmental impact with a focus on reducing travel and energy emissions, by considering our wider social impact and increasing staff awareness of environmental issues.

45. To help us further reduce our environmental impact we have identified the projects to complete by April 2020:

Policy development

- Producing a new Climate Change Plan, including resetting our carbon emission targets.
- Developing and implementing a biodiversity policy/strategy.
- Developing a sustainable travel plan.
- Reviewing ways to implement external verification of our carbon emission measurements.
- Designing and implementing an Environmental Management System (EMS).

Behaviours

- Introducing climate change induction training.
- Exploring options for staff volunteering, especially those relating to sustainability projects.

Projects

- Further reducing our use of computer servers through greater use of cloud-based applications.
- Running a cycle-to-work scheme.
- Participating in Climate Scotland week to promote awareness of sustainability issues.
- Promoting a limited internal travel month to encourage staff to think about how they can reduce their travel.

Appendix 1

Carbon management governance arrangements

Board

47. Membership: The members of Audit Scotland Board are the Auditor General for Scotland, the Chair of the Accounts Commission and three members appointed by the Scottish Commission for Public Audit.

48. Role: Audit Scotland's Board is responsible for the exercise of all functions of Audit Scotland. It exercises its powers and authorities through a Scheme of Delegation, which it determines and approves.

49. Under the Scheme of Delegation, the Board formally approves Audit Scotland's Climate Change Plan. It receives annual updates on performance against the plan's targets and objectives, thereby holding Audit Scotland to account for their performance.

Management Team

50. Membership: The members of Audit Scotland's Management Team are the Auditor General for Scotland, Audit Scotland's Chief Operating Officer, the Director of Audit Services, and the Controller of Audit/Director of Performance Audit and Best Value. The Chief Operating Officer is the project sponsor for Audit Scotland's Climate Change Plan.

51. Role: Audit Scotland's Management Team is responsible for strategic direction-setting for sustainability (including project sponsorship); suitable resource allocation; and oversight and scrutiny of the implementation of Audit Scotland's Climate Change Plan.

Green Future Team

52. Membership: A senior member of staff chairs the group and is responsible for leading and driving improved sustainability in Audit Scotland. Representatives from across Audit Scotland's business groups make up the team.

53. Role: The team is the key forum for the operational planning and delivery of climate change activity and improving sustainability performance within Audit Scotland. Its role includes oversight of carbon management projects, data collection; communication and training. It acts as a bridge between Management Team and individual business groups and has a key leadership role through its cross-departmental membership.

Business groups (Audit Services, Performance Audit and Best Value, and Corporate Services)

54. Audit Scotland's three business groups are pivotal in ensuring that Audit Scotland meets its climate change obligations and continuously improves its environmental performance. It is through the actions of all staff that we can make the greatest difference.

Appendix 2

Sources of Audit Scotland's carbon emissions and their related expenditure 2017/18

Category	Carbon emissions (tCO$_2$e)	Expenditure (£)
Grid electricity	49	14,758
Natural gas	45	5,149
Water – supply	0.4	978
Flights – domestic	43	26,737
Car – diesel	27	64,592
Rail	20	67,615
Average car – unknown fuel	19	47,298
Flights – long haul	8	7,217
Car – petrol	7	12,290
Refuse municipal to landfill	5	895
Paper & board manufacture	3	57
Car - hybrid	2	9,952
Water - treatment	1	1,665
Taxi	1	24,248
Flights – short haul	1	1,432
Mixed recycling[1]	0.2	122
Total	**232**	**285,005**

[1] Mixed recycling includes: paper, board, glass, plastics and metal cans.

Purpose

1. This report invites the Board to consider and approve the updated Ethical Standard Policy on Application.

Background

2. The Ethical Standard is published by the Financial Reporting Council (FRC) and is consistent with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants.

3. The Ethical Standard Policy on Application takes the FRC's Ethical Standard requirements and identifies the relevant Audit Scotland policies and how those requirements are applied.

Update

4. The relationship between Audit Scotland's Ethics Partner and responsibility for approving non-audit services was confirmed by the Auditor General and the Accounts Commission on 13 September 2018 in their joint policy statement on non-audit services.

5. The Ethical Standard Policy on Application has been updated to reflect those changes, specifically the Director of Audit Services' role of Ethics Partner and confirmation that all requests for non-audit services including those from Audit Services are to be approved by the Associate Director of Audit Quality and Appointments. The Financial Reporting Council's Ethical Standard has not changed so the changes to the policy are limited to reflecting these internal changes and some clarified language.

6. Management Team considered the policy at its meeting on 4 September 2018 and the Audit Committee considered the policy by correspondence so that it could be considered by the Board on 31 October 2018.

7. The audit committee recommends this policy for approval by the Board.

Recommendations

8. The Board is invited to approve the updated policy.

Draft Ethical Standard Policy on Application

Contents

Ethical Standard Policy on Application

Foreword

Our vision is to be a world-class audit organisation that improves the use of public money. In the current challenging and complex environment for the public sector in Scotland, independent, objective and authoritative public audit helps to support a strong and effective system of financial accountability and transparency.

In order to deliver world-class audit and ensure continued trust in our work, we need to apply the highest professional and ethical standards. The Scottish public sector audit model provides a high level of safeguards to our independence that go above and beyond the requirements of the Financial Reporting Council's Ethical Standards. These include:

- independent appointment of auditors to ensure the auditor is free from any potential or perceived conflict of interest or other pressure that might compromise their judgement

- rotation of auditors every five to seven years to minimise any 'familiarity' threats to independence

- arrangements to control non-audit services through approval by Audit Quality and Appointments to minimise 'self-review' and other threats to independence.

We have reviewed the FRC's Ethical Standard and chosen to enforce the highest level of protection to our audit work because we believe that the independence of the auditor is critical to high quality audit. However, high quality audit cannot be assured through rules and standards alone. It relies on each and every one of us embedding ethical principles in our day to day work.

Fiona Kordiak
Director of Audit Services and Ethics Partner

Introduction

1. The Financial Reporting Council's Ethical Standard (June 2016 edition) (the Standard) specifies the ethical requirements of auditors in both the private and the public sectors. Audit Scotland adopts the principles in the standard in common with all the national audit agencies in the UK. Compliance with the Standard also represents compliance with the parts of the International Ethics Standards Board for Accountants' (IESBA) Code of Ethics for Accountants covering audit work that has been adopted by most UK accountancy institutes (see appendix 1) and therefore applicable to a significant number of Audit Scotland staff.

2. **The principles of the Standard apply to all our work. Where sections of the standard need specific interpretation to our work (highlighted in blue boxes throughout this application guidance), this guide explains how they are applied and, where a policy is explicitly required, sets out that policy.** However, you should be aware that this guide covers only those requirements where application guidance is necessary; it does not cover all the requirements of the Standard – the [full standard](#) is available on iShare.

3. All staff are required to adhere to Audit Scotland's Staff Code of Conduct. You should read this application guide of the Standard in conjunction with the Code of Conduct and Audit Scotland's Counter Fraud Policy.

4. If you are in any doubt about the application of the Standard in any particular circumstances, you should discuss it with your line manager or your director (described as the Compliance partner) and, if there is still uncertainty, with Audit Scotland's Ethics Partner (Fiona Kordiak).

5. This section has been updated to reflect the revised Ethical Standard issued by the FRC, which came into effect on 17 June 2016. Should any part of the Standard be revised in the future by the FRC prior to this application guide being updated, the revisions will come into force in line with their effective date.

6. The Standard is in two parts:

   - **Part A** - sets out the overarching principles of integrity, objectivity and independence, together with supporting ethical provisions. These establish a framework of ethical outcomes to be met.

   - **Part B** - sets out specific requirements relevant to certain circumstances that may arise which are designed to assist in meeting the ethical outcomes. The following application guidance principally addresses some of the specific requirements.

Section 1 - General requirements and guidance

Introduction

7. Section one of the Standard sets out the general requirements for auditors to act with integrity, objectivity and independence and establishes some of the framework for compliance with other requirements.

8. Most of our audits are carried out under appointment by either the Auditor General or the Accounts Commission. This provides a strong safeguard against the threats to integrity, objectivity and independence that all auditors must consider before accepting an audit appointment. The independent appointment process means that Audit Scotland auditors cannot refuse an appointment. Where the auditor identifies a threat that would result in an equivalent private sector audit being refused, the auditor must consider whether the threats are of such significance that they should be reported formally to the audited body, the Auditor General for Scotland or the Accounts Commission, or to the Scottish Parliament. Any such report should be discussed in advance with the Ethics Partner and for local government with the Secretary to the Accounts Commission.

9. The following guidance below each requirement from the Standard explains how they are applied in Audit Scotland.

Compliance

> **Paragraph 1.1D The firm shall establish appropriate policies and procedures to ensure that its owners or shareholders, as well as the members of the administrative, management and supervisory bodies of the firm, or of an affiliate firm, do not intervene in the carrying-out of an engagement in any way which jeopardises the integrity, objectivity or independence of the firm or covered persons.**
>
> **Paragraph 1.2D The firm shall establish appropriate and effective organisational and administrative arrangements:**
>
> **(a) that are designed to prevent, identify, eliminate or manage and disclose any threats to its independence;**
>
> **(b) for dealing with and recording incidents which have, or may have, serious consequences for the integrity of its audit or other public interest assurance activities.**

10.   All Audit Scotland staff must:

- comply with the staff Code and any further guidance in this application guide

- notify any potential conflicts of interest to their business group's Compliance Partner (i.e. Director of Audit Services, Director of Performance Audit and Best Value, or Chief Operating Officer) when working on audits and

- make an annual declaration of compliance with the staff Code through the Fit and Proper self-assessment form.

Ethics Partner

> **Paragraph 1.12 The senior management of the firm shall designate a partner in the firm possessing the necessary seniority, relevant experience, authority and leadership levels (the 'Ethics Partner') as having responsibility for ensuring the firm's compliance with supporting ethical provision 1.1.**

11.   Audit Scotland's Ethics Partner is Fiona Kordiak, Director of Audit Services.

Threats to Integrity, Objectivity and Independence

> **Paragraph 1.28 When complying with supporting ethical provisions 2.1D – 2.3D, conditions and relationship that could give rise to threats to the integrity, objectivity or independence of the firm or covered persons are communicated to the appropriate person, having regard to the nature of the threats and to the part of the firm and the identity of any person involved.**

12.   Audit Scotland's policy is that all threats to integrity, objectivity or perceived loss of independence must be reported to your Compliance Partner or to the Ethics Partner. This requirement applies to all types of audit work.

> **Supporting ethical provision 2.1D The firm and each covered person, shall ensure that the independence of the firm and each covered person is not compromised with respect to each entity relevant to the engagement. This includes ensuring that the firm and each covered person is not involved in the decision-taking of any such entity.**

13.   Audit Scotland's staff must not take decisions that are the responsibility of management of the audited body or its affiliates.

> **Paragraph 1.33 The firm shall establish policies and procedures to require the engagement partner to identify and assess the significance of threats to the integrity and objectivity of the firm and covered persons on an individual and cumulative basis, including any threats that may compromise independence:**
>
> **(a) when considering whether to accept or retain an engagement;**
>
> **(b) when planning the engagement;**
>
> **(c) when forming an opinion and signing the report on the financial statements or other subject matter information;**
>
> **(d) when considering whether to accept or continue to provide non-audit / additional services to an engagement by the firm; and**
>
> **(e) when potential threats are reported to him or her.**

14. The Auditor General or Accounts Commission appoint auditors based on advice from Audit Quality and Appointments (AQA) so the risk to independence in relation to accepting audits is managed by the Auditor General or Accounts Commission's appointments. AQA applies the Ethical Standard when providing advice on audit appointments to the Auditor General and Accounts Commission. Auditors are therefore not required to identify threats to objectivity, including perceived loss of independence when considering whether to accept or retain an audit appointment.

15. For agreement audits such as EAFA, audit staff should document any threats to integrity, independence and objectivity and should consult AQA before initial acceptance of the engagement.

16. Audit Scotland normally only provides audit and audit-related services to audited bodies. Occasionally auditors may be asked to undertake non-audit services for their audited bodies; auditors must obtain prior approval before undertaking this work as described in paragraph 73.

Identification and Assessment of Safeguards

> **Paragraph 1.49 The firm shall establish policies and procedures which set out the circumstances in which those additional requirements listed in paragraph 1.48 that apply to public interest entities or to listed entities or both are applied to other engagements.**

17. Audit Scotland treats all public sector audits as listed entities for the purposes of paragraph 1.48. There are two public interest entities which are currently audited by private firms.

Overall Conclusion

> **Paragraph 1.57 At the end of the engagement process, when forming an opinion to be reported, or otherwise reporting on the work undertaken, but before issuing the report, the engagement partner shall reach an overall conclusion that any threats to integrity or objectivity including any that could impair independence on an individual and cumulative basis have been properly addressed in accordance with this Ethical Standard. If the engagement partner cannot make such a conclusion, he or she shall not report and the firm shall resign or otherwise withdraw from the engagement unless not permitted to do so by law or regulation.**

18. If the engagement lead on an audit appointment or equivalent for a performance audit is unable to conclude that any threats to integrity, objectivity and independence have been addressed in accordance with the Ethical Standard, the engagement lead must refer the threat to the relevant Compliance Partner and/or to the Ethics Partner for resolution.

Communication with those Charged with Governance

> **Paragraph 1.61 The engagement partner shall ensure that those charged with governance of each entity relevant to an engagement… are appropriately informed on a timely basis of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons.**

19. Auditors must communicate the information required by paragraph 1.61 to those charged with governance through the annual audit plan, the annual audit report and other relevant communications.

Paragraph 1.66 In the case of public interest entities, and listed entities… the engagement partner shall ensure that the audit committee is provided with:

(a) a written disclosure of relationships (including the provision of non-audit / additional services) that may bear on the integrity, objectivity or independence of the firm or covered persons. This shall have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties, and the threats to integrity or objectivity, including those that could compromise independence, that these create. It shall also detail any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable the integrity, objectivity and independence of the firm and each covered person to be assessed;

(b) details of non-audit / additional services provided and the fees charged in relation thereto;

(c) written confirmation that the firm and each covered person is independent;

(d) details of any inconsistencies between this Ethical Standard and the policy of the entity for the provision of non-audit / additional services by the firm and any apparent breach of that policy.

(e) an opportunity to discuss independence issues.

20. The requirements of paragraph 1.66 apply to all audits.

Section 2 – Financial, Business, Employment and Personal Relationships

Introduction

21. Section 2 of the Standard sets out the requirements concerning relationships with audited bodies including transfers of staff in either direction.

22. Audit Scotland's Ethics Partner is Fiona Kordiak, Director of Audit Services. All staff are required to complete an annual Fit and Proper self-assessment to declare any potential threats from relationships with audited bodies so that appropriate controls can be put in place.

23. The following guidance below each requirement from the Standard explains how they are applied in Audit Scotland. The requirements relate to loans, employment, secondments and staff joining or leaving Audit Scotland from or to a public-sector body in Scotland.

24. Where a member of staff of Audit Scotland has left to join an audited body in a senior position, particularly as chief executive or finance director or equivalent, there remains a threat to the conduct of future audits especially where the member of staff leaving had management responsibility for members of the audit team. These threats and how Audit Scotland manages them are detailed below.

Financial Considerations

Paragraph 2.4D The firm, each of the firm's key audit partners and each of the firms directly involved covered persons for any engagement… and any persons closely associated with the firm or any such partner or covered person, shall not:

(a) hold any material financial interest (other than an indirect financial interest held through a diversified collective investment scheme) in, or engage in any transaction in, any financial instrument of any entity relevant to an engagement in the area of activity in which they (or in the case of a person closely associated, the area of activity in which the firm, key audit partner or covered person with whom they are closely associated) are involved relating to engagements other than investment circular reporting engagements; or

(b) hold any financial interest, other than an indirect financial interest held through a diversified collective investment scheme, in:

(i) any entity relevant to an engagement other than an investment circular reporting engagement for which they are a directly involved covered person; or

(ii) an entity which is an affiliate of such an entity; or

(iii) any other entity otherwise related to such an entity in circumstances where holding such a financial interest may cause, or may be generally perceived as causing, a conflict of interest; or, if a person holds such a financial interest they shall be excluded from any role by virtue of which they would be a covered person for any such engagement.

25. No Audit Scotland staff may hold a financial interest in a financial instrument issued by any body where the auditor is appointed by the Auditor General or Accounts Commission, except for membership of a Pension Fund.

Loans and Guarantees

> **Paragraph 2.26 Loans by an entity relevant to an engagement that is a bank or similar institution to a covered person, or to persons closely associated with them (for example, home mortgages, bank overdrafts or car loans), do not create an unacceptable threat to integrity or objectivity that compromises independence, provided that normal business terms apply. However, where such loans are in arrears by a significant amount, this creates an intimidation threat that compromises independence.**

26. If a member of staff or their household is in arrears with an audited body, for example council tax, especially if an arrestment of earnings order has been made, they must notify their line manager immediately and take no further part in any audit work involving that body until the outstanding debt has been repaid.

Management Role with an Entity Relevant to an Engagement

> **Paragraph 2.38 A firm shall not admit to the partnership, or employ a person in a position as a covered person, if that person is also employed by any entity relevant to the engagement, or by any affiliate of such an entity ('dual employment').**

27. Audit Scotland will not employ, as financial audit staff, individuals who are also employed by an audited body.

28. Staff may be employed to work on other audit work, such as national performance audits, provided that the work is not focussed on their other employer. For example, working on a Best Value assurance report of the employee's council would not be acceptable.

29. Any incidental work relating to the other employer (e.g. preparing a report from a national survey which includes the other employer) must be subject to specific review by a more senior member of staff.

Loan Staff Assignments

Paragraph 2.39 A firm shall not enter into an agreement with an entity relevant to an engagement… or with the affiliates of such an entity, or otherwise, to provide any partner or employee ('loan' staff) to work for a temporary period as if that individual were an employee of any such entity or its affiliates (a 'loan staff assignment') unless

(a) the agreement is for a short period of time and does not involve employees or partners performing non-audit / additional services that would not be permitted under this Ethical Standard; and

(b) the entity:

** (i) agrees that any individual loan staff concerned will not hold a management position, will not be involved in the decision-taking of the entity and, in the case of an audited entity that is a public interest entity, will not play any part in the management of the entity; and**

** (ii) acknowledges its responsibility for directing and supervising the work to be performed, which will not include such matters as:**

> **– making management decisions; or**

> **– exercising discretionary authority to commit the entity to a particular position or accounting treatment**

Paragraph 2.43 Where a partner or employee returns to the firm on completion of a loan staff assignment, that individual shall not be given any role on any engagement involving any function or activity that he or she performed or supervised during that assignment.

30. The requirements at paragraphs 2.39 and 2.43 cover staff on secondment to audited bodies. Secondments must be considered and planned in accordance with the Secondment policy.

31. Although the Ethical Standard does not cover the secondment of staff from audited bodies to Audit Scotland, the same principles apply. Secondees to audit teams should not work on the audit of the body from which they are seconded. The Ethics Partner must authorise any departure from this policy, due to for example the previous role of the secondee.

32. Secondees to the Performance Audit and Best Value Group (PABV) may work on national performance audits which involve coverage of their principal employer but they must not audit or review work for which they were previously responsible. Any work relating to their principal employer in which the secondee is involved must be reviewed by a more senior member of staff.

Partners and Engagement Team Members Joining an Entity Relevant to an Engagement

Paragraph 2.47 Firms shall establish policies and procedures that require in relation to any entity relevant to an engagement in which an individual is, or was at any time over the previous year (two years in the case of a partner), directly involved:

(a) for all such engagements:

(i) senior members of the engagement team to notify the firm of any situation involving their potential employment with any such entity; and

(ii) other members of the engagement team to notify the firm of any situation involving their probable employment with any such entity;

(b) for an engagement other than an investment circular reporting engagement:

(i) all partners in the firm to notify the firm of any situation involving their potential employment with any such entity; and

(ii) any other employee of the firm and any other natural person whose services are placed at the disposal of or under the control of the firm, where such employee or other person is personally approved as a statutory auditor under relevant legislation within the European Union, to notify the firm of any situation involving their probable employment with any such entity;

(c) anyone who has given such notice to be removed from the engagement team; and

(d) a review of the engagement work performed by any resigning or former engagement team member in the current and, where appropriate, the most recent engagement.

33. 'Partner' is defined as Audit Director and above (Band 4).

34. Staff in Band 4 must notify the Ethics Partner of any application for any job in a public body subject to audit by auditors appointed by the Auditor General or Accounts Commission. The Ethics Partner must notify the Auditor General of any application for any such jobs.

35. Staff in Bands 2 and 3 must notify the Compliance Partner of any application to a relevant audited body.

36. 'Any entity relevant to an engagement' is defined as any body which they have audited in the previous 12 months.

37. All other members of staff not covered by the above must notify the Compliance Partner of any job offer from a relevant audited body (as defined above).

38. Staff carrying out audit work at the specific body applied to must stop working on the audit immediately pending the outcome of the application/offer and, if successful, must not return to that work. Staff who notify potential employment but are not in the event selected must obtain their line manager's approval to return to the audit; such approval will be provided whenever and wherever it is reasonable and practicable to do so.

39. All work carried out on any audit activity at the audited body by the resigning member of staff must be reviewed by a more senior member of staff.

> **Paragraph 2.53 Where a partner, or another person (including a person whose services are at the disposal or under the control of the firm) who is personally approved as a statutory auditor as described in paragraph 2.48, is appointed as a director (including as a non-executive director), a member of the audit committee or body performing equivalent functions, or to a key management position with an entity relevant to an engagement, having previously been a covered person:**
>
> **(a) in the case of a partner, at any time during the two years prior to such appointment; or**
>
> **(b) in the case of another person, at any time during the year prior to such appointment; the firm shall resign from the engagement where possible under applicable law or regulation. The firm shall not accept another engagement for the entity until:**
>
> **(I) in the case of a partner, a two-year period; or**
>
> **(ii) in the case of another person, a one year period; commencing when the person ceased to be a covered person, has elapsed or until the person ceases employment with the entity, whichever is the sooner.**

40. Audit Quality and Appointments will normally recommend the Auditor General or Accounts Commission transfer that audit appointment to a firm where an individual in Band 4 leaves Audit Scotland to join an audited body as a director or in a key management position and they carried out the role of audit engagement partner or other relevant partner role at that body.

41. The Ethics Partner must put in place stringent safeguards if transfer to a firm is not possible (such as in the case of the Scottish Government or other audits where the Auditor General signs the independent auditor's report) to ensure that there is no loss of independence, e.g. independent review by another director or a firm. The Ethics partner must report any such arrangements to the Auditor General or Accounts Commission, as appropriate.

42.	Audit Quality and Appointments will review the composition of the audit team in consultation with ASG where the member of staff carried out the engagement partner equivalent role on a national performance audit covering the audited body. Audit Quality and Appointments will take account of the role of the person leaving and the role they have assumed and make a recommendation to the Auditor General or Accounts Commission for:

- no change

- a change in the team or

- a change of appointed auditor.

43.	Audit Quality and Appointments will take the circumstances of the member of staff leaving into account if the next audit appointments are made within two years of the person leaving and will normally not recommend reappointment of Audit Scotland within a two-year period.

44.	Audit Quality and Appointments will review the composition of the audit team where any other former member of the audit team of an audited body leaves Audit Scotland and within two years joins the audited body as a director or in a key management position.

Family Members Employed by an Entity Relevant to an Engagement

Paragraph 2.59 Where a covered person, or any partner in the firm, becomes aware that a person closely associated with them, or a close family member who is not a person closely associated with them, is employed by an entity relevant to the engagement and that person is in a position to exercise influence on the accounting records or financial statements or other subject matter information or subject matter of such an engagement, that covered person or that partner shall either:

(a) in the case of a person closely associated with them being employed by the entity in such a position, be excluded from any role in which they would be a covered person; or

(b) in the case of a close family member of a covered person who is not a person closely associated with them, or, for an engagement other than an investment circular reporting engagement, any close family member of any partner in the firm who is not a person closely associated with them, report the matter to the engagement partner to take appropriate action. If it is a close family member of the engagement partner or if the engagement partner is in doubt as to the action to be taken, the engagement partner shall resolve the matter in consultation with the Ethics Partner/Function.

45.	From time to time, it will be the case that some Audit Scotland staff have family members who are employed by public bodies. Given the wide range of circumstances that may exist, each case is dealt with on its merits. However, the general policy is that the closer to the subject

matter of audit work that the family member is employed (e.g. in a finance role), the more likely it is that the member of staff should not take part in the audit. Similarly, the more senior the member of staff and/or their family member, the greater the perceived threat to independence and objectivity.

46. It is unlikely that family members employed in roles such as teachers, doctors or nurses would normally create any threat to independence of staff members.

47. Staff engaged on audit work that covers several audited bodies need to be particularly vigilant in this area. Members of staff should discuss any such relationships with their line manager and if appropriate the Compliance and/or Ethics Partner.

Governance Role with an Entity Relevant to an Engagement

> **Paragraph 2.61 The firm or a partner or member of staff of the firm shall not accept appointment or perform a role:**
>
> **(a) as an officer or member of the board of directors of an entity relevant to an engagement of the firm;**
>
> **(b) as a member of any subcommittee of that board; or**
>
> **(c) in such a position in an entity which holds directly or indirectly more than 20% of the voting rights in the entity relevant to an engagement, or in an entity in which the entity relevant to such an engagement holds directly or indirectly more than 20% of the voting rights.**

48. Audit Scotland encourages members of staff to take part in voluntary and community bodies, many of which receive substantial public funding. In taking on such roles staff need to be aware of the potential for their position to be perceived as creating a conflict of interest which may impair their integrity, independence or objectivity. Staff must discuss any such roles with their line manager and Compliance Partner and each case will be considered on its merits. The following examples may help:

- Example 1 – an engagement lead on the audit of a council is offered the role of treasurer or chair to a Citizens' Advice Bureau which is 80% funded by that council and the funding is discretionary. This could create a perception of a conflict between the roles and must be avoided.

- Example 2 – membership of a school board – while the school will be funded by the council, it is required to provide education as a statutory service. The likely influence of a member of a school board on the level of funding is negligible and the potential for conflict of interest is minimal.

49. Staff should not seek board membership of bodies where the Auditor General or the Accounts Commission appoint the auditor as this can limit flexibility in making audit appointments or in the deployment of staff. Any offers for such positions must be agreed with the Ethics Partner who may refer cases to the Management Team.

Employment with the Firm

> **Paragraph 2.65 Where a former director or a former employee of an entity relevant to an engagement, who was in a position to exert significant influence over the preparation of the financial statements or other subject matter information or subject matter of such an engagement, joins the firm, that individual shall be excluded from any role in which they would be a covered person relevant to that entity or its affiliates for a period of two years following the date of leaving the entity.**

50. Paragraph 2.65 applies in full for financial audits. If the individual joining Audit Scotland has ASG management responsibility they must not be involved in the audit of their former employer, and the audit must be subject to an independent review for the first two years irrespective of the size of the body.

51. An individual joining PABV from a management position must not have any involvement in audit work or studies which focus on their former employer for a period of two years after joining. Any incidental work must be subject to specific review by another member of staff.

Family and Other Personal Relationships

> **Paragraph 2.70 The firm shall establish policies and procedures that require:**
>
> **(a) partners and professional staff members to report to the firm any persons closely associated with them, any close family who are not a person closely associated with them, and other personal relationships, where any of those persons is involved with an entity relevant to an engagement of the firm, where the partner or professional staff member considers that the relationship might create a threat to integrity or objectivity or may compromise independence;**
>
> **(b) the relevant engagement partners to be notified promptly of any information reported by partners and other professional staff members as required by paragraph (a).**

52. All staff must complete an annual Fit and Proper self-assessment form. This requires staff to immediately report circumstances that would negatively impinge on their independence to their line manager and where necessary to their Compliance Partner.

Section 3 – Long Association with Engagements and with Entities Relevant to Engagements

Introduction

53. Section 3 of the Standard sets out the requirements concerning long association with an audit.

54. Audit Scotland adopts robust limits on how long any auditor spends on an audit, not just senior staff as required by the Ethical Standard. Audit Services Group records all staff's involvement in audits on an audit rotation database. In addition, the five year tender includes rotation of about half of Audit Services' audits to the private firms.

General Requirements

> **Paragraph 3.1 The firm shall establish policies and procedures to monitor the length of time and extent of involvement that partners and staff in senior positions, including those from other disciplines, serve as members of the engagement team(s) for recurring engagements for entities.**

55. Business groups monitor the length of time that staff work on audits with a view to key senior staff not normally staying on the same audit for more than five years in the same role.

56. Business groups maintain a rotation database for this purpose and staff must confirm they have updated this every year via the Fit and Proper form.

Key Audit Partners and Engagement Partners

> **Paragraph 3.11 In the case of listed entities, save where the circumstances contemplated in paragraph 3.14 and 3.15 apply, the firm shall establish policies and procedures to ensure in respect of a recurring engagement that:**
>
> **(a) no one shall act as engagement partner for more than five years; and**
>
> **(b) anyone who has acted as the engagement partner for a particular entity for a period of five years, shall not subsequently participate in the engagement until a further period of five years has elapsed.**

57. Paragraph 3.11 applies to all bodies.

Engagement Quality Control Reviewers and Other Key Partners Involved in the Engagement

> **Paragraph 3.20 In the case of public interest entities and other listed entities, the firm shall establish policies and procedures to ensure in respect of a recurring engagement that:**
>
> **(a) no one shall act as the engagement quality control reviewer or a key partner involved in the engagement for a period longer than seven years;**
>
> **(b) where an engagement quality control reviewer or a key partner involved in the engagement becomes the engagement partner, the combined period of service in these positions shall not exceed seven years; and**
>
> **(c) anyone who has acted:**
>
> **(i) as an engagement quality control reviewer for a particular entity for a period of seven years, whether continuously or in aggregate, shall not participate in the engagement until a further period of five years has elapsed;**
>
> **(ii) as a key partner involved in the engagement for a particular entity for a period of seven years, whether continuously or in aggregate, shall not participate in the engagement until a further period of two years has elapsed;**
>
> **(iii) in a combination of roles as:**
>
> > *** the engagement quality control reviewer, a key partner involved in the engagement, or**
> >
> > *** the engagement partner for a particular entity for a period of seven years, whether continuously or in aggregate, shall not participate in the engagement until a further period of five years has elapsed.**

58. Paragraph 3.20 applies to all bodies.

59. The engagement lead for the Scottish Government audit, where the audit opinion is signed by the Auditor General, is considered to be the Audit Director, who is subject to the time limits.

60. The 'Key partner involved in the engagement' is an audit partner involved at group level and responsible for key decisions or judgements on significant matters such as on significant subsidiaries or divisions of the audited body or on significant risk factors that relate to that body.

Other Partners and Staff Involved in the Engagement in Senior Positions

Paragraph 3.21 In the case of public interest entities and other listed entities, the engagement partner shall review the safeguards put in place to address the threats to the objectivity and independence of the person or persons conducting the engagement arising where partners and staff have been involved in the engagement in senior positions for a continuous period longer than seven years and shall discuss those situations with the engagement quality control reviewer. Any unresolved problems or issues shall be referred to the Ethics Function / Partner.

61. All staff will normally be limited to five years on any one audit, except in exceptional circumstances where the Ethics Partner may allow the limit to be extended by up to two years.

Section 4 – Fees, remuneration and evaluation policies, gifts and hospitality, litigation

Introduction

62. Section 4 of the Standard sets out the requirements concerning fees and remuneration. Fees for Audit Scotland's audits are set by AQA independently of auditors. This provides a strong control against threats to independence in combination with the independent appointment.

Fees

> **Paragraph 4.1 The engagement partner shall be satisfied and able to demonstrate that the engagement has assigned to it sufficient partners and staff with appropriate time and skill to perform the engagement in accordance with all applicable Engagement and Ethical Standards, irrespective of the engagement fee to be charged.**

63. Audit engagement leads must assign sufficient staff with appropriate skills for the work to be carried out in accordance with applicable standards including the Audit Guide, the Auditing Best Value Manual or Audit Management Framework as appropriate, irrespective of the audit fee, budget or planned timetable.

> **Paragraph 4.6R Fees for the provision of engagements shall not be contingent fees.**
>
> **Paragraph 4.25 In the case of public interest entities and of other listed entities relevant to an engagement, the engagement partner shall disclose to the audit committee, in writing, any contingent fee arrangements for non-audit / additional services provided by the firm or its network firms.**

64. Audit Scotland does not undertake any work on a contingent fee basis.

Paragraph 4.42 Where it is expected that the total fees for services receivable from a public interest entity or other listed entity and its subsidiaries relevant to a recurring engagement by the firm will regularly exceed 10% of the annual fee income of the firm or, where profits are not shared on a firm-wide basis, of the part of the firm by reference to which the engagement partner's profit share is calculated, the firm shall not act as the provider of the engagement for that entity and shall either resign or not stand for reappointment, as appropriate.

Paragraph 4.47 Where it is expected that the total fees services receivable from a public interest entity or other listed entity and its subsidiaries relevant to a recurring engagement by the firm will regularly exceed 5% of the annual fee income of the firm or the part of the firm by reference to which the engagement partner's profit share is calculated, but will not regularly exceed 10%, the engagement partner shall disclose that expectation to the Ethics Partner/Function and to those charged with governance of the entity, including the audit committee where there is one, and discusses with both the threat to integrity, objectivity and independence of the firm and covered persons and whether safeguards need to be applied to eliminate or reduce the threat to a level where independence would not be compromised.

Paragraph 4.51 Where it is expected that the total fees for services receivable from a non-listed entity, that is not a public interest entity, and its subsidiaries relevant to a recurring engagement will regularly exceed 10% of the annual fee income of the firm or the part of the firm by reference to which the engagement partner's profit share is calculated, but will not regularly exceed 15%, the engagement partner shall disclose that expectation to the Ethics Partner/Function and to those charged with governance of the entity and the firm shall arrange an external independent quality control review of the engagement to be undertaken before the firm's report is finalised.

65. The fees receivable from the audit of the Scottish Government and EAFA are above 5% of the total annual audit fee. The Scottish Government group of audits is the only audit which normally has fees exceeding 10% of ASG's total fee income. However, each subsidiary is audited independently and the engagement lead for the consolidated account has no direct influence, in that role, over the audit judgements for the subsidiaries.

66. The threats to objectivity envisaged by the standard are fully mitigated because these audit appointments are made independently of the body by the Auditor General and consequently this requirement does not apply.

Remuneration and Evaluation Policies

> **Paragraph 4.57 The firm shall establish policies and procedures to ensure that each of the following is true in relation to each entity relevant to an engagement by the firm:**
>
> **(a) a primary criterion for evaluating the performance or promotion of members of the engagement team is how they have contributed to the quality of engagements undertaken;**
>
> **(b) the objectives of the members of the engagement team do not include selling non-audit / additional services to the entity;**
>
> **(c) the criteria for evaluating the performance or promotion of members of the engagement team do not include success in selling non-audit / additional services to the entity; and**
>
> **(d) no specific element of the remuneration of a member of the engagement team is based on his or her success in selling non-audit / additional services to the entity.**

67. The selling of non-audit services is not a feature of either performance appraisal or staff remuneration.

Gifts and Hospitality

> **Paragraph 4.61D A firm, its partners and any covered person, and persons closely associated with them, shall not solicit or accept pecuniary and non-pecuniary gifts or favours, including hospitality, from an entity relevant to the engagement, or any other entity related to that entity, unless an objective, reasonable and informed third party would consider the value thereof as trivial or inconsequential.**
>
> **Paragraph 4.63 The firm shall establish policies on the nature and value of gifts, favours and hospitality that may be accepted from and offered to an entity relevant to an engagement, or any other entity related to that entity, their directors, officers and employees, and shall issue guidance to assist partners and staff to comply with such policies.**

68. Audit Scotland's gift and hospitality policy is consistent with the Ethical Standard requirements and is set out in the Code of Conduct. All staff must confirm compliance with this via the annual Fit and Proper self-assessment form.

Section 5 – Non-audit / Additional services provided to audited entities

Introduction

69. Section 5 of the Standard sets out the requirements for providing services to audited bodies in addition to the core audit work. Audit Scotland's focus is on financial audit and there is no incentive to conduct non-audit services. Any such work will be carried out only if requested and can be accepted only with approval from AQA.

70. Paragraphs 5.3 to 5.39 of section 5 set out the general approach to providing non-audit services to audited bodies, and additional services to bodies which they may not audit but for which they undertake other public interest assurance services. This approach is applicable irrespective of the nature of the non-audit/additional services in a given case.

71. Paragraphs 5.44 to 5.164 of section 5 illustrate the application of the general approach to a number of common non-audit/additional services.

72. The following guidance below each requirement from the standard explains how they are applied in Audit Scotland.

General Approach to Non-audit / Additional Services

> **Paragraph 5.11 The firm shall establish policies and procedures that require others within the firm, when considering whether to provide a non-audit / additional service to an entity relevant to an engagement, other than an investment circular reporting engagement, or to any of its affiliates, to communicate details of the proposed non-audit / additional service to the engagement partner.**

73. Any non-audit services carried out by ASG must be arranged through the audit engagement lead. All proposed non-audit services must first be approved by Audit Scotland's Ethics Partner then by AQA. Requests should be made in writing to AQA and should be accompanied by express assurance from the auditor that the Engagement Partner has reviewed the proposed work and that they do not consider that it represents a conflict with the firm's role as external auditor, in particular a self-review threat.

74. AQA will make its decision on any request having regard to the APB Ethical Standard currently in force and may consult Audit Scotland's Ethics Partner. For example, in accordance with paragraph 5.53 of the Ethical Standard (June 2016), approval would not be given for external auditors to seek appointment as internal auditors.

75. While it is unlikely that work carried out at an audited body by PABV or work carried out by any other member of staff would constitute work which might threaten an auditor's independence or objectivity, all staff need to be aware of the possibility in relation to any improvement work or advice and must discuss any proposed work with the audit engagement lead.

76. Audit Scotland staff do not provide additional services to bodies that are not audited.

Evaluation of specific non-audit services and additional services

> **Paragraphs 5.48 to 5.164 gives the following examples of non-audit services where extreme care is required: Internal audit services; Information technology services; Valuation services; Actuarial valuation services; Tax services; Litigation support services; Legal services; Recruitment and remuneration services; Corporate finance services; Transaction related services; Restructuring services; and Accounting Services.**

77. The requirements of paragraph 5.48 to 5.164 apply to all audits.

78. Transaction related services: preliminary opinions on the likely accounting treatment of PFI/PPP schemes may be undertaken by the audit team but any undue attempts by management to put pressure on the auditor to reach a particular view must immediately be reported to the Ethics Partner.

Audit related services

> **Paragraph 5.41 Audit related services are: Reporting required by law or regulation to be provided by the auditor; Reviews of interim financial information; Reporting on regulatory returns; Reporting to a regulator on client assets; Reporting on government grants; and Reporting on internal financial controls when required by law or regulation; Extended audit work that is authorised by those charged with governance performed on financial information and/or financial controls where this work is integrated with the audit work and is performed on the same principal terms and conditions.**

79. Audit related services are those non-audit services that are largely carried out by the engagement team and where the work involved is closely related to the financial audit.

80. Each type of audit related services may be undertaken. The type of audit related service most likely to be undertaken is work on the certification of grant claims. Auditors must seek approval from the Ethics Partner then AQA as described in paragraph 73.

Appendix 1

Application of IESBA Ethics Code to UK Accountancy Bodies

81. The International Ethics Standards Board for Accountants (IESBA) develops ethical standards and guidance for use by professional accountants. The IESBA Code issued in July 2009 (updated in 2016) serves as the foundation for codes of ethics developed and enforced by members of the International Federation of Accountants (IFAC). No member body of IFAC or firm issuing reports in accordance with International Auditing and Assurance Standards is allowed to apply less stringent standards than those stated in the IESBA Code.

82. Each professional institute in the UK adopted the IESBA Code as the basis for their own ethics codes from 1 January 2011. Members are required to comply with their institute's code.

83. Information on each institute's ethics code is as follows

   - CIPFA has a Standard of Professional Practice on Ethics (SOPP on Ethics).

   - ICAS has a Code of Ethics.

   - The ACCA Rulebook contains their Code of ethics and conduct at section 3.

   - ICAEW has a Code of Ethics.

Purpose

1. This report invites the Board to note the outcome of the self-evaluation process in compliance with the Public Records (Scotland) Act 2011 (PRSA), a Mystery Shopper exercise carried out in compliance with the Freedom of Information (Scotland) Act 2002 (FOISA) and the most recent ISO 27001 – Information Security Management audit.

Background

2. The Auditor General, Accounts Commission and Audit Scotland are all subject to the PRSA and FOISA. We have joint policies and procedures in place to ensure compliance with both Acts.

3. The Scottish Information Commissioner conducts Mystery Shopper exercises to establish if Scottish public authorities are complying with elements of FOISA.

4. The Keeper of the Records implements a Progress Update Report (PUR) self-assessment review mechanism to enable authorities to be credited for the progress they are making and to receive constructive advice concerning on-going records management developments.

5. In March/April 2018 Audit Scotland (in 2017 Audit Scotland and the Accounts Commission were included) was included in the sample for the Commissioners 2018 Mystery Shopper exercise.

6. In July Audit Scotland, the Auditor General and Accounts Commission were invited to submit their joint 2018 records management PUR to the Keepers evaluation team.

7. The results of the external scrutiny are set out below. In addition the PUR report from the Keepers evaluation team is attached to this paper.

Mystery Shopper

8. FOISA requires authorities to proactively publish certain types of information to the public. Proactive publication is a critical tool for the public to hold public bodies to account, particularly in relation to decision-making, spending, procurement and contracts.

9. The Mystery Shopper exercise was carried out in March and April 2018 on the Commissioner's behalf by Craigforth Ltd, and included a sample of 71 Scottish public bodies. It focussed on the accessibility of each authority's Guide to Information, procurement information and decision-making information, as well as the provision of advice and assistance.

10. Craigforth Ltd found the majority of Scottish public authorities are complying with their legal obligations to publish information, but not all do, and provision is not always consistent.

11. Audit Scotland performed very well in the Mystery Shopper exercise as can be seen from the results data in appendix 1. We were not subject to phone calls and emails from the Mystery Shopper to establish the quality of advice and assistance (we were included for this in 2017).

12. The full Mystery Shopper report is available on the Scottish Information Commissioner's website here.

PUR 2018

13. A records management PUR was a new requirement (started in 2017) for public bodies to undertake each year in support of the Public Records Scotland Act 2011 and our Records Management Plan (RMP).

14. Our joint (Auditor General, Accounts Commission and Audit Scotland) RMP was approved by the Keeper of the Records in 2013 (next full submission will be in July/August 2019). Our 2017 PUR was commended for the ongoing commitment to managing our records.

15. The 2018 PUR was undertaken by the Corporate Governance Manager and submitted to the Keeper's assessment team in July 2018 as part of the review of our Records Management policy. The PUR report from the assessment team (which is attached) is once again favourable and supportive of the action we have and are taking to comply with the PRSA.

16. The assessment team said that: 'Audit Scotland, the Auditor General for Scotland and the Accounts Commission for Scotland continues to take its records management obligations seriously and is working to maintain all elements in full compliance. It is clear that the authority has embedded all its records management responsibilities into its regular working practices. It is an exemplar of best practice in its approach to records management as an effective tool for supporting its functions. This is best demonstrated by the forward planning in relation to the impact of moving its records to cloud storage: the elements potentially affected by this have been identified and are being considered as part of the process rather than an afterthought when decisions have been taken.'

ISO27001 audit

17. On 25 September 2018 Certification Europe were onsite at West Port, Edinburgh to perform the final ISO 27001:2013 surveillance audit of 2018.

18. The agenda for the day focused on Risk Assessment and Treatment, Human Resources Information Security, Information Security Incident Management, Business Continuity, Supplier Management and Compliance. Over the course of the day we were required to provide evidence of continued compliance to the ISO 27001:2013 standard, for each of these areas.

19. The Assessor was satisfied that the action taken to achieve closure of the Non-Conformances (NC) raised at the last audit and that no new NCs or Opportunities For Improvement (OFIs) were identified. The final Surveillance audit of the current certification has been confirmed for Tuesday 26 March 2019.

20. Audit Scotland's current certification to ISO 27001:2013 is due to expire in September 2019 and plans are being made to be re-certified.

Recommendations

21. The Board is invited to note the outcome of the self-evaluation process in compliance with the Public Records (Scotland) Act 2011 (PRSA), the Mystery Shopper exercise carried out in compliance with the Freedom of Information (Scotland) Act 2002 (FOISA) and the results of our most recent ISO 27001 audit.

Mystery Shopper results for Audit Scotland

PUBLICATION SCHEME AND GUIDE TO INFORMATION

Guide to Information online (GTI)?	How was the GTI accessed?	Does the website/ document state when GTI was last reviewed?	When was GTI last reviewed?	Number clicks were required to access GTI?	Does GTI provide weblink to available information?	Ease of accessing: Information on Publication Scheme	Ease of accessing: Guide to Information	GTI/ information offered in other formats?	How many contact methods offered?	Email or webform?	Telephone?	Postal address?	Named individual?	Number clicks required to access contact details?	Does GTI include charging schedule?	Does Charging Schedule itemise specific items?	Costs specified for anything other than supplying info?	Does GTI explain how charges calculated?
Yes	Link	No	Unknown	1	Yes	Very easy	Very easy	Yes	4	Yes	Yes	Yes	Yes	1	Yes	Yes	No	Yes

PROCUREMENT INFORMATION

Does GTI provide weblink to Procurement Info?	Does website provide Procurement Strategy/ Policy/ Procedures?	Does website provide details of tendered contracts?	Include contract name?	Include supplier name?	Include contract period?	Include contract value?	Number clicks required to access Procurement information?	Quality of signposting to Procurement information	Ease of accessing Procurement Strategy etc	Ease of accessing Tendered contracts	Most recent publication date: Procurement Strategy etc	Most recent publication date: Tendered contracts	Earliest publication date: Procurement Strategy etc	Earliest publication date: Tendered contracts	Procurement information offered in other formats?
Yes	Yes-wholly	Yes-through website	Yes	Yes	Yes	Yes	2	Very good	Very easy	Very easy	2017/18	2017/18	Prior to 2015/16	Prior to 2015/16	No

DECISION MAKING INFORMATION (this is Board type information ie agendas, minutes and papers)

Does GTI include Class 3: Decisions?	Does GTI provide weblink to Decision Information?	Committee/ board minutes provided?	Committee agenda/ documents provided?	Strategies/ plans provided?	How many clicks required to access Decision information?	Quality of signposting to Decision information	Ease of accessing: Committee/ Board minutes	Ease of accessing: Agendas/ Documents	Ease of accessing: Strategies/ Plans	Most recent publication date: Meeting minutes	Most recent publication date: Agendas/ Documents	Most recent publication date: Strategies/ Plans	Earliest publication date: Meeting minutes	Earliest publication date: Agendas/ Documents	Earliest publication date: Strategies/ Plans	Decision information offered in other formats?
Yes	No	Yes-wholly	Yes-wholly	Yes-wholly	4	Fairly good	Fairly easy	Fairly easy	Fairly easy	2017/18	2017/18	2017/18	Prior to 2015/16	Prior to 2015/16	Prior to 2015/16	No

The Public Records (Scotland) Act 2011

Audit Scotland, Auditor General for Scotland and Accounts Commission for Scotland

Progress Update Review (PUR) Final Report by the PRSA Assessment Team

26 September 2018

Contents

1. Public Records (Scotland) Act 2011

The Public Records (Scotland) Act 2011 (the Act) received Royal Assent on 20 April 2011. It is the first new public records legislation in Scotland since 1937 and came into force on 1 January 2013. Its primary aim is to promote efficient and accountable record keeping by named Scottish public authorities.

The Act has its origins in *The Historical Abuse Systemic Review: Residential Schools and Children's Homes in Scotland 1950-1995* (The Shaw Report) published in 2007. The Shaw Report recorded how its investigations were hampered by poor recordkeeping and found that thousands of records had been created, but were then lost due to an inadequate legislative framework and poor records management. Crucially, it demonstrated how former residents of children's homes were denied access to information about their formative years. The Shaw Report demonstrated that management of records in all formats (paper and electronic) is not just a bureaucratic process, but central to good governance and should not be ignored. A follow-up review of public records legislation by the Keeper of the Records of Scotland (the Keeper) found further evidence of poor records management across the public sector. This resulted in the passage of the Act by the Scottish Parliament in March 2011.

The Act requires a named authority to prepare and implement a records management plan (RMP) which must set out proper arrangements for the management of its records. A plan must clearly describe the way the authority cares for the records that it creates, in any format, whilst carrying out its business activities. The RMP must be agreed with the Keeper and regularly reviewed.

2. Progress Update Review (PUR) Mechanism

Under section 5(1) & (2) of the Act the Keeper may only require a review of an authority's agreed RMP to be undertaken not earlier than five years after the date on which the authority's RMP was last agreed. Regardless of whether an authority has successfully achieved its goals identified in its RMP or continues to work towards them, the minimum period of five years before the Keeper can require a review of a RMP does not allow for continuous progress to be captured and recognised.

The success of the Act to date is attributable to a large degree to meaningful communication between the Keeper, the Assessment Team, and named public authorities. Consultation with Key Contacts has highlighted the desirability of a mechanism to facilitate regular, constructive dialogue between stakeholders and the Assessment Team. Many authorities have themselves recognised that such regular communication is necessary to keep their agreed plans up to date following inevitable organisational change. Following meetings between authorities and the Assessment Team, a reporting mechanism through which progress and local initiatives can be acknowledged and reviewed by the Assessment Team was proposed. Key Contacts have expressed the hope that through submission of regular updates, the momentum generated by the Act can continue to be sustained at all levels within authorities.

The PUR self-assessment review mechanism was developed in collaboration with stakeholders and was formally announced in the Keeper's Annual Report published on 12 August 2016. The completion of the PUR process enables authorities to be credited for the progress they are effecting and to receive constructive advice concerning on-going developments. Engaging with this mechanism will not only maintain the spirit of the Act by encouraging senior management to recognise the need for good records management practices, but will also help authorities comply with their statutory obligation under section 5(1)(a) of the Act to keep their RMP under review.

3. Executive Summary

This Final Report sets out the findings of the Public Records (Scotland) Act 2011 (the Act) Assessment Team's consideration of the Progress Update template submitted for Audit Scotland, Auditor General for Scotland and Accounts Commission for Scotland. The outcome of the assessment and relevant feedback can be found under sections 6 – 8.

4. Authority Background

Audit Scotland assists the Auditor General and the Accounts Commission to ensure organisations that spend public money in Scotland use it properly, efficiently and effectively. They check whether organisations manage their finances to the highest standards and achieve the best possible value for public money. They support public scrutiny that is fair, equal and open, and that leads to more effective financial management and value for money.

The post of Auditor General for Scotland was created under the Scotland Act 1998, prior to devolution in 2000. The appointment is made by the Crown. The Auditor General is responsible for auditing directorates of the Scottish Government, government agencies (e.g. the Scottish Prison Service, Transport Scotland), NHS bodies, further education colleges and all Non Departmental Public Bodies (for example Scottish Enterprise and VisitScotland). Annual financial audit reports are produced.

The Accounts Commission for Scotland is the public spending watchdog for local government. They hold councils in Scotland to account and help them improve. They operate impartially and independently of councils and of the Scottish Government, and meet and report in public. The Accounts Commission for Scotland was established in 1975 by the Local Government (Scotland) Act 1973. It is a body of at least six and no more than 12 members. Members are appointed by Scottish Ministers, following open recruitment under the public appointments procedures. Ministers also appoint one of the members to chair the Commission and one to be deputy chair. The role of the Commission has evolved and been modified in a variety of ways since 1975. Its current role can be summarised as 'to secure the audit of Scottish local government and to consider reports arising from that audit'.

5. Assessment Process

A PUR submission is evaluated by the Act's Assessment Team. The self-assessment process invites authorities to complete a template and send it to the Assessment Team one year after the date of agreement of its RMP and every year thereafter. The self-assessment template highlights where an authority's plan achieved agreement on an improvement basis and invites updates under

those 'Amber' elements. However, it also provides an opportunity for authorities not simply to report on progress against improvements, but to comment on any new initiatives, highlight innovations, or record changes to existing arrangements under those elements that had attracted an initial 'Green' score in their original RMP submission.

The assessment report considers statements made by an authority under the elements of its agreed Plan that included improvement models. It reflects any changes and/or progress made towards achieving full compliance in those areas where agreement under improvement was made in the Keeper's Assessment Report of their RMP. The PUR assessment report also considers statements of further progress made in elements already compliant under the Act.

Engagement with the PUR mechanism for assessment cannot alter the Keeper's Assessment Report of an authority's agreed RMP or any RAG assessment within it. Instead the PUR Final Report records the Assessment Team's evaluation of the submission and its opinion on the progress being made by the authority since agreeing its RMP. The team's assessment provides an informal indication of what marking an authority could expect should it submit a revised RMP to the Keeper under the Act, although such assessment is made without prejudice to the Keeper's right to adopt a different marking at that stage.

Key:

G	The Assessment Team agrees this element of an authority's plan.	A	The Assessment Team agrees this element of an authority's progress update submission as an 'improvement model'. This means that they are convinced of the authority's commitment to closing a gap in provision. They will request that they are updated as work on this element progresses.	R	There is a serious gap in provision for this element with no clear explanation of how this will be addressed. The Assessment Team may choose to notify the Keeper on this basis.

Progress Update Review (PUR) Template: Audit Scotland, Auditor General for Scotland and Accounts Commission for Scotland

N. B. For simplicity, as the plan relates to the records management provision for all three public authorities, the use of 'Audit Scotland' should be taken to refer to that organisation as well as the Auditor General for Scotland and the Accounts Commission for Scotland.

Element	Status of elements under agreed Plan, November 2013	Status of evidence under agreed Plan, November 2013	Progress assess-ment status, 2017	Progress assess-ment status, 2018	Keeper's Report Comments on Authority's Plan, November 2013	Self-assessment Update as submitted by the Authority in 2017	Progress Review Comment, 2017	Self-assessment Update as submitted by the Authority since November 2013 and the 2017 PUR	Progress Review Comment, 2018
1. Senior Officer	G	G	G	G	Update required on any change	No change, still D McGiffen, Chief Operating Officer	No immediate action required. Update required on any future change.	No change, still D McGiffen, Chief Operating Officer	No immediate action required. Update required on any future change.
2. Records Manager	G	G	G	G	Update required on any change	No change, still A Devlin, Corporate Governance Manager	No immediate action required. Update required on any future change.	No change, still A Devlin, Corporate Governance Manager	No immediate action required. Update required on any future change.
3. Policy	G	G	G	G	Update required on any change	Policy reviewed yearly and reapproved by the Audit Scotland Board. Next re-approval 23 August 2017. Only minor amendments made to 2013 version.	Audit Scotland continue to take their records management responsibilities seriously as evidenced by the regular review of their Policy and the involvement of the Board in approving and signing-off the Policy. Ensuring organisational high-level engagement in records management policies is commended by the Assessment Team. Should the next scheduled review in August prompt significant changes to the Policy, the Assessment Team would like to be informed of these during the next PUR invitation process. The Assessment Team recognises the on-going	Policy reviewed yearly and re-approved by the Audit Scotland Board. Next re-approval 26 September 2018. Only minor amendments made to 2013 version. No amendments were required in 2017 however it is still submitted for re-approval. The 2017 submission to the Board can be found in the Boards agenda's, papers and minutes using this link (pages 465 to 500). You will see the covering paper to the Board on our information policies: our FOI, Data Protection and RM policies for re-approval. You will also find last year's PUR reported to the Board.	Audit Scotland has provided evidence that it continues to review its records management policy and associated policies annually and ensures that the Board engages with this by the annual requirement to approve this. Publishing these policies is best practice and it is commendable that Audit Scotland does this as a simple business as usual process.

							initiative being undertaken by the authority under this element.	
4. Business Classification	G	G	G	G	Update required on any change. The Keeper is interested to hear news of the re-arrangement of the Business Classification Scheme (BCS)/Information Asset Register along functional lines	With the implementation of SharePoint our business classification was implemented on functional lines. The main focus of our work is auditing and this forms one of the largest section of SharePoint, auditing is further split by type of audit and audit sector. The other high level sections are: • Working groups (cross organisation working e.g. international audits/support), • Business groups (includes the Audit Scotland Board and Executive, Auditor General and the Accounts Commission), • Reference (supporting the business in areas such as corporate governance, legislation, FOI, complaints, etc.), • External engagement. Example below: As a result of implementing SharePoint we have decided to retain a separate retention schedule to ensure records retained outwith SharePoint are effectively managed.	Audit Scotland has submitted a sample page from SharePoint demonstrating the new functional arrangement of the current Business Classification Scheme. This appears to comprehensively cover all the authority's functions and the types of records created during the exercise of those functions. This will help the authority identify and retrieve the records it creates. Although such arrangement must remain a business decision for Audit Scotland, the Assessment Team would like to acknowledge that a functional system is currently considered 'best practice'. In Audit Scotland's agreed RMP the authority was considering developing a single document encompassing both the Business Classification Scheme and the Retention Schedule. The Assessment Team have been notified that the authority have opted to retain a separate retention schedule to ensure the on-going management of records held outwith the SharePoint system. This is a sensible approach for safeguarding records not encompassed by	No change since the PUR submission in 2017. However, we are currently working up a project to move SharePoint to the cloud. This will affect our records management arrangements, and possibly our business classification. An update on any changes will be included in our next full records management plan submission to the Keeper in June 2019.	The recognition that changes in technology may affect the business classification scheme and other practice demonstrates that the authority is aware of the wider ramifications of change and augurs well for the continuation of good practice in this element. The team look forward to learning more about this next year.

							SharePoint. The Assessment Team thanks Audit Scotland for the update. The Assessment Team recognises the on-going initiative being undertaken by the authority under this element.		
5. Retention Schedule	G	G	G	G	Update required on any change. The Keeper would welcome updates on the alignment of the retention schedule with the BCS along functional lines and the imposition of retention periods at point of record creation using the SharePoint system	Record retention schedule reviewed and updated on implementation of SharePoint and again in 2015. SharePoint libraries can be set with a retention period applicable to that library. In practice most of our retention periods are seven years this reflects the requirement for conducting audits. Documents are given 18 months from last change to deletion. If the document is to be kept as a record it is declared and kept for up to seven years when a manual intervention is required to review the record and a decision taken to delete it or to retain it for a further period (this includes Board records which will be kept for the life of the business but reviewed every seven years). Regular reports from SharePoint are sent to the business groups IAO's for review to decide on the future of that record or document.	Audit Scotland have developed and imposed appropriate arrangements for this element. The implementation of SharePoint, and use of the Library tool in particular, ensures records are assigned pre-determined retention/disposal dates. The retention of most records of seven years is entirely appropriate for this authority to conduct its functions. The authority has also made provision for the archiving of records by requiring that records to be kept for their enduring value are subject to manual intervention to either destroy or retain them for a further period. This is considered good practice as it will reduce the risk of records of permanent value being disposed of accidentally. The Assessment Team welcome the permanent retention of high-level organisational records such as Board records. Audit Scotland's approach of involving business group Information Asset	No change since last PUR update. However, we are working on amalgamating our Information Asset Register and our Records Retention Schedule into one document. Then we will correlate this to our GDPR Data Processing Register. Again, this will be fully covered in the June 2019 re-submission of our RMP.	A number of authorities are reporting that they are merging their Information Asset Register with the Records Retention Schedule. Consolidating these different requirements into a single source of information is practical and helps staff to comply with the requirements of different regulatory regimes. The Assessment team look forward to learning more about this venture next year.

							Owners to review and decide on the future of documents is commendable. Staff engagement should ensure retention periods remain relevant to the organisation. Undertaking regular reviews and updating the retention schedule is similarly considered good practice. Should future reviews bring about significant changes, the Assessment Team would like to be informed of these. The Assessment Team recognises the on-going initiative being undertaken by the authority under this element.		
6. Destruction Arrangements	G	G	G	G	Update required on any change	No change. However, procurement under way for a new archiving company. They will be responsible for destruction of paper records. Any change will take place circa August/September 2017. Potential new archiving companies have confirmed they hold ISO 9001 and ISO 27001 thereby ensuring no detriment to our handling, storage and secure destruction of our records. Electronic records are deleted after review by Information Asset Owners.	Currently paper records are held and destroyed by an off-site storage specialist who is ISO compliant. However, Audit Scotland is undertaking a procurement process for a new contractor. Audit Scotland continue to take this element seriously by ensuring that any potential new archiving company is compliant with ISO 9001 and ISO 27001. This should ensure that the storage and secure disposal of the authority's records continues to be managed appropriately. Due to the significance of this change, the Assessment Team	No change. We decided to remain with Box-it for the collection and destruction of our office paper documents and records. Their renewed ISO certificate, copy attached below.	This update and the renewed certificates are noted with thanks. The authority has ensured that their destruction arrangements for paper records are secure.

							would like sight of updates and evidence following the adoption of a new record destruction contractor in future PUR submissions.

The destruction of electronic records after review by Information Asset Owners is commended as a sensible approach to ensuring that those records which are no longer needed are destroyed in a timely manner. | | |
| 7. Archiving and Transfer | G | G | G | G | Update required on any change | No change.

However see 6 above regarding a re-tender for our archiving/destruction contract. Supplier may change circa August/September 2017.

The external archiving provision will hold records either until their destruction date or transfer date to the National Records of Scotland for permanent preservation. | As per Element 6, in the event that Audit Scotland enter into a contract with a new supplier, the Assessment Team will request sight in future PUR submissions of documentation demonstrating that archiving arrangements remain robust and compliant with regulatory and legal obligations.

Audit Scotland has made it clear that any potential change in archival provision relates to the storage of semi-current records at an external facility. There will be no change to the transfer of records of enduring value to the National Records of Scotland (NRS). | Audit Scotland appointed Redrock for the archiving and transfer of our paper files. They are ISO 9001 and 27001 certificated and they hold Cyber Essentials certification.

There will be no change to the transfer of records of enduring value to the National Records of Scotland (NRS). The next five-year batch of Accounts Commission records will be due to be transferred to the NRS in late 2019/early 2020. | The contract with Redrock is for external storage and scanning of material which is not of enduring value. Procurement is a business decision for the authority and the evidence supplied confirms that the requirements for secure storage and appropriate destruction have been fully considered.

The authority continues to deposit records of enduring value with NRS and is to be commended for ensuring that these transfers occur in a timely manner. |
| 8. Information Security | G | G | G | G | Update required on any change | Audit Scotland now has ISO 27001 – Information Security Management certification. It was achieved in November | Audit Scotland has supplied certification showing their compliance with ISO | No change.

The last ISO 27001 six-monthly surveillance visit | Annual compliance with ISO 27001 ensures that the authority takes the security of its information seriously. The |

						2016, certificate image below.	27001 – Information Security Management. This demonstrates the authority's continuing commitment to the protection of its records and the work being done to ensure their systems remain relevant and fit for purpose. The Assessment Team commends this endeavour. The Assessment Team recognises the on-going initiative being undertaken by the authority under this element.	was on 27 March 2018 in our Glasgow office. The assessment team concluded: **Assessment Conclusion** On the basis of the evidence identified above, the assessor has determined that the client's management system continues to meet the needs of the organisation and conforms to the requirements of ISO 27001:2013. The next visit is in September 2018 when the focus will be mainly on compliance with the GDPR.	contract with Redrock (see Element 7) similarly take into account the security of records and information stored externally. Audit Scotland is to be commended for maintaining the high quality of its information security provisions. It is an example for other public authorities to follow.
9. Data Protection	G	G	G	G	Update required on any change	Policy reviewed yearly and reapproved by the Audit Scotland Board. Next re-approval 23 August 2017. Only minor amendments made to 2013 version.	The Assessment Team endorse Audit Scotland's regular review of key records management policies such as those surrounding data protection. The re-approval of these policies by the Audit Scotland Board indicates that records management provisions remain a priority at the highest levels of the authority. Should the next scheduled review in August prompt significant changes to the Policy the Assessment Team would like to be informed of these during the next PUR invitation process. The Assessment Team recognises the on-going initiative being undertaken by the	Our data protection policy was updated to comply with the introduction of the General Data Protection Regulation (GDPR) and the Data Protection Act 2018. The policy went to and was approved by the Board on 2 May 2018. Agenda, Papers and Minutes are here. Our policy is publicly available on our website in our FOI publication scheme here.	As with Element 3, it is best practice to publish policies and information about data protection. Audit Scotland does this as a routine part of business and this is very commendable.

	G	G	G	G			authority under this element.		
10. Business Continuity and Vital Records	G	G	G	G	Update required on any change. The Keeper would welcome any updates concerning further implementation of the recommendations outlined in the internal audit report on 'Business Continuity and IT Disaster Recovery'	Business Continuity Arrangements reviewed yearly and approved by Audit Scotland's Audit Committee. Last approved November 2016, next approval November 2017. BDO our Internal Auditors conducted an internal audit of our arrangements in May 2017 and we achieved substantial assurance on our arrangements. Copy of report attached below. EXECUTIVE SUMMARY	The guidance to the Keeper's Model Plan stresses that business continuity arrangements must be regularly reviewed, tested, and revised to ensure they remain fit for purpose. Audit Scotland's annual review of its business continuity arrangements and the conducting of a test scenario at least once every twelve months are therefore commended by the Assessment Team as indicative of good practice. The evidence provided, namely the report of the internal audit conducted in May 2017 by BDO on Audit Scotland's business continuity arrangements highlights the continuing high levels of compliance with this element. The authors of the report are 'able to provide substantial assurance over the design and operational effectiveness of the controls in place relating to business continuity planning'. There is a clear Business Continuity Plan (BCP) in place and its guidelines have been communicated to all staff. The Assessment Team commend the authority's use of a testing template to record lessons learnt from previous tests. The sharing of the testing	No Change. Our BCP is reviewed yearly and submitted to the Audit Committee. The minutes of the November 2017 meeting (page 36) records our annual BCP submission. BDO Audit Scotland's internal auditors reviewed the implementation of the two BCP recommendations and signed them of as fully implemented in their follow-up report to Management Team and the Audit Committee. Extract from the follow-up report showing recommendations have been fully implemented below (just resize the picture to view). EXECUTIVE SUMMARY Minutes of Audit Committee meeting of 14 March 2018 (page four) shows that the follow-up report was presented by BDO.	Audit Scotland has provided evidence that they continue to ensure that their business continuity plan is maintained and regularly reviewed and approved at a senior level. Again this is best practice and demonstrates that Audit Scotland have embedded compliance in their routine business.

							template with the Corporate Performance Manager, who updates the BCP, and the distribution of the internal audit report with the Chief Operating Officer, is evidence of senior management involvement and commitment in ensuring compliance under this element. This is welcomed by the Assessment Team. The submitted Report offers two recommendations with implementation dates of June and November 2017. The Assessment Team would be pleased to learn of the implementation of these recommendations in future PUR submissions. The Assessment Team recognises the on-going initiative being undertaken by the authority under this element.		
11. Audit Trail	G	G	G	G	The Keeper would be keen to learn how the SharePoint technology is operating in so far as the audit trail of electronic records. The Keeper agrees that Audit Scotland's current 'audit trail' systems meet the requirements for this element and looks forward to reviewing the new policies when appropriate	No change to audit trail for paper records. SharePoint records now fully operational. Each business groups Information Asset Owner is sent an expiring file report on a regular basis (Excel spreadsheet). The reports are reviewed to establish if the document or record should be kept for a further period of time or deleted in line with our records retention schedule. In addition each member of staff can run an adhoc report on their expiring files.	The Keeper's original Report on Audit Scotland's RMP noted a commitment by the authority to focus their audit trail development on electronic media. As SharePoint is now fully operational this should now ensure that audit trail functionality such as tracking and locating electronic records, and preventing their unauthorised alteration or destruction, is now operational. The Assessment Team commends the rolling	No change since the update in last year's PUR submission. IAO's continue to monitor and authorise the destruction or records at the end of their retention period. Note however that with moving to SharePoint in the cloud this will be reviewed for electronic records and reported in our next RMP submission in June 2019.	Audit Scotland recognise that a change in technology could impact the current systems and arrangements for tracking changes to records and are to be commended for their forward planning. The Assessment Team look forward to hearing progress on this area in due course.

						Expiring files report extract below:	out of SharePoint as it will provide a means of comprehensively tracking the lifecycle of electronic records. The inclusion of an Expiring File Report also demonstrates Audit Scotland's efforts to ensure records are destroyed in a structured, timely manner in line with business needs. The involvement of Information Asset Owners in reviewing documents scheduled for deletion is considered a suitable approach. The Assessment Team recognises the on-going initiative being undertaken by the authority under this element.		
12. Competency Framework	G	G	G	G	Update required on any change	Generally no change however the staff guide to records management is reviewed yearly and re-issued. Latest version attached. 	The Assessment Team welcomes the regular review and re-issuing of the Guide for Staff on Managing Records. This should ensure that staff are up-to-date on procedures and their obligations in handling records in an authorised manner. The Team are particularly impressed by the comprehensive nature of the Guide submitted as evidence (dated July 2017). Not only are useful examples included to help explain the nature of records, their "lifecycle", and how they should be managed	No change since the last PUR submission which showed our July 2017 RM guide to staff.	No immediate action required. Update required on any future change.

							within SharePoint, but it also relates to many of the compulsory elements of the RMP, including information security, vital records, and the archiving and transfer of records of enduring value. Should future annual reviews prompt significant changes in staff instructions, the Assessment Team would be pleased to have sight of the relevant documentation. The Assessment Team recognises the on-going initiative being undertaken by the authority under this element.		
13. Assessment and Review	G	G	G	G	Update required on any change	No Change. Every year each business group has to undertake a review of their records management practices using our RM Checklist. The result of this is incorporated, along with other assurances, into our Accountable Officer's statement of internal control. The checklist is shown below. **Records Management** Compliance Self-Assessment Checklist 2017 ☑AUDITSCOTLAND	The annual, scheduled review of records management practices is welcomed as an example of good practice in ensuring arrangements within each business group remain fit for purpose. The use of the Records Management Checklist supplied as evidence is an appropriate tool for conducting such reviews. The checklist comprehensively addresses key issues necessary for on-going compliance, such as information security, staff awareness of policies and procedures, and the retention, destruction or transfer of records. The Assessment Team similarly commend the	No change. Information Asset Owners conducted the 2018 review between the 1 – 23 March 2018. The review was included in the 2017/18 annual report on information governance and security to the Audit Committee in May 2018 (item 16 on page 13 of the minutes).	Audit Scotland have provided evidence that they continue to assess and review the Records Management Plan in conformance with the Public Records (Scotland) Act 2011, s. 5 (1) (a). The submission of this Progress Update Review is further evidence of the authority's commitment to making proper arrangements for its records. The authority is to be commended for maintaining compliance in a proactive manner.

							involvement of senior management in reporting on the finding of these reviews. The Assessment Team will need to be informed if any considerable amendments occur or new policies are introduced following these regular self-assessments. The Assessment Team recognises the on-going initiative being undertaken by the authority under this element.		
14. Shared Information	G	G	G	G	Update required on any change	No Change.	No immediate action required. Update required on any future change.	No change however we do update our MoUs with other bodies as required, this was included in our 2013 RMP submission. Some of these will have been updated, they are on our website here. Also, our Code of Data Matching Practice 2010 is being updated prior to the next NFI exercise. It is out for consultation and the draft Code can be found here. This section will be fully revised for the next full RMP submission in June 2019.	Audit Scotland have provided evidence that they keep their information sharing protocols and agreements under review and updated as required. The assessment team look forward to seeing more about this element in detail in due course.

The progress update submission which has been assessed is the one received by the Assessment Team on 24 July 2018. The author of the progress update submission is Alex Devlin, Corporate Governance Manager.

The progress update submission makes it clear that it is a submission for **Audit Scotland, the Auditor General for Scotland and the Accounts Commission for Scotland**.

7. PRSA Assessment Team's Summary

The Assessment Team has reviewed **Audit Scotland, the Auditor General for Scotland and the Accounts Commission for Scotland's** Progress Update submission and agrees that the proper record management arrangements outlined by the fourteen elements in the authority's plan continue to be properly considered. The Assessment Team commends this authority's efforts to keep its Records Management Plan under review.

General Comments

Audit Scotland, the Auditor General for Scotland and the Accounts Commission for Scotland continues to take its records management obligations seriously and is working to maintain all elements in full compliance. It is clear that the authority has embedded all its records management responsibilities into its regular working practices. It is an exemplar of best practice in its approach to records management as an effective tool for supporting its functions. This is best demonstrated by the forward planning in relation to the impact of moving its records to cloud storage: the elements potentially affected by this have been identified and are being considered as part of the process rather than an afterthought when decisions have been taken.

Section 5(2) of the Public Records (Scotland) Act 2011 provides the Keeper of the Records of Scotland (the Keeper) with authority to revisit an agreed plan only after five years has elapsed since the date of agreement. **Audit Scotland, the Auditor General for Scotland and the Accounts Commission for Scotland** have been notified that the Keeper intends to revisit their agreed plan in 2019. The Act does not require authorities to provide regular updates against progress. The Keeper, however, encourages such updates.

The Keeper cannot change the status of elements formally agreed under a voluntary submission, but he can use such submissions to indicate how he might now regard this status.   While this voluntary assessment cannot, therefore, lead to an allocation of a RAG

status against **Audit Scotland, the Auditor General for Scotland and the Accounts Commission for Scotland's** agreed RMP, as evidenced in the Keeper's published report, it is the case that the 'ticks' the authority gained under each element correspond to a 'green' status indicator under the now established RAG status mechanism. Green or green-equivalent 'ticks' achieved by the authority under the original submission cannot be visually improved upon under a RAG mechanism. However, updates provided against current arrangements can demonstrate progress continues to be made under these compliant elements. Such updates would indicate the authority is committed to ongoing assessment of all its arrangements to further improve upon and maintain its records management arrangements.

Where 'no change' has been recorded under the update on provision by the authority, the Assessment Team is happy to agree that these elements require no further action for the time being.

8. PRSA Assessment Team's Evaluation

Based on the progress update assessment the Assessment Team considers that **Audit Scotland, the Auditor General for Scotland and the Accounts Commission for Scotland** continue to take their statutory obligations seriously and are working hard to bring all the elements of their records management arrangements into full compliance with the Act and fulfil the Keeper's expectations.

- The Assessment Team recommends authorities consider publishing PUR assessment reports on their websites as an example of continued good practice both within individual authorities and across the sector.

This report follows the Public Records (Scotland) Act Assessment Team's review carried out by,

…………………………

Elspeth Reid

19

Public Records Officer

2019 Board and Committee meeting schedule

Chief Operating Officer

Purpose

1. This report seeks the Board's approval for the proposed schedule of meeting dates for 2019.

2. The proposed dates have been scheduled taking account of the Board's continued commitment to hold committee meetings on a different date to the Board, the confirmed schedule of meetings of the Accounts Commission and known parliamentary commitments throughout the year.

3. The suggested meeting dates for 2019 are detailed below.

Board	Audit Committee	Remuneration and Human Resources Committee
29 January 2019		
	27 February 2019	27 February 2019
20 March 2019		
1 May 2019	22 May 2019	22 May 2019
5 June 2019 (AR&Accs)	5 June 2019 (AR&Accs)	
18 September 2019	4 September 2019	4 September 2019
27 November 2019	13 November 2019	13 November 2019

4. Board meetings are to be held at Audit Scotland's Edinburgh office and publication of the approved dates will be published on our website. Committee meetings will be held in Audit Scotland's Glasgow office.

Recommendation

5. The Board is invited to approve the proposed schedule of meeting dates for 2019.

Agenda

Wednesday 28 November, 10.15am

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

AUDIT SCOTLAND

1. Welcome and apologies

2. Declarations of interest

3. Decision on items to be taken in private   For approval

Standing items

4. Chair's report – verbal update

5. Accountable Officer's report – verbal update

6. Accounts Commission Chair's report – verbal update

7. Review of minutes:
   - Board meeting, 31 October 2018   For approval

8. Review of action tracker   For information

Strategy and planning

9. New financial powers and constitutional change update   For information

10. Digital Economy Act 2017   For information

Business performance

11. Q2 Financial performance report   For information

12. Q2 Corporate performance report   For information

13. Q2 Becoming world class improvement programme update   For information

Governance

14. Annual review of corporate governance policies   For approval

Conclusion

15. Any other business

16. Review of meeting

17. Date of next meeting: 29 January 2019

Minutes

Wednesday 31 October 2018, 12.00pm

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

Present:

I Leitch (Chair)
C Gardner
G Sharp
H Logan
A Alexander

Apologies:

None

In attendance:

D McGiffen, Chief Operating Officer
M Walker, Assistant Director, Corporate Performance and Risk
G Greenhill, Senior Manager, Performance Audit and Best Value (item 9)
I Metcalfe, Corporate Performance Office (item 9)
A Devlin, Corporate Governance Manager (item 11)
S Dennis, Corporate Finance Manager (item 16)
J Webber, Senior Executive Assistant

1.   Welcome and apologies

The Chair welcomed members and attendees to the meeting of the Audit Scotland Board, the agenda and papers for which had been published on Audit Scotland's website on Monday 29 October 2018.

The Chair welcomed Professor Alan Alexander, newly appointed member to his first meeting of the Board and formally proposed his appointment as Chair of the Remuneration and Human Resources Committee. The members welcomed the appointment.

2.   Declarations of interest

There were no declarations of interest.

3.   Decision on items to be taken in private

The members noted that items 16 and 17 would be taken in private to support the effective conduct of business as the information is intended for future publication.

4.   Chair's report

Ian Leitch provided a verbal update on regular meetings with Diane McGiffen and Caroline Gardner on general business matters and meetings with the Scottish Commission for Public Audit.

The members welcomed the update.

5.   Accountable Officer's report

Caroline advised there were a number of Section 22 reports scheduled to be considered by the Public Audit and Post Legislative Scrutiny Committee (PAPLS) and reflected on what has been

a busy time for the audit teams. In particular, Caroline highlighted the publication of the NHS Overview report and advised that it would be considered by PAPLS in due course.

Caroline also invited the Board to note the forthcoming joint publication of the Health and Social Care integration report and the Audit Scotland Annual Planning Conference on 8 October 2018 at which she and Graham Sharp had spoken.

Caroline invited the Board to note forthcoming engagement events including the invitation for her to speak at the New Club Annual ladies dinner on 2 November 2018, speaking at the non executive directors event on the role of scrutinising government on 6 November 2018 and chairing the Fraser of Allander Institute event on 8 November 2018.

Caroline advised the Board of the recent nomination of Audit Scotland's Communications team for Best Integrated Campaign work on Early learning and child care from the Chartered Institute of Public Relations Scotland PRide awards. In addition, she advised that Audit Scotland had just launched the Best Companies survey for the tenth year and that graduate trainee recruitment campaign had commenced as well as campaigns to recruit a Communications Manager and Corporate Governance Manager following the retirement of both postholders.

Caroline advised of the forthcoming meeting of the UK Auditor Generals on 16 November 2018 in Dublin and invited members to note the inaugural meeting of the Performance Audit Forum on 1 November 2019 led by Fraser McKinlay.

The member welcomed the update.

6.   Accounts Commission Chair's report

Graham Sharp invited the Board to note that the Accounts Commission meeting on 11 October 2018 had considered the East Lothian Best Value Audit Report with media coverage scheduled for today.

Graham invited members to note that the meeting on 8 November 2018 would consider the Dumfries and Galloway Best Value Audit Report, the draft Local Government Financial Overview report and receive a briefing on reducing child poverty before reviewing the performance indicators identified from the mid-year strategy and how they integrate with the Local Government framework.

Graham advised that he had attended a meeting with COSLA meeting on 11 October 2018 and the last of the Commission Connected events had taken place on 29 October 2018. He advised that the events had provided a valuable opportunity to engage with all 32 councils and the Commission will be looking to host every two years.

Graham invited members to note the reappointment of Stephen Moore to September 2022 and Ronnie Hind's extended term to September 2019 which will lead to the recruitment for a new deputy chair.

The Board welcomed the update.

7.   Review of minutes

Board meeting, 28 September 2018

The Board considered the minutes of the meeting of 28 September 2018, which had been previously circulated, and agreed that these were an accurate record of the meeting, subject to inserting the word 'and' before 'considered annually by the Board' in the penultimate paragraph of item 14, Audit Quality and reputational risk.

8.   Review of actions tracker

The Board noted the updates provided by the action tracker.

In relation to ASB79, the average cost per audit day for Performance Audit and Best Value group, Heather Logan asked whether there was anything from that discussion which the Board should be aware of. Graham Sharp advised the information provided at the meeting had provided him with clarification on the average cost per audit day in terms of gradings and charge-out rates and Heather agreed to discuss further with Martin Walker outwith the meeting.

On ASB85 Martin Walker advised Colin Pentland would be in contact directly with members regarding online access to the British Sign Language training.

9. Green Future Team – environment and sustainability annual report 2017/18

Graeme Greenhill, Senior Manager, and Ian Metcalfe, Corporate Performance Officer, joined the meeting.

Graeme Greenhill, Senior Manager, and Ian Metcalfe, Corporate Performance Officer introduced the Environment and sustainability annual report 2017/18, which had been previously circulated.

Graeme invited the Board to consider and approve the publication of the report. Graeme invited the Board to note Audit Scotland is on track to meet its 2019/20 target to reduce annual carbon emissions to no more than 292 tCO2e. With less significant reductions likely from 2021 the refreshed membership of the Green Future Team will be looking to take forward a range of actions.

Heather Logan noted the reduction in air and road travel corresponded with an uplift in rail travel and asked how efficient this was for the organisation. Ian Metcalfe advised that colleagues considered the best travel option, any business impact and our carbon footprint and often train journeys were seen as the best option in order to work while travelling. In addition, Ian also advised members to note the engagement and activities planned to support Climate Week which included raising awareness and practical ways to support paperless meetings.

Alan Alexander advised of a number of drafting comments on the report which he agreed to share outwith the meeting. He asked whether utilities within the office buildings were included within rent and Diane confirmed they were and would take forward the suggestion that the landlords could be encouraged to explore options to reduce usage.

Following discussion, the Chair thanked the team for their work and the Board approved the publication of the report noting Audit Scotland are regarded as exemplars in reporting.

Graeme Greenhill, Senior Manager, and Ian Metcalfe, Corporate Performance Officer, left the meeting.

10. Review of Ethical Standards policy

Elaine Boyd, Associate Director and John Gilchrist, Manager, joined the meeting.

Elaine Boyd introduced the Review of Ethical Standards policy report, a copy of which had been previously circulated and invited the Board to consider and approve the updated Ethical Standards Policy on Application.

The Board welcomed the updating of the application to reflect the new roles and responsibilities, appreciating this is taken seriously by the Auditor General, the Accounts Commission and Audit Scotland as public sector providers.

Following discussion, the Board welcomed the report and approved the Ethical Standards Policy on Application.

Elaine Boyd, Associate Director and John Gilchrist, Manager, left the meeting.

11. Reviews of information management arrangements

Alex Devlin, Corporate Governance Manager, joined the meeting.

Alex Devlin, Corporate Governance Manager introduced the reviews of information management arrangements paper, which had been previously circulated.

Alex invited the Board to note the outcome of the self evaluation process in compliance with the Public Records (Scotland) Act 2011 (PRSA) and the process for the mystery shopper exercise undertaken in compliance with the Freedom of Information (Scotland) Act 2002 and the most recent ISO 27001 audit.

Following discussion, the Board welcomed the assurance provided.

Alex Devlin, Corporate Governance Manager, left the meeting.

12. 2019 Board and Committee meeting dates

Diane McGiffen, Chief Operating Officer, introduced the proposed Board and Committee schedule for 2019, which had been previously circulated.

The Board noted the proposed sequencing of meetings for 2019 and following discussion approved the schedule of meetings.

13. Any other business

There was no further business.

14. Review of meeting

The members agreed that business had been well considered and the Chair thanked everyone for their contribution.

15. Date of next meeting

It was noted that the next Audit Scotland Board meeting was scheduled for 10.15am on Wednesday 28 November 2018 in the offices of Audit Scotland, 102 West Port, Edinburgh.

Items taken in private

16. 2019/20 SCPA Budget proposal

Stuart Dennis, Corporate Finance Manager, joined the meeting.

Stuart Dennis, Corporate Finance Manager, introduced the 2019/20 SCPA Budget proposal report, which had been previously circulated.

Diane invited the Board to note that the early draft budget proposal highlighted some of the uncertainties around public sector pay, expanded resource requirements in relation to EU withdrawal and the impact of Brexit together with the potential for increased audit fees in coming years which may require further discussion.

The Chair asked about Audit Scotland's preparedness for Brexit and Diane advised that key audit issues have been incorporated into the updated Code of Audit Practice which was shared at the Annual Audit Planning conference held on 8 October 2018, and regularly features at meetings with Audit Partners and internal audit teams. As such, auditors are keeping in touch with leaders of public bodies to ensure they consider the range of potential impacts.

In terms of Audit Scotland's spend on Brexit, Diane advised work was underway to ensure there is flexibility in the scope of the audit work programme which will be agreed with the Auditor

General and Accounts Commission. Caroline Gardner advised this will help support the increased expectation from audit providers. Heather Logan also highlighted that BDO, our internal auditors, are considering Audit Scotland's preparedness for Brexit as part of their internal audit work programme.

The Board discussed the report and welcomed the detailed consideration of the potential risks in an unpredictable landscape. The members considered a number of presentational aspects to the budget submission and following discussion, the Board approved the budget submission.

Diane invited the Board to note the budget proposal would be considered by the Scottish Commission for Public Audit on 12 December 2018.

Stuart Dennis, Corporate Finance Manager, left the meeting.

17. Discussion on proposals for Board development activity 2019

Diane McGiffen provided a summary of previous Board development discussions and noting members commitment for further development sessions sought their initial thoughts for an early 2019 session.

During discussion, the members agreed a number of development areas including preparedness for and responding to Brexit and with the devolution of new financial powers what that means for Scotland, audit and Audit Scotland in terms of budget and for staff, developing the Board's skill set and the capacity and skill set required to support the Auditor General and Accounts Commission in a continually challenging external operating environment.

Following discussion, Diane agreed to liaise with Judith Strange who facilitated the previous development sessions.

Action ASB86:   Diane McGiffen to liaise with Judith Strange to take forward arrangements for an early 2019 Board development session. (November 2018)

AUDIT SCOTLAND BOARD ACTION TRACKER 2018/19

Ref	FORUM	Agenda Item No	Item Title	Action Description	Meeting Date	Due Date	Responsible	Assigned to	Complete/Ongoing	Reported Yes/No	Progress Notes
ASB64	Board	5	Accountable Officer's Report	An update report on developments within the Appointments and Assurance and Professional Support teams to be scheduled.	29/11/2017	30/11/2018	Diane McGiffen/Fiona Kordiak	Diane McGiffen/Fiona Kordiak	Ongoing		The report has been rescheduled for the next Board meeting on 29 January 2018.
ASB78	Board	9	Q1 Corporate performance report	Martin Walker to include expenditure data on consultancy in future quarterly reporting.	22/08/2018	30/11/2018	Martin Walker	Martin Walker	Complete	No	Expenditure data is reported in the Q2 report at Item 11 at today's meeting.
ASB79	Board	9	Q1 Corporate performance report	Martin Walker and Stuart Dennis to discuss with Graham Sharp what further information on the average cost per audit day for Performance Audit and Best Value group would be helpful.	22/08/2018	30/11/2018	Martin Walker / Stuart Dennis	Stuart Dennis	Complete	Yes	A meeting took place on 10/10/18 to discuss the information required.
ASB80	Board	12	Annual review of Codes of Conduct	Alex Devlin to circulate the revised wording to the Code of Conduct for members for information.	22/08/2018	31/08/2018	Alex Devlin	Alex Devlin	Complete	Yes	The revised Code of Conduct for members was circulated to members on 17/10/2018.
ASB81	Board	10	Annual review of information governance policies	Alex Devlin to liaise with Digital Services to incorporate testing archive integrity as part of the Records Management Policy.	28/09/2018	31/10/2018	Alex Devlin	Alex Devlin	Complete	Yes	Digital Services undertake a monthly check across all files, users and servers with any recovery issues reported and resolved.
ASB82	Board	10	Annual review of information governance policies	A further update of the Records Management policy to be considered by the Board. (November 2018)	28/09/2018	27/11/2018	Alex Devlin	Alex Devlin	Complete	Yes	The Board considered a report at item 11 at its meeting on 31 October 2018.
ASB83	Board	14	Audit Quality and reputational risk	Fiona Kordiak to report annually to the Board. (September 2019)	28/09/2018	Sep-19	Fiona Kordiak	Alex Devlin	Complete	Yes	This has been added to the annual reporting schedule.
ASB84	Board	16	2019/20 Budget	Stuart Dennis to prepare the 2019/20 budget submission.	28/09/2018	31/10/2018	Stuart Dennis	Stuart Dennis	Complete	Yes	The Board considered and approved the budget proposal at Item 16 of its meeting on 31 October 2018.
ASB85	Board	17	Audit Scotland Draft British Sign Language plan 2018-24	Elizabeth Gorrie to organise access to the online British Sign Language training for Board members.	28/09/2018	31/10/2018	Joanna Mansell	Colin Pentland	Complete	No	Colin Pentland has liaised with members to confirm their interest to register for the online training.
ASB86	Board	17	Discussion on proposals for Board development activity 2019	Diane McGiffen to liaise with Judith Strange to take forward arrangements for an early 2019 Board development session.	31/10/2018	28/11/2018	Diane McGiffen	Diane McGiffen	Ongoing		Diane McGiffen will provide a verbal update of discussions with Judith Strange at the meeting on 28/11/2018.

Purpose

1. This paper provides an update on key developments surrounding financial devolution and constitutional change, including Audit Scotland's response and organisational arrangements.

Background

2. We provided an update to the Board in May 2018 on the new financial powers and constitutional change. Significant developments since then include:

   - The EU Withdrawal Act received Royal Assent in June 2018. It did not receive legislative consent from the Scottish Government, which is concerned about what will happen to some powers in devolved areas when they return to the UK Parliament after EU withdrawal. The UK Government and the European Commission continue to negotiate the terms of the UK's departure from the EU, with a draft withdrawal agreement published on 14 November. We published a paper in October 2018 setting out key audit issues for the Scottish public sector.

   - A new Scottish budget process is being introduced for the 2019/20 budget. As part of this, the Scottish Government published two new documents – its first medium-term financial strategy in May 2018 and the Fiscal Framework Outturn Report in September 2018. We published a paper in October 2018, providing an overview of the operation of the fiscal framework and setting out the risks that are now affecting the Scottish budget. The Scottish Government has announced that it will publish its 2019/20 budget on 12 December 2018.

   - The Social Security (Scotland) Act received Royal Assent on 1 June 2018. A new Cabinet Secretary post for social security was created in the Scottish cabinet re-shuffle on 26 June 2018. Social Security Scotland began operating as an executive agency in September 2018 and has started making payments of the Carer's Allowance Supplement.

   - The Auditor General for Scotland published a section 22 report on the 2017/18 audit of the Scottish Government consolidated accounts in September 2018. It was considered by the Public Audit and Post-Legislative Scrutiny Committee on 1 November 2018 and the committee agreed to invite the Scottish Government to give evidence.

EU withdrawal

3. The EU (Withdrawal) Act received Royal Assent on 26 June 2018. This will remove the competence of EU institutions to legislate for the UK and enables the transfer of existing EU law into UK law where appropriate after 29 March 2019. The Scottish Parliament did not consent to the UK legislation and is waiting for the Supreme Court to rule whether emergency legislation passed by the Scottish Parliament in March 2018 - the UK Withdrawal from the European Union (Legal Continuity) (Scotland) Bill – is within devolved powers. This Bill is intended to ensure there is continuity of EU legislation in Scotland after the UK has left the EU.

4. A draft withdrawal agreement between the UK Government and the European Commission was published on 14 November 2018. A European Council summit is planned for 25 November, with the aim of finalising the agreement. The UK Parliament will then debate the terms of the agreement and vote on it. If approved by the UK Parliament, individual EU member states and the European Parliament will need to ratify the withdrawal agreement before 29 March 2019. At the time of writing, there remains significant uncertainty about the outcome of this process.

5. The UK Government has published over 100 technical notes that are intended to provide guidance on how to prepare for the possibility of the UK leaving the EU without agreeing the terms of withdrawal. These notes cover topics including applying for EU funding, importing and exporting, and regulating

medicines. In September 2018, the Cabinet Secretary for Government Business and Constitutional Relations updated the Scottish Parliament on the progress of the EU negotiations. He stressed the scale of work required for leaving the EU, even with an agreement between the EU and the UK Government. On 15 October 2018, the Scottish Government published *Scotland's place in Europe: Our way forward*, which sets out its position on EU withdrawal negotiations and its proposal to keep Scotland and the UK in the European Single Market and Customs Union. The Scottish Government's view is that an extension to the negotiating period (i.e. beyond 29 March 2019) is preferable to leaving the EU without any agreement. On November 15 the Cabinet Secretary made a statement on the draft withdrawal agreement reaffirming the Scottish Government's position.

6. We are continuing to monitor issues as they develop, identify associated audit risks, and ensure they are reflected in the public sector audit risk register and our work programme. The impact of EU withdrawal will feature in our audit work for the foreseeable future. The audit planning guidance for the 2018/19 audits asks auditors to assess how audited bodies have prepared for EU withdrawal and how they continue to respond to any emerging risks after March 2019. We are preparing additional guidance for auditors to assist their understanding of the key issues for public bodies and help them to make audit judgements in this area. Our programme of performance audits will also consider the impact of withdrawal from the EU, where relevant. This is likely to include audits on local government and the NHS in Scotland, NHS workforce planning, Scotland's colleges and higher education finances.

7. We are also speaking to stakeholders across the public sector about the potential implications of EU withdrawal and how they are responding to this. In October, we published a paper that presents our view of the key issues that withdrawal from the EU presents to the public bodies we audit.[1] It focuses on three areas – people, finance, and rules and regulation. The paper suggests questions that all public bodies should be asking themselves in the months up to 29 March 2019 and sets out our current plans to reflect withdrawal from the EU in our audit work. The paper was well received by stakeholders.

8. We continue to identify the implications of the UK leaving the EU for Audit Scotland and to assess any business risks. Audit Scotland's Audit Committee undertook a 'deep dive' into the business risks associated with EU withdrawal at its meeting on 23 May 2018. Our internal auditors are currently assessing how we are preparing for EU withdrawal, as part of their 2018/19 work programme. We have assessed our response to EU withdrawal to date using the questions in the key issues paper that we published in October (see Appendix).

9. We regularly update Management Team and the New Financial Powers Steering Group on relevant developments in this area. Management Team held summits in August and November with colleagues from across the business, to discuss the potential implications for our audit work, our organisation and our priorities. We are updating staff on key developments and the potential impact on our work through presentations at team meetings, Yammer and staff drop-in sessions. We are also offering drop-in sessions for any colleagues who are personally affected or worried about what EU withdrawal means for them. We will continue to review and adapt our response as the outcome of negotiations between the UK Government and European Commission becomes clearer.

Managing the public finances

10. In June 2017, the Budget Process Review Group recommended a framework for a revised budget process. This included a year-round approach to budget setting, scrutiny and evaluation, with increased emphasis on outcomes and what spending is achieving. The Scottish Parliament backed changes to the budget process and the new approach is being introduced for the 2019/20 budget, which is expected to be published on 12 December 2018.

11. As part of the new budget process, the Scottish Government has published two new documents. It published its first medium-term financial strategy on 31 May 2018. The five-year strategy sets out the funding arrangements that the Scottish Government now operates within, its approach to financial management, and possible funding scenarios for the Scottish Budget based on modelling using the Scottish Fiscal Commission forecasts. The Scottish Government published the Fiscal Framework Outturn

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[1] http://www.audit-scotland.gov.uk/uploads/docs/report/2018/paper_181011_eu_withdrawal.pdf

Report on 20 September 2018. This provides information on the reconciliation process for income tax, Land and Buildings Transaction Tax and Scottish Landfill Tax, and the operation of the Scotland Reserve and the Scottish Government's borrowing powers.

12. Earlier this year we established a cross-organisation team to lead on our programme of work on public financial management. The team published its first output on 16 October 2018, which was a paper on the operation of the fiscal framework.[2] It provides an overview of how the Scottish budget operated in 2017/18, the effect of the main components of the fiscal framework, and the range of risks to the budget and what these mean for the management of the Scottish public finances. We shared a copy of this paper with the Finance and Constitution Committee to help support its pre-budget scrutiny.

13. We are engaging with parliamentary committees and colleagues to ensure our audit work helps support the new budget process and improved scrutiny. This includes briefing committees on the new budget process and how audit work can contribute to the basket of evidence used to support budget scrutiny. The AGS provided written evidence to the Finance and Constitution Committee and participated in a round-table evidence session on 26 September 2018 as part of the committee's pre-budget scrutiny.[3] Our parliamentary engagement lead is coordinating our ongoing engagement and support to committees.

Social security powers

14. The Social Security (Scotland) Act received Royal Assent on 1 June 2018. The Act sets out the overarching approach to delivering the devolved social security benefits. Detailed arrangements for implementing each devolved benefit will be set out in secondary legislation. The Act provides for the establishment of a Scottish Commission on Social Security, which would be responsible for scrutinising the new social security system including any secondary legislation. Scottish ministers are expected to appoint the chair and members of the Commission by early 2019 and the AGS will appoint the auditor.

15. In the Scottish cabinet re-shuffle on 26 June 2018, Shirley-Anne Somerville was appointed to the new post of Cabinet Secretary for Social Security and Older People. She will be responsible for Scottish social security policy and all devolved benefits.

16. Social Security Scotland began operating as an executive agency in September 2018, to coincide with its first payments of the Carer's Allowance Supplement. It expects to start delivering the Best Start Grant by the end of 2018 and Funeral Expense Assistance by summer 2019. The Scottish Government has also committed to introducing a new Young Carers Grant by autumn 2019. The Scottish Government will have operational responsibility for the remaining eight devolved benefits by the end of the current parliamentary term (2021).

17. Audit Scotland is the appointed auditor for Social Security Scotland and the payments that it administers. Earlier this year we established a team that is responsible for all our financial and performance audit work on social security, including our existing housing benefit performance audit work. The team is currently developing its audit approach, built around our four audit dimensions (financial sustainability, financial management, governance and transparency, value for money). The first annual audit of Social Security Scotland (for part of 2018/19) will be conducted during 2019. We continue to report on how the Scottish Government is implementing the powers in the 2012 and 2016 Scotland Acts. Our next performance audit report in this series will examine how effectively the Scottish Government is managing the delivery of the devolved social security powers. We plan to publish a report for the AGS in spring 2019. We will continue to review our resource needs for this work and build additional capacity as more social security benefits are devolved through to 2021.

Audit arrangements

18. Discussions are continuing between the Scottish Government and HM Treasury on audit and accountability arrangements for devolved services provided by UK public bodies (such as HMRC and DWP). The AGS gave evidence to the Public Audit and Post-Legislative Scrutiny Committee (PAPLSC) on

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[2] http://www.audit-scotland.gov.uk/uploads/docs/report/2018/briefing_181016_financial_powers.pdf
[3] http://www.parliament.scot/S5_Finance/General%20Documents/Roundtable_evidence.pdf (from page 27)

the draft framework in February 2018. After inviting views from other committees on the proposed arrangements, PAPLSC wrote to the Cabinet Secretary for Finance, Economy and Fair Work and the Chief Secretary to the Treasury to highlight concerns that the draft framework does not fully satisfy the Parliament in its scrutiny of devolved matters.[4] PAPLSC wrote a further letter to the Cabinet Secretary on 27 September 2018, seeking an update on the progress made to address the concerns of the committee.[5] The Scottish Government has formally consulted with Audit Scotland on a draft framework, and we are continuing to engage with them. Ultimately, the framework will be agreed by the Scottish and UK Governments at a Joint Exchequer Committee.

Audit reporting

19. The Auditor General published a section 22 report on the 2017/18 audit of the Scottish Government consolidated accounts on 27 September 2018, which was considered by PAPLSC on 1 November. The committee agreed to write to the Permanent Secretary on issues raised during the discussion and invited her to give oral evidence at a future meeting. The key messages from our report were as follows:

- The arrival of new borrowing powers has enhanced the Scottish Government's ability to manage and control its spending each year. The Scottish Government needs to finalise the policies and principles within which it will manage its borrowing powers. This will help to improve decision making about the level, type and timing of borrowing.

- The Scottish Government has taken some important steps to improve its financial reporting. The publication of its first medium-term financial strategy and Fiscal Framework Outturn Report are significant developments in the Scottish Government's annual financial reporting and form a key component of the Scottish Parliament's new budget process. However, the Government has not yet published a consolidated account covering the whole public sector in Scotland. This is an important commitment that will improve strategic public financial management, support Parliamentary scrutiny and enable better decision making.

- In July 2017, a new role of Director General Scottish Exchequer was created to better reflect Scotland's new fiscal responsibilities. With the main powers from the Scotland Acts now in operation, there has been slow progress in finalising the roles and responsibilities within the Scottish Exchequer directorate and recruitment is ongoing to fill key posts. Until arrangements for the Scottish Exchequer are finalised, it will be harder for the Scottish Government to manage effectively the fiscal risks and opportunities that may arise in the interim period.

- As Scotland's fiscal responsibilities continue to grow, there is an increasing need for the Scottish Government to produce more detailed and transparent performance reporting, that better links spending with outcomes. The Parliament's new budget process emphasises the need for better performance reporting to provide a clearer focus on the delivery of outcomes. This includes providing better information about what activity public spending will support, its aims, and the contribution it expects to make to national outcomes. The launch of the revised National Performance Framework provides the opportunity for the Scottish Government to make progress in this area.

20. The National Audit Office (NAO) expects to report on its 2017/18 audit of HMRC's implementation of Scottish income tax by the end of the year. This report will cover the first year of the Scottish Parliament's powers over non-savings non-dividend income tax rates and bands for Scottish taxpayers. As in the previous three years, the AGS will publish a report alongside this, providing additional assurance to the Scottish Parliament on the NAO's audit work in this area.

Organisational arrangements

21. The SCPA approved proposals for growth in Audit Scotland's budget for 2018/19, to accommodate additional work in response to financial devolution and constitutional change. We have put in place the initial capacity we need for this additional work by establishing two cross-organisation teams, with

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[4] http://www.parliament.scot/S5_Public_Audit/Inquiries/20180405_Letter_to_Cab_Sec-Chief_Secretary_to_the_Treasury.pdf
[5] http://www.parliament.scot/S5_Public_Audit/General%20Documents/20180925_Letter_to_Cab_Secretary.pdf

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responsibility for the audits of social security and wider public financial management work. We ran an extensive recruitment campaign in May and June 2018 for roles in our two audit business groups. We also continue to build capacity through our professional trainee and school leaver schemes, as part of our integrated approach to workforce and recruitment planning. The people who have joined Audit Scotland through these recent campaigns will help to ensure we have the people we need to meet new and increasing responsibilities. Some of our new recruits have provided backfill for the colleagues who are taking on new work in response to financial devolution.

22. There will be significant developments through to 2021 that will have implications for our work. We continue to review our resource needs, to ensure people are available at the right time and in the right place to allow us to respond effectively as further financial and social security powers are introduced. This includes assessing and planning for the potential impact of EU withdrawal on resources for the European Agricultural Funds Accounts (EAFA) audit. We are also capitalising on opportunities presented by Career Development Gateways and 'one organisation' working to ensure we continue to retain and develop our existing staff and provide opportunities for new and innovative ways of working.

23. The New Financial Powers Steering Group (NFPSG) oversees and coordinates Audit Scotland's work associated with financial devolution and constitutional change. The role and membership of the group was refreshed in June 2018, to better reflect the focus of its work going forward as the new financial powers move from implementation to operation. Given the constantly changing environment that we are working in, the steering group has agreed to meet more frequently until at least summer 2019. This will help to keep members up to date with developments, in particular around EU withdrawal and social security, and ensure we are in a position to respond quickly and effectively where relevant.

24. Business risks in this area are identified in the corporate risk register and the risk register for the new financial powers and constitutional change programme. Audit Scotland's Audit Committee carried out a risk interrogation into the business risks associated with EU withdrawal in May 2018. During November and December 2018, our internal auditors are assessing how we are preparing for our new audit responsibilities and a changing operating environment. This includes the potential impact of financial devolution, devolved social security powers and EU withdrawal.

25. We are continually monitoring the audit and business risks in this area and reviewing our priorities to ensure we can respond effectively to the fast-changing environment. For the remainder of 2018/19, our priorities are to:

- continue to work with colleagues across the organisation to mainstream elements of our work on the new financial powers

- continue to monitor, assess and plan for the organisational and audit implications of the terms by which the UK will leave the EU, including the potential impact on resources for the EAFA audit

- continue to review our resource needs for work in response to financial devolution and EU withdrawal and reflect this in our workforce planning for 2019/20 onward

- work with the Scottish Government to help to develop an effective audit and accountability framework

- work with the Scottish Parliament and others to review the first year of the new Scottish budget process and consider how we can best support budget scrutiny within this new framework.

Conclusion

26. The Board is invited to note the contents of this paper.

Appendix

EU withdrawal: key audit issues for the Scottish public sector

Audit Scotland's response (November 2018)

People

1. How are we communicating with staff about the potential impact of EU withdrawal and preparing to support any employees who may be affected?

The HR team estimates around 12 colleagues may have citizenship with EU27 states. This month, Audit Scotland will be providing tailored advice sessions for staff who are personally affected or worried about the impact of EU withdrawal. We are encouraging colleagues to get in touch with HR in the first instance, so that support can be tailored to meet their requirements. Staff will then have an opportunity to speak directly to Audit Scotland's legal advisors or other specialists about their individual concerns (e.g. applying for settled status). Meanwhile, the HR and OD Manager will consult with Management Team on 27 November and with PCS to agree how best to contact colleagues, assess the potential impact, and further support those from the EU27 states. We will continue to offer more sessions and signpost to other forms of support as we approach the end of March 2019.

More generally, we are delivering a significant amount of internal communication on EU withdrawal. This has involved discussion with audit teams and staff across the organisation about the potential impact of EU withdrawal for Audit Scotland, the bodies we audit and the wider Scottish public sector through a variety of presentations, workshops and drop-in sessions. These have provided opportunities for colleagues to ask questions and contribute ideas to the direction of EU withdrawal work. We will continue to communicate up to date information with staff as the situation becomes clearer.

2. Which parts of the workforce (sectors / skills / services / regions) are most at risk from the impact of EU withdrawal?

The HR team have identified which business groups colleagues who are thought to have citizenship with EU27 states belong to. Any potential gaps resulting from a reduction in staff to these areas will be mitigated by our more agile approach to workforce planning and recent recruitment intake. This will reduce the likelihood of risk materialising by ensuring that our work is adequately resourced, that we build capacity in the right areas and can capitalise on opportunities for cross-organisation working.

Resourcing for the European Agricultural Funds Accounts (EAFA) audit will be impacted the most by EU withdrawal. We have considered this in detail and have subsequently reflected resourcing requirements in the latest workforce plan.

3. How are we reflecting the implications of EU withdrawal in our long-term workforce planning?

As outlined above, Audit Scotland has an increasingly agile approach to workforce planning. This ensures that we have sufficient capacity if something urgent happens and we need to respond quickly. We adopt this approach for all areas of work – including EU withdrawal. Our latest recruitment campaign resulted in the appointment of around 20 new staff across the organisation. This will ensure that we have the right capacity and skills to deal with changes resulting from EU withdrawal.

The requirement to audit EAFA will continue in the short to medium term. With the confirmation that the UK will continue to comply with EU regulations during the proposed transition period, Audit Scotland plans to undertake full audits for the European Agricultural Funds Accounts for financial years 2019 and 2020, and a partial audit for financial year 2021. It is likely that these audits will be required to comply with the European Commission's revised audit guidelines which will involve more work than previous year's audits. The 'wind-down' of the EAFA audit and any plans for a replacement system (which are still speculative at this stage) will be reflected in plans from 2021 onwards. Colleagues involved in the EAFA audit will move onto other suitable work. In the longer term, it is assumed that any UK or Scottish replacement scheme will require audit, though at this stage it is too early to determine the level of resource required. At this stage we are not able to quantify this within the future projections though the situation will be closely monitored and assessed.

In future, there may also be a smaller pool of candidates to recruit from and greater competition from other employers. We will need to ensure that Audit Scotland continues to remain an attractive proposition for potential employees.

4. **What are the workforce implications for the third sector and private organisations that provide services in partnership with us or on our behalf?**

We discussed EU withdrawal with audit firms at the last audit partners' meetings and the audit planning conference. To date, the audit firms have not flagged any direct impact of EU withdrawal on their workforces.

On 12 October 2018, the UK Government issued a technical notice relating to accounting and audit in preparedness for a "no deal" scenario. It states that in the event of a "no deal" departure from the EU, the UK Government will unilaterally apply a transition period until the end of 2020 for EU qualified auditors but will expect them to take a UK aptitude test before the end of that period (this would not apply to Irish qualified auditors).

5. **How are we reflecting the implications for the local workforce in our economic strategies?**

Not applicable.

Finance

6. **What level of funding do we, and our partners, receive from the EU and through which funding streams?**

Currently, the European Agricultural Fund Account (EAFA) audit requires significant resources. The audit generates a fee income of £874,000 per year from the NAO, which receives funding from the EU to conduct the audits in the UK.

7. **What financial risks are associated with any changes after the UK has left the EU, during any transition period and beyond?**

The uncertainty surrounding the UK's withdrawal from the European Union is likely to have an impact on the budget. It is difficult to quantify at this stage but in the short term it is possible that the cost of goods/services might increase putting pressure on budgets. It is expected that the EU withdrawal will affect public sector workforce planning, funding streams and lead to regulatory uncertainty in certain areas. Audits could therefore become more challenging which could lead to resourcing issues to successfully complete audits within the required deadlines. In the longer term there could be recruitment issues as well as financial market volatility that could lead to employer pension contributions increasing above assumed levels.

Currently, the EAFA audit generates a fee income of £874,000. Following EU withdrawal, we anticipate that the requirement to audit EAFA will continue in the short to medium-term. In the longer term it is assumed that any UK or Scottish replacement scheme will require audit. At this stage it is too early to determine the level of resource that will be required. If the UK Government is unable to agree a deal on leaving the EU this is likely to change the position in the short-term, leading to a significant impact on the scope of the audit and ultimately a risk in achieving the projected fee income in 2019/20. This is a significant budget risk and we are continually monitoring and assessing the situation. We are also communicating with the Scottish Commission for Public Audit over our level of exposure.

8. **How are we reflecting the implications of EU withdrawal in our long-term financial planning?**

As outlined above, we are continuing to respond to the financial risks identified, particularly in relation to the EAFA audit. We will continue to maintain some flexibility in our audit approach so that we are well placed to respond to financial risks.

In respect of longer term planning, a draft Medium-Term Financial Plan (MTFP) for Audit Scotland covering 2019/20 to 2023/24 has been discussed by Management Team and will be presented to the Board in early 2019. The MTFP highlights all of the issues and potential risks facing Audit Scotland as a result of EU withdrawal.

9. **How can we capitalise on opportunities to access alternative funds or redesign replacement funding streams?**

We are continuing to monitor arrangements for any funding that may replace EAFA and are considering ways to contribute to the redesign of this.

Rules and regulations

10. **What are the potential implications of changes to trade and customs rules to our supply chains and the cost and availability of products and services?**

The nature of audit means that the volume and value of goods and services is less significant than in other sectors of the economy. A high-level analysis of our supply chains (including software licenses) indicates that there are no areas of significant risk at this stage.

Any procurement of goods or services with an expected value of more than £164,176 (exc. VAT) must comply with EU tendering requirements. Any changes to procurement regulations are unlikely to affect our current contracts, but we will need to factor potential changes into future planning for larger contracts, such as the next round of tendering for audit services. This work is due to start once arrangements for leaving the EU become clearer.

11. **What EU regulations / legislation are directly relevant to our role (e.g. monitoring compliance)?**

Our core audit work will not be directly affected by changes to EU regulations or legislation. We will continue to monitor developments in this area and will assess the impact of any changes to legislation or regulations that may affect our corporate policies, for example health and safety regulations.

12. **What impact would potential changes to regulations / legislation have on how we deliver services and our service users?**

No direct implications given the legislative basis for our work.

13. **How can we capitalise on opportunities to streamline or improve the regulatory environment?**

We will consider how our audit work can provide assurance on the new regulatory environment.

14. **How are we planning for the possibility that the UK Government and the EU fail to reach an agreement on arrangements for the UK's exit from the EU?**

We are monitoring the progress of the withdrawal agreement closely. Our Audit Committee carried out a risk interrogation into EU withdrawal in May 2018 and are likely to undertake similar work in the event of a "no deal" exit. Our internal auditors plan to assess how we have and are preparing for EU withdrawal, in November / December 2018.

Our more agile approach to workforce planning and resourcing will ensure that Audit Scotland is able to react quickly and undertake any new work arising from the UK's exit from the EU without an agreement. Our forward work programme of performance audits contains a proposal to conduct a performance audit relating to EU withdrawal during 2019/20. The precise scope of this will depend on whether or not the UK leaves the EU with an agreement on withdrawal arrangements, including a transition period. We are liaising closely with the Wales Audit Office about plans for audit work in this area.

Purpose

1. This report updates the Board on proposals to add Audit Scotland to Schedule 8 of the Digital Economy Act 2017 as a specified person for the purposes of fraud. This would support our work in leading data matching exercises conducted as part of the National Fraud Initiative (NFI).

Background

2. Audit Scotland carries out data matching exercises under statutory powers added to the Public Finance and Accountability (Scotland) Act 2000 by Section 97 of the Criminal Justice and Licensing (Scotland) Act 2010. This enables Audit Scotland to conduct data matching exercises for the purpose of assisting in the prevention and detection of fraud or other crime and in the apprehension and prosecution of offenders. Audit Scotland can require organisations audited under the powers of the Auditor General or Accounts Commission to submit data for data matching for the above purposes. Other organisations may submit data on a voluntary basis.

3. Audit Scotland uses this legislation to participate in the NFI. This is a counter-fraud exercise across the UK public sector. The Cabinet Office oversees this exercise and Audit Scotland leads the exercise in Scotland. The NFI enables public bodies to use computer data matching techniques to detect fraud and error. Our most recent NFI report, published in July 2018, identified outcomes of £18.6 million in Scotland.

The Digital Economy Act 2017

4. The UK Digital Economy Act 2017 (DEA) introduces new information sharing provisions to support more efficient and effective public services. It allows the UK Government, as well as devolved governments, in certain cases, to specify additional objectives for which data can be shared, and to name the individuals and organisations that can make use of the data sharing powers the Act provides.

5. The Scottish Government is developing Regulations to support the Act. Part 5 of the Act regulates what data can be shared and for which purposes. It also includes safeguards to make sure that the privacy of individuals is protected. The Scottish Government would like public bodies in Scotland, where it is appropriate and safe, to be able to make use of the new data sharing powers set out in the Act.

6. Chapter 4 of Part 5 of the Act relates to fraud against the public sector. An organisation specified in Scottish Regulations may disclose information for the purpose of taking action in connection with fraud against a public body.

7. The advantages of Audit Scotland being included in these Regulations are:

    ● This would allow Audit Scotland (and the Cabinet Office) to carry out data matching with other Scottish, and UK wide bodies e.g. HMRC, for counter-fraud purposes either within or out with the NFI. For example, currently the NFI only matches benefits, licensing data etc to public sector payrolls. Adding wider public and private sector payroll information would enhance the quality of the NFI matches and potentially identify more fraud (and error).

    ● The Cabinet Office is currently able to use the DEA. It is starting to use HMRC data to risk assess NFI matches in England. To date, the Cabinet Office has undertaken some prototype data sharing with HMRC involving sharing anonymised data and plans to extend this to a full pilot using personal data (subject to approval from the DEA Review Board and the Minister) from December 2018 to March 2020.

- Including Audit Scotland in the Regulations would allow us to make use of this facility and the learning coming from the Cabinet Office pilot to better risk assess NFI matches. This would help focus limited counter-fraud resources on higher quality matches.

- The NFI IT supplier is looking to develop predictive analytics which will reduce the false positive rate of the NFI matches. Including additional data sets in the NFI e.g. HMRC will aid this process.

8. No disadvantages have been identified for Audit Scotland being included in the Regulations. We have consulted our lawyers, Burness Paull LLP, who have advised that:

- The DEA will not encroach on any of Audit Scotland's existing data sharing powers.

- It appears there will be no detrimental effect in Audit Scotland being included in the Regulations in respect of other powers being devolved to the Scottish Parliament from Westminster.

- The DEA would allow Audit Scotland to share data with other organisations, but would not compel us to do so. Any data sharing would be subject to the Code of Practice, and a business case for the data share agreed by all parties.

- The only disadvantage the solicitor could envisage for Audit Scotland being included in the Regulations would be a potential increase in workload as a result of the data matching. Any risks associated with sharing personal data could be addressed through data sharing agreements set up between the relevant organisations.

9. We consider that Audit Scotland is included in the draft Regulations relating to Chapter 4 of Part 5 of the Act which covers fraud against the public sector. The Scottish Government will consult on the draft Regulations over the next few months.

Considerations

10. We anticipate that the resource implications of being included in the Regulations will be minimal and can be absorbed within current operations. We envisage that this will involve ensuring that any data sharing will be subject to the appropriate governance arrangements including adhering to the DEA Code of Practice, completing data protection impact assessments and preparing a business case for any data sharing for agreement by all parties.

Conclusion

11. We consider that Audit Scotland should be included in the Regulations for Chapter 4 of Part 5 of the Act which covers fraud against the public sector. This will enable us to extend our NFI data matching and include valuable data sets from other bodies such as the HMRC. This will greatly enhance the quality of the NFI data matches and so the NFI exercise overall.

Recommendations

12. The Board is invited to note the planned Scottish Government consultation on draft regulations relating to the Digital Economy Act which would extend Audit Scotland's ability to conduct counter fraud activity.

Q2 Financial performance report

Corporate Finance Manager

Purpose

1. This report presents the financial results for the six months to 30 September 2018.

Background

2. The detailed finance performance report for the six months to 30 September 2018 is provided in Appendix 1 to this paper.

3. The report was discussed by Management Team on Tuesday 30th October 2018.

Discussion

4. In the six months to 30 September 2018, Audit Scotland's Net Operating Expenditure was £2,165k which was £104k less than budget.

5. In-house income for 2017-18 audits was in total £98k more than budget with a positive volume variance of £22k and a positive price variance of £76k. Prior year income of £6k related to charitable trust fees within the local government sector.

6. Fee income earned for 2017-18 audits carried out by external firms net of fees and expenses paid to the firms was £31k better than budget. Income recognition was £178k higher than budget and this was offset by fees and expenses payable to the external firms being £147k higher than budget.

7. Staff costs including agency expenditure was £19k more than budget.

8. Other expenditure £19k worse than budget. The main positive variances were recorded in property costs (£35k) and training (£18k) with the main adverse variances appearing in legal, professional and consultancy (£34k) and recruitment (£25k).

9. More detailed variance analysis and explanation is provided in Appendix 1 attached to this report.

Recommendation

10. The Board is invited to note the financial results for the 6 months to 30 September 2018.

Headline Results

The summary financial position to 30 September 2018:

£000	Annual Budget	Actual	Budget	Var.	% Var.	Prior Year	Note
Fee Income - In House	7,589	4,384	4,280	104	2.4%	4,332	1
Fee Income - Audit Firms	4,603	3,225	3,047	178	5.8%	3,187	2
Central Charges	5,453	2,727	2,727	0	0.0%	2,752	
Rebate	0	0	0	0	-	0	
Interest	0	1	0	1	-	7	
Other Income	0	6	0	6	-	49	3
IAS 19 Income	0	0	0	0	-	0	
TOTAL INCOME	**17,645**	**10,343**	**10,054**	**289**	**2.9%**	**10,327**	
Approved auditors	4,125	2,815	2,668	(147)	-5.5%	2,807	2
Staff salaries and oncosts	15,628	7,764	7,797	33	0.4%	7,453	4
Payroll provisions incl. severance	109	0	0	0	-	0	
Agency and secondment costs	70	111	59	(52)	-88.1%	244	4
IAS 19 Pension costs	100	0	0	0	-	0	
Property costs	936	392	427	35	8.2%	418	
Travel and subsistence	906	455	452	(3)	-0.7%	428	
Legal, professional and consultancy	919	150	116	(34)	-29.3%	97	5
Training	483	156	174	18	10.3%	160	6
Recruitment	105	70	45	(25)	-55.6%	52	6
Printing and office costs	271	130	120	(10)	-8.3%	108	
Information technology	458	230	227	(3)	-1.3%	192	
Audit	60	30	30	0	0.0%	30	
Depreciation	383	186	192	6	3.1%	183	
Other costs	65	19	16	(3)	-18.8%	16	7
EXPENDITURE	**24,618**	**12,508**	**12,323**	**(185)**	**-1.5%**	**12,188**	
NET OPERATING (EXPENDITURE)	**(6,973)**	**(2,165)**	**(2,269)**	**104**	**4.6%**	**(1,861)**	

Income and Expenditure Summary

1. Fee Income – In House

Variances arise in fee income as a result of volume and price differences. Volume variances occur when audit work is carried out at different times and/or durations than the previous year. Price variances reflect the difference in actual fees to indicative fees originally budgeted and is based on additional work undertaken and agreed with the audited body.

The table below shows the performance by sector at 30 September 2018 for the in-house audits:

	2017/18 Audit Year			Prior Years	Total
	Volume		Price		
	WIP %	£	£	£	£
Local Government	+0.25	+11	+49	+6	+66
Health	+0.04	+1	-	-	+1
FE	-34.70	-15	+2	-	-13
Central Government	+6.22	+60	+25	-	+85
Non-statutory	-4.27	-35	-	-	-35
Total – September 18	**+0.32**	**+22**	**+76**	**+6**	**+104**

Local Government

Local Government audits are 0.25% ahead of plan leading to a positive volume variance of £11k. The positive price variance of £49k is due to increased fees being applied to local government bodies with the most significant increases being applied to North Lanarkshire Council, Aberdeenshire Council, Angus Council and Scottish Borders Council. The £6k prior year fee income relates to charitable trust fees for 2016/17 audits at Moray and East Lothian councils.

Health

All health audits are complete and within the expected fee. The minor positive volume variance is due to completion being slightly ahead of plan.

Further Education (FE)

ASG undertake 2 FE audits, Dundee & Angus College and Edinburgh College. When comparing the wip percentages with the audit firms the figure shown is a fair representation of the position of the audits. In this instance the variance to phased plan will smooth out as the audit deadline approaches towards the end of the calendar year.

Central Government

Central Government chargeable audits are 6.22% ahead of schedule leading to a positive volume variance of £60k. The positive price variance of £25k is attributable to increased fees being applied to audited bodies with the most significant increases being applied to the Scottish Police Authority and Scottish Land Commission.

Non-statutory

The European Agricultural Fund Account (EAFA) audits remain behind schedule by 4.27%, however we are 9.65% ahead of the reported position last financial year and we expect to be on trajectory by November.

2.   Fee income and expenditure – Audit Firms

The positive income variance of £178k should be offset with the adverse expenditure variance of £147k for approved auditors. Effectively this approach highlights a net favourable variance of £31k on chargeable audits.

Audit firms can negotiate fee increases within set parameters above indicative fees with audited bodies. Primarily increases in fees will relate to increased complexity and additional work undertaken for which the audited body has agreed to pay an additional fee.

The table, below, shows the performance for approved auditors by sector to 30 September 2018:

	2017/18 Audit Year			Prior Year	Total
	Volume		Price	Price	
	WIP %	£	£	£	£
Local Government	-2.37	-63	+112	-	+49
Health	+0.72	+7	+35	+3	+45
Water	+15.00	+21	-	-	+21
FE	+1.54	+6	+3	+12	+21
Central Government	+6.53	+24	+18	-	+42
Total – September 18	**+0.03**	**-5**	**+168**	**+15**	**+178**

Local Government

Audits on the local government sector are 2.37% behind plan leading to an adverse volume variance of £63k. The audit firms have agreed fees above expected fees leading to a price variance of £112k. The most significant increases to fees have been agreed by Aberdeen City Council, City of Edinburgh Council and Midlothian Council.

Health

Health audit completion remains 0.72% ahead of trajectory based on the prior year actuals. All 2017/18 audits are complete which has generated a positive volume variance of £7k. In addition to the volume variance there is a £35k price variance recognised in the accounts for 2017/18 audits. This is mainly due to agreed fees being higher than expected for 3 health boards (Lothian, Ayrshire & Arran and Highland). The prior year income of £3k is in relation to an additional audit fee for the 2016/17 audit of NHS Health Scotland.

Water

The favourable volume variance is due to completion of the audit ahead of the planned trajectory which was based on prior year actual.

Further Education (FE)

Progress on 2017/18 audits is 1.54% ahead of schedule leading to the recognition of £6k fee income ahead of plan. As at the end of September there have been some changes to expected fees leading to a positive variance of £3k. The main fee increases have been agreed with Lews Castle College and Moray College. The prior year fee income of £12k relates to fee increases agreed by Moray College and Glasgow Kelvin College.

Central Government

Central government audits are ahead of schedule leading to a positive volume variance of £24k. The £18k price variance is mainly due to the recognition of agreed fee increases for Crown Estate Scotland and Historic Environment Scotland.

3.   Other Income

Other income is mainly the recovery of costs (£5k) for a member of ASG staff who is on an 18 month secondment with Deloitte. The balance (£1k) is the receipt of royalty income.

4. Staff & Agency Costs

Business Group	Annual Budget £000	Actual £000	Budget £000	Variance £000	Actual Average w.t.e.	Budget w.t.e.	Note
ASG staff costs (incl NFP)	8,315	4,199	4,091	(108)	156.3	147.5	a)
ASG agency & secondments	70	67	59	(8)			
PABV (incl Professional Support) staff costs	3,773	1,769	1,886	118	59.1	64.4	b)
PABV agency & secondments	0	8	0	(8)			
CSG (incl Audit Quality & Appointments) staff costs	1,996	1,006	998	(8)	36.4	35.3	c)
CSG agency & secondments	0	24	0	(24)			
Business Support staff costs	649	301	324	24	17.5	18.3	d)
Business Support agency & secondments	0	12	0	(12)			
Governance & Other staff costs	1,104	490	497	7	18.7	20.0	e)
Governance & Other agency & secondments	0	0	0	0			
Total staff costs	**15,837**	**7,764**	**7,797**	**33**	**288.0**	**285.5**	
Total agency & secondments	**70**	**111**	**59**	**(52)**			

a) In the first 6 months of the year the average number of staff employed in ASG has been 8.8 w.t.e. more than the funded budget. The establishment is based on 151.9 w.t.e. with the application of a 3% vacancy/turnover factor reducing the funded w.t.e. to 147.5. Overall the additional cost of employing the increased staffing level (£244k) has been partially funded by the reduction in average actual salary costs per employee (£136k). As in previous years there will be an intake of professional trainees in October and current projections indicate that there will be sufficient staff turnover to accommodate this. The agency expenditure overspend of £8k is due to workload demand and the full year projection is a £10k overspend.

b) PABV is on average 5.3 w.t.e. below budget (£155k) and this is being reduced by the average actual salary cost being above plan (£37k). A significant recruitment exercise was undertaken in May/June and vacant positions have been filled in August and September. The £8k secondment costs relate to a Scottish Government employee working in PABV before they were a successful candidate in the recruitment exercise.

c) The average staff resource requirement in CSG has been higher than the funded w.t.e. (£31k) due to the 3% vacancy factor. This overspend is currently funded by the favourable variance on average actual salary costs (£23k) and savings within other expenditure budget headings. Agency costs have been incurred to provide essential cover for a vacancy within Digital Services.

d) Business support w.t.e. below funded figure (£15k) due to one supernumerary member of staff currently providing maternity cover in Human Resources and a manager vacancy that has now been filled. In addition to a positive volume variance the actual average salary costs are better than budget (£9k). Agency expenditure covered a vacant post which has now been filled.

e) The reduced w.t.e. in Governance & Other is due to two non-exec vacancies within the Accounts Commission to the end of July.

5. Legal, professional and consultancy

The main reasons for the year to date overspend are due to specific requirements of legal advice and professional services. Legal advice has been sought on specialist procurement (car lease contract) and the statutory land tax return. Professional fees include a payment for specialist advice to challenge the business rates uplift. This has proved successful in reducing our business rates charges for which a rebate was received for 2017/18 and the base charges for 2018/19 will also be significantly less than planned.

6. Training and recruitment

Training expenditure underspend is mainly due to reduced expenditure on professional trainees and professional subscriptions. Expenditure in these headings will increase in the second half of the year as professional membership fees become due and the induction of new trainees as they join us in October. There was a significant recruitment campaign undertaken in May and June to bring in a mix of qualified and unqualified staff to backfill vacancies generated through the creation of teams to work on new financial powers.

7.   Other costs

The main reason for the overspend is attributable to occupational health expenditure. Full year projections expect that this adverse variance will be absorbed by sufficient budget by the end of the financial year.

Management Contingency

The 2018/19 budget includes a contingency allocation of £150k which is controlled by the Management Team. The budget is included within the legal, professional and consultancy subjective heading.

To date no allocations have been made from the Management Contingency.

Capital Expenditure and Funding

Capital investment for the six months to September 2018 was £12k, with the total available budget for 2018/19 being £175k.

The £12k year to date expenditure is on IT hardware comprising 4 laptops and an Apple Macbook Pro.

Expenditure plans have been discussed with Digital Services and the allocation will be spent in full by the end of the financial year.

Stuart Dennis
Corporate Finance Manager
14 November 2018

Purpose

1. This report provides the Board with an overview of Audit Scotland's performance during quarter two of 2018/19.

Background

2. Performance reports are considered by the Management Team and the Board on a quarterly basis alongside the quarterly financial performance report and Becoming World Class improvement programme update.

3. The quarter one report was considered at meetings of the Management Team and the Board on 31 July and 22 August 2018 respectively. This report was considered by the Management Team on at its meeting on 6 November 2018.

4. The performance information is reported under the three strategic objectives of Delivering World Class Audit, Making a Difference and Being a Better Organisation.

    - Appendix 1 (pages 3 – 5) provides a one-page summary of performance for each strategic objective.

    - Appendix 2 provides the detailed performance information.

Q2 performance summary

5. The Q2 report demonstrates strong performance over all. Performance headlines include:

    - Delivering World Class Audit - we are conducting relevant, timely and high-quality audits:

        - 140 annual audit reports, 3 Performance audits and 1 Best Value Assurance Report published on or ahead of schedule

        - 1 Statutory report, the NFI report and an impact report on Community Planning reports published on schedule

        - The Q1/Q2 quality report provides positive assurance on audit quality.

    - Making a Difference - we are getting our messages out effectively and delivering new and improved products:

        - Substantial parliamentary, mainstream media and social media interest in reports, in particular on; Children and Young People's Mental Health, Broadband follow-up and Forth Replacement Crossing

        - Extensive engagement with parliament and its committees.

        We have changed the assessment on the objective 'we offer insight and foresight through our work' from yellow (insufficient data) to green. The Performance and Risk Management Group considered the broad range of relevant indicators for this objective and concluded the change was appropriate. Its' consideration included the cumulative effect of:

- More examples (and better recording of) engagement with stakeholders around national and local work (round table meetings, speaking at events, engagement with audited bodies

- Additional audit outputs to provide wider access to audit messages and information (e-Hubs, videos, animations, briefings)

- Positive feedback from audited bodies and other stakeholders

The revised assessment does not indicate a reduced focus on this important area.

- Building a Better Organisation - we are managing our workforce effectively and investing in learning and development. Financial planning and budget management are effective:

  - 99.6% of 279.5 establishment in place at the end of the quarter

  - Absence rate:0.76%

  - Net operating cost: £104k less than budget – variance of 4.6% of net operating expenditure budget.

  Despite being at establishment and a low absence rate we are conscious that there continues to be pressures on colleagues and limited 'spare capacity' to respond to unplanned demands and the increasingly complex and rapidly changing operating environment. The Best Companies survey results in Q3 may provide more insight into this area and our ability to maximise our organisational agility will continue to be an area of focus. Management Team summit discussions on Being a Better Organisation and flexible resourcing and deployment will be taking place in November and early in 2019 respectively.

6. The assessments of performance based on the data and KPIs indicates strong performance overall. Our commitment to continuous improvement also means that we are always seeking to 'raise the bar' in terms of performance. We are currently reviewing the key performance objectives, questions and targets as part of the performance management framework. This will help to ensure that we continue to challenge ourselves to achieve our vision of being world class.

Recommendations

7. The Board is invited to review the Q2 performance report and consider whether any additional management attention is required.

Summary of 2017-18 Q1 performance

Delivering world-class audit	Our objective is to ensure that public audit in Scotland applies the highest professional and ethical standards, is efficient, proportionate and risk based. Audit work should be informed by an excellent understanding of the strategic and operational context and respond effectively to changing circumstances and emerging issues. We must report clearly and authoritatively and follow the public pound wherever it is spent. Audit must promote transparency, accountability and Best Value.

Headline:	Relevant, high quality audits published on or ahead of schedule and under budget.

Objectives	2017-18				2018-19				Actions
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
We conduct relevant and timely audits and report in public.	G	G	G	G	G	G			
We make clear and relevant recommendations for improvement	G	G	G	G	G	G			
Audits are of high quality	G	G	G	G	G	G			
We systematically improve the quality of our work	G	G	G	G	G	G			

Key performance indicators

Annual Audit	*Performance/ best value/ overviews/housing benefit/Section 22*
• 140 annual audit reports published on or ahead of schedule in Q2. • Two annual audit reports were published later than scheduled due to circumstances out-with the auditors control/.	• 3 Performance and 1 BVAR reports published on schedule in Q2 • 1 Statutory report, the NFI report and an impact report on Community Planning reports published on schedule • 1 Housing Benefit report published in Q2 and two delayed to Q3.
On budget	*Quality:* the Q1/Q2 quality report found
• Expenditure on audit work was 3.5% below budget in Q2 – this is within the 5% tolerance range	• Auditors delivered 98% of local government opinions and 100% of PABV reports on time, including BVARs. • Audit plans are of a high quality and comply with the 2016 Code of Audit Practice. • Non-audit services requests comply with the Ethical Standard, the Code and were reviewed and approved by Audit Quality and Appointments (AQA). • Improvements have been made in response to areas reported in last year's Q1/Q2 report by most auditors.

	Our objective is to maximise the difference our audit work makes to public services in Scotland.
Making a difference	

Headlines:	Substantial interest in reports published in Q2 (in terms of downloads, mainstream and social media). Increased evidence of additional audit products and engagement activity has led us to change the rating to green for offering insight and foresight

Objectives	2017-18				2018-19				Actions
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
We get our messages out effectively	G	G	G	G	G	G			
We systematically deliver impact through our work	G	G	G	G	G	G			Further quantitative measures to be developed as part of the PMF2018 project to supplement qualitative assessments.
We offer insight and foresight through our audit work	Y	Y	Y	Y	Y	G			PMF2018 project developing KPQs/KPIs on this objective
We develop new and improved processes, products and services	G	G	G	G	G	G			

Key performance indicators

- 268 Media mentions of Audit Scotland and/ or Accounts Commission (Q2 17/18 339).
- 215,008 downloads (Q2 17/18 146,283 an increase of 47%).
- 6,420 social media engagements (Q2 17/18 6,305 an increase of 2%).
- Attended seven Parliamentary committee meetings; four Public Audit and Post Legislative Scrutiny (PAPLS), one Justice, one Education & Skills and one Finance & Constitution.
- Attended seven other Parliamentary meetings including with; SCPA and with Committee Clerks.
- 82% correspondence responses issued within 30 days once the ongoing cases are completed this is expected to be 100%).

Being a better organisation	Our objective is to make the best use of our resources so that we can deliver audit work that improves the use of public money. We want to make Audit Scotland a great place to work so that we can attract and retain a highly skilled workforce who provide high- quality audit services.

Headlines:	Staff complement is 99.6 of establishment and sickness absence rate was below 1% in the quarter. Net operating costs are £56k less than budget, a variance of 4.6%. Expenditure on agency, secondments and legal, professional and consultancy costs is above budget. Campaign to recruit up to 20 new colleagues to Audit Scotland commenced during the quarter.

Objectives	2017-18				2018-19				Actions
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
We manage our resources effectively	G	G	G	G	G	G			Management team summits on Being a Better Organisation (Nov 18) and organisational agility and flexible resourcing (early 2019).
We maximise our efficiency	G	G	G	G	G	G			
We manage information and intelligence effectively (internal)	A	A	A	A	A	A			Digital Audit Strategy implementation and review of performance management framework under-way.
We empower and support our people to be engaged, highly skilled and perform well	A	A	A	A	G	G			People focussed management team summit 27 November 2018 including review of progress on/ impact of embedding of BaBO, role profiles, career development gates, time place and travel, and professional leadership development. Best Companies survey results due December 2018.

Key Performance Indicators

People	*Resources*
• Staff complement (w.t.e): 99.6% of 279.5 establishment at the end of the quarter (95.7% of 274.9 in Q2 2017/18). • Absence rate:0.76% (1.16% in Q2 2017/18). • Resignations: 3.9% ytd% (3.41% in Q2 2017/18). • L&D events: 11 in-house events covering 103 places. • Exams: 20 exams with 80% pass rate for professional trainees. • To date we received 20 Career Development Gateways(CDG) submissions. 12 colleagues have demonstrated the required evidence and are therefore progressing into the next zone.	• Net operating cost: £104k less than budget – variance of 4.6% of net operating expenditure budget. • Staff costs: £33k less than budget – variance 0.4% • Agency and secondment costs: £52k more than budget • Capital investment: £12k (ytd) on IT hardware • Property costs: £35 k less than budget – variance of 8.2% on budget. • Travel and subsistence expenditure: £3k more than budget – variance of 0.7%. • Legal, Professional and consultancy costs £34k more than budget– variance of 29.3%.

Delivering world-class audit	**We conduct relevant and timely audits and report in public.**		

Key Performance Questions	2017-18				2018-19				Actions
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Are relevant audits being delivered?	G	G	G	G	G	G			
Are audits delivered on time?	G	G	G	G	G	G			New performance management framework being introduced 2018/19
Are audits delivered on budget?	G	G	G	G	G	G			will provide additional data and analysis in these areas

Relevant

During Q2 three health s22 reports were confirmed for NHS Ayrshire and Arran, NHS Highland and NHS Tayside. Most of the work to prepare these reports was undertaken during the quarter and the reports are to be laid in Parliament during quarter three. An additional two s22 reports will also be produced during the next quarter for Community Justice Scotland, and the Scottish Public Pensions Agency. This was in addition to already planned s22 for the Scottish Police Authority and the s22 Scottish Government Consolidated Accounts (completed during quarter two).

In Q2 we reported to Glasgow City Council on the results of the Best Value and Assurance Report (BVAR). This report contained several significant recommendations.

Timely/ in public

In Q2 we published 148 Audits/reports, this is more than the 139 planned. This was due to a greater number of central Government reports being delivered early.

The three performance audits due for completion during the quarter were all delivered on time (*Broadband update; Forth Replacement Crossing; Children and young people's mental health*). the tenth of the Accounts Commission's Best Value Assurance Reports (Glasgow City Council) was published in August. We remain on track to meet the Commission's commitment to producing at least one assurance report for each of Scotland's 32 councils during the five-year audit appointment period.

The report on the *National Fraud Initiative* was published during July and generated widespread national press coverage. Members of the team have also presented to conferences and other groups following publication of the report.

Two Local Government reports (1 Audit Scotland and 1 Firm) were delivered later than scheduled. The auditors completed the work in time for the accounts to be signed by the deadline, but the reports were not signed off on time as council officers were not able to complete all the required signatures before the deadline.

Two Housing benefit reports (East Renfrewshire and HB Annual) are behind schedule. The draft Annual HB audit update report was considered by the Accounts Commission in September and will be published in Q3 the East Renfrewshire HB report will also be published in Q3.

In addition to the published audits and reports we also published technical documents including; technical guidance note on FE annual accounts, the quarterly technical bulletin and the Code of Data Matching Practice was published to support the start of the for the next NFI exercise.

Audits on budget: In Q2 the expenditure on Audit is almost 3.5% below budget and within our 5 percent budget tolerance.

	2018/19			
	Budget	**Actual**	**£ Variance**	**% Variance**
ASG	10,061,933	9,708,023	-353,910	-3.52
PABV	£1,099,245	£1,065,928	-£33,317	-3.03%
Total	£11,161,178	£10,773,951	-£387,227	-3.47%

In 2018/19, we plan to publish 488 audit plans, audit and performance reports. Variation in the schedule is shown as ✓ = delivered, (XQ) = rescheduled to or from quarter identified in the brackets.

	Q1	Q2	Q3	Q4
Annual Audit Plans – AS (122)	2 FE ✓			10 NHS 66 LG 44 CG
Annual Audit Plans – Firms (99)	19 FE ✓			13 NHS 39 LG 28 CG
Audit – Audit Scotland (123)	10 NHS ✓ 6 CG ✓	66 65LG✓ 25 28CG	1LG (Q2) 2 FE 10 CG	1 CG
Audit – Firms (99)	13 NHS ✓ 5 CG ✓	39 38 LG✓ 9 CG✓	1LG (Q2) 19 FE 23 CG	
Performance Audit (7)	ALEOS ✓ Scottish fire and rescue services ✓	Forth Replacement Crossing ✓ Children & young people's mental health✓ Superfast broadband for Scotland: update✓	Health and social care integration: update	Scotland's new financial powers: Social security (X Q1)
Best Value Assurance Report (7)	East Ayrshire Council ✓ Fife Council ✓ West Dunbartonshire Council ✓	Glasgow City Council ✓	Dumfries and Galloway Council East Lothian Council	South Lanarkshire

Overview Report (5)	Local government in Scotland: challenges and performance ✓ Scotland's Colleges ✓		NHS in Scotland Local Government: financial overview	Local government in Scotland: challenges and performance
Housing benefit (8)	✓West Dunbartonshire × City of Edinburgh (Q2)	City of Edinburgh (Q1) ✓ East Renfrewshire (Q3) x Housing benefit annual report(Q3) (Q3)x	East Renfrewshire (Q2) Renfrewshire Glasgow* Housing benefit annual report(Q2)	Perth* Falkirk* Midlothian Aberdeenshire
Statutory (8)	s102 City of Edinburgh Council ✓ s22 Edinburgh College ✓ s22 New College Lanarkshire ✓	s22 Scottish Government Consolidated Accounts✓	s22 Scottish Police Authority s22 NHS Ayrshire and Arran s22 NHS Highland s22 NHS Tayside s22 Community justice s22 Scottish Public Pensions Agency	
Other (10)	National Scrutiny Plan ✓ Two Impact reports: Modern Apprenticeships ✓ Maintaining Scotland's roads: a follow-up report ✓	National Fraud Initiative ✓ Impact report: Community Planning in Scotland ✓	Four Impact reports: Efficiency of Sheriff courts Scotland's economic growth Higher education Social work in Scotland Issues paper: EU Withdrawal Briefing: Public Financial Management	How Councils Work: ~~managing risk through internal controls~~ Protecting public money
Planned (488)	**68**	**139**	**74**	**207**
Published	**69**	**148**		

* Due to changes in DWP risk assessments Glasgow will be reported in Q1 2019/20 and Perth and Falkirk are replaced by Midlothian and Aberdeenshire, both to be completed and reported in Q4.

Issues/ risks/ actions: Proposals for new HB resourcing and reporting arrangements to be considered by the Accounts Commission in December 2018.

Forward look:
- Six s22 reports are due to be laid in Parliament during quarter 3
- The refreshed rolling 5-year work programme will be presented to the Auditor General and Accounts Commission in December for approval. The programme will thereafter enter a consultation period prior to final sign-off during quarter 4
- The topic of the next performance audit in the New financial powers and constitutional change series was confirmed as *Social security*. Due to the complexity of auditing a new body and social security arrangements, in addition to statutory financial audit, the timescale for publication of the performance audit has been revised from the final quarter of 2018/19 to quarter one of 2019/20.

Delivering world-class audit	**We make clear and relevant recommendations for improvement**

Key Performance Questions:	2017-18				2018-19				Actions
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Are there practical, clear and relevant recommendations in everything published?	G	G	G	G	G	G			

Examples of significant risks identified by the audit process (from the Annual Audit Plan and followed up/ reported on in the Annual Audit Report) include:

- **Central Government:** The audit team presented an additional management letter at the August 2018 Audit Committee at the request of the Chair. The letter set out good practice for Audit Committees drawing from a review of relevant guidance and comparison with other similar bodies. The Chair welcomed this letter as a useful summary for committee members.
- **Central Government:** The 2017/18 draft accounts contained a material omission. The audit team sought the advice of Professional Support who supported the concerns about the seriousness of the omission. Some client officers were initially reluctant to make the required changes. Non-executive directors were supportive of the external audit process and agreement was reached with the client about what needed to be disclosed.
- **Central Government:** Following discussions with client officers and noting previous recommendations the management commentary was significantly improved. Positive feedback was received from both the Audit Committee and Director of Finance.
- **Local Government**: The council's group accounts had been prepared using the unaudited accounts of most of its component entities in previous years. This risked a material error making its way into the group accounts. Following an 2016/17 audit recommendation, the council ensured that audited accounts were obtained more promptly from the group entities. The audited 2017/18 group accounts were based on the audited component accounts.
- **Local Government:** The audit committee said AAR was 'incredibly helpful' and thanked the audit team 'for support and guidance', and that their work 'provided a good foundation'.
- **Health:** The audit team worked closely with finance officers to improve the management commentary in the annual accounts, in particular the need for the Performance Report to provide a clear and comprehensive picture of performance.
- **Health**: The AAR was presented to the committee for a second time at the request of the Audit and Risk Committee to allow the committee more time to consider the wider dimension issues raised in the report. A non-executive member described the report as "really good with clear messages."
- **Health:** The audit team provided a training session to members on better understanding the financial statements. Following the session, the audit committee members raised several relevant queries on the draft accounts. Following positive feedback from members, the audit team have been asked to provide another session in November to new members.
- **Health:** The audit team recommended the board have an independent review of Internal Audit within 2017/18 or it risked non-compliance with Public Sector Internal Auditing Standards. An independent external review of the board's internal audit arrangements was carried out in February 2018, by the Chartered Institute of Internal Auditors.

Issues/ risks/ actions: Continued encouragement of teams to record and report value added impacts in impact logs and annual audit reports.

Forward look: 6 s22 reports, 4 impact reports and 2 briefings/ issues papers in Q3

	Audit work is of high quality and we are systematically improving the quality of our work
Delivering world-class audit	

Key Performance Questions:	2017-18				2018-19				Actions
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Are we assured about the quality of our work?	G	G	G	G	G	G			Review of most appropriate standards for non-financial audit work is under way
Are we improving the quality of our work?	G	G	G	G	G	G			Ongoing refinements to the Audit Quality arrangements including client surveys and issues escalation process.

Assurance

TheQ1/Q2 Quality report highlights that

- Auditors delivered 100% of NHS and 98% of local government opinions and 100% of PABV reports on time, including BVARs.
- Audit plans are of a high quality and comply with the 2016 Code of Audit Practice (the Code).
- Non-audit services requests comply with the Ethical Standard, the Code and were reviewed and approved by Audit Quality and Appointments (AQA).
- Improvements have been made in response to areas reported in last year's Q1/Q2 report by most auditors.

The report will be considered by the Audit Committee at its meeting on 14 November 2018.

In September the Board considered a report on the reputation of audit and the controls in place in the public audit model in Scotland.

Improvement

The findings from the cold reviews on 2016/17 audits have been used to inform revised audit programmes and identified training requirements. Follow-up reviews of the recommendations of the cold reviews commenced in Q2.

In Q2 assistance for auditors to improve financial and performance audit skills included:

Training

- Introductory sessions for new colleagues joining the organisation.
- Revisions to the Audit Guide to improve clarity
- 3 MKI training sessions for colleagues across the organisation new to using MKI
- 3 technical training workshops delivered which assisted auditors in understanding technical guidance
- New database on the 2017/18 unaudited local authority accounts to provide comparative information during the financial statement audit process

- Developing a range of training courses to support auditors in the delivery of high quality audits (including introduction to performance audit, I&I matrices, interviewing skills, finance for non-finance specialists and MKI training)

Guidance
- All planning and key controls audit files have been revised for technical developments and to improve the recording of the financial audit.
- Guidance on 11 emerging risk areas identified (inc. pension asset valuations, impairments)
- 5 frequently asked questions (FAQs) outputs were published to provide guidance and support through financial statement audits.
- Technical guidance note issued to provide support to auditors working in the further education sector.

Performance audits
- Approval from the Management Team on the proposed quality standards for performance audit and preparation of a paper for the Audit Quality Committee on the proposed quality monitoring arrangements for 2018 performance audits
- Developing a draft template for 2018 cold reviews of performance audits
- Coordinating peer reviews of Wales Audit Office performance audit reports

Issues/ risks/ actions:

- The FRC inspections show that most firms' audits are of high quality, but that the proportion of audits judged good or limited improvements required is falling. The FRC is increasing its monitoring work as auditors are not delivering fast enough improvement towards its target.

- The Scottish Public-sector model operates controls that mitigate a number of the weaknesses highlighted in recent FRC investigation reports.

Forward look:
- The Q1/Q2 Quality report will be considered by the Audit Committee in October 2018
- There will be 11 2017/18 audit cold reviews carried out across sectors. The work and results will be completed and reported in Q3.
- A revised web page is to be developed to draw together information and the reports on audit quality and the public audit model in Scotland.

Delivering world-class audit	**We get our messages out effectively**

Key Performance Questions:	2017-18				2018-19				Actions
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Are we getting messages getting out effectively?	G	G	G	G	G	G			

Getting our messages out

In Q2 we attended seven Parliamentary committees including; four Public Audit and Post Legislative Scrutiny (PAPLS), one Justice, one Education & skills and one finance & constitution. We also attended seven other Parliamentary meetings including the SCPA and with Committee Clerks.

Recent work undertaken on behalf of the Accounts Commission featured in a Holyrood magazine article on local government funding. In a wide-ranging article, there is a focus on national issues such as funding additional childcare and lifting of the public sector pay gap, within the context of the Commission's report on Local Government in Scotland.

The Audit Scotland Communications Team were shortlisted for a prestigious Chartered Institute of Public Relations (CIPR) Pride Award. The team were nominated for their work on communication the Early Learning and Childcare report.

Media

	Q1	Q2	Q3	Q4	YTD	17/18
Media	477	268			745	1,340
Downloads	215,008	191,886			406,894	690,113
Engagements*	7,286	6,420			13,706	20,636

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

The top 3 published reports by media coverage were Children and Young People's Mental Health, Broadband follow-up and Forth Replacement Crossing
- Children and Young People's mental health was one of our most downloaded reports this quarter (1,228) and was our most visited report page in September (1,195).
- Our podcast on the Forth Crossing was particularly popular this quarter with a very high number of listens (412)
- Last year's NHS Overview report continues to feature in the top 20 downloads for July-Sep and interest is building for NHS in Scotland 2018.

Media

Month	Broadcast coverage (radio & tv)	Print Coverage: National (newspapers & online)	Print Coverage: Local	Total
Jul	0	16	13	29
Aug	12	74	22	108
Sept	22	71	38	131
Total	**34**	**161**	**73**	**268**

All reports published over the last three months have received strong social media engagement. The children and young people's mental health report was shared widely by charities and mental health groups. The Forth Crossing report followed closely behind the mental health report in terms of the amount of engagement on social media, with users of the bridge replying to tweets.

Aside from the reports noted above some of the most popular content on our social media channels over the last quarter has been in relation to recruitment, including promoting recruitment campaigns for the new Audit Scotland Board Member, Audit Director, HR vacancies etc. LinkedIn continues to be of value in terms of recruitment campaigns.

Facebook continues to demonstrate its value in its advertising reach. In August we promoted the Glasgow BVAR on Facebook using paid advertising, this helped us gain an extra 237 visits to the report web page.

Correspondence

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.

New correspondence cases	Q1	Q2	Q3	Q4	YTD	17/18
Number of cases	24	28			52	136
Acknowledgement within five working days	100%	96			98	100
Final response within 30 working days	92% 100%*	82			91	97

*Note: change in what was reported in quarter 1. At the time of submitting data, we had achieved 92% of responses within 30 days; the remaining two responses were issued within the deadline, so this figure now shows as 100%.

In Q2:
- Four final responses are pending (18%), all are still currently within 30 working day deadline.
- One acknowledgement and one final response have been missed this quarter to date. This is due to auditors prioritising final accounts work.
- We received five objections to local authority accounts
- In addition, we had 35 audit enquiries relating to queries about our work (e.g. figures within our reports, guidance and access to materials/reports)
- (compared to 30 in Q2 17/18)

Freedom of Information (FOI), Environmental Information Regulations (EIR)and Complaints
- During Q2 there were 7 FOI requests, no EIRs and 1 complaint that was not upheld.

Issues/ risks/ actions:
- Creation of central resource library for presentations to support efficiency of production and consistency of quality, content and messages

Forward look:
- Publication of British Sign Language (BSL) and video interpretation in BSL in Q3.
- Revised engagement and communications strategy – early 2019

	We systematically deliver impact through our work
Making a difference	

Key Performance Questions:	2017-18				2018-19				Action
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Is our work delivering impact?	G	G	G	G	G	G			
Are our recommendations leading to improvements?	Y	G	G	G	G	G			Further quantitative measures to be developed to supplement qualitative assessments as part of the PMF2018 project.

Examples of where our work has made a positive impact include:

On 4 September, prior to publication of the Children and Young People's Mental Health report, the Scottish Government announced an additional £250 million to improve mental health services. This includes funding to recruit an additional 250 school nurses and 350 school counsellors, to expand the availability of mental health first aid training for teachers and developing community wellbeing services for 5 to 25-year olds. Our report found that access to services to intervene early in mental health problems, such as school counselling, varies widely across Scotland. We also found that more mental health training is needed for teachers and other professionals who work with children and young people.

Update and impact reports help to ensure that issues and themes remain on the agenda in a range of areas, these include:

An update report on superfast broadband published in September found that the Scottish Government met its target of providing access to fibre broadband to 95 per cent of premises in Scotland by 31 December 2017 and higher than expected take-up and lower than expected costs are expected to allow the programme to reach 60,300 more premises than planned. The report also found that average broadband speeds experienced have increased across Scotland but continue to be lowest in rural areas and that Community Broadband Scotland (CBS) did not deliver the anticipated benefits for rural community broadband projects.

The impact report on Community Planning in Scotland found a mixed picture of progress against recommendations, including progress in some areas, but also some areas where it is too early to assess the full effect of changes. COSLA noted that our *Community Planning: an update report* "was very helpful in taking stock of community planning progress, and in focusing national and local government and wider public services on further improvement."
The Improvement Service and NHS Health Scotland are leading work to provide improvement support and identify and share good practice within CPPs on engaging with communities. There are concerns amongst some community planning partners about the extent to which community planning is still seen as central to the Scottish Government's broader public service reform agenda. The Scottish Government has launched its refreshed National Performance Framework and continues to review performance frameworks and indicators across specific sectors to increase the emphasis on outcomes, but CPPs still operate within a complex network of accountability frameworks.

Issues/ risks/ actions:

Forward look:
- Four further impact reports are due to be published in Q3 and the schedule of future impact reports is under review.
- We will provide an update on the impact of and response to the NHS overview report (published 25 October) in Q3.

	We offer insight and foresight through our work								

Key Performance Questions:	2017-18				2018-19				Action
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Are we making information and intelligence available to others?	G	G	G	G	G	G			Development of an assessment framework and more systematic approach to measuring progress on this objective.

We continue to offer insight and foresight through our work by delivering a range briefings and presentations and material on the website. These include:

- New Digital e-hub – the hub pulls together different resources from past audit work and other relevant sources and sets out our future plans for auditing digital and digital audit.
- Welcoming a delegation from the National Development and Reform Commission – a government organisation in China that formulates and implements strategies of national economic and social development. We shared our experience of auditing the Scottish Government and local authorities.
- A member of the *National Fraud Initiative* team presented to a conference focussed on public sector fraud. The focus of the presentation was "sharing best practice and fresh knowledge". Members of the team also delivered a session on counter-fraud at the Scottish Chief Internal Auditors Group
- Briefings to the Auditor General and Accounts Commission on our approach to engaging with young people, housing, and Scotland's response to the Grenfell tragedy.
- Participating in 8 external working groups/meetings arranged by external organisations.
- Responding to 4 consultations and delivering 5 external presentations

The 2017/18 annual audit reports produced in Q2 contained examples of where the audit has provided insight and foresight through our audit work:

- **Local Government:** Most of the annual governance statements (GSt) were up to date with the new CIPFA guidance, however we worked hard on many to get the right balance between management commentary and GSt on the location and substance of the material. The s95 officer expressed appreciation of guidance of audit team.
- **Local Government:** We encouraged the council to revise the management commentary to 'tell the story' more effectively.
- **Health**: We worked closely with finance officers to improve the management commentary in the annual accounts. In particular, we have ensured the body have a more complete and clearer Performance Report since our appointment in 16/17. Improvements include disclosures of the financial position (memorandum for in year outturn) which follows the Audit Scotland good practice note, as well as the clarity of reporting against non-financial performance targets.
- **Health**: The Boards performance information is not accumulated and made readily available on the website. Following recommendation that this information should be available the client agreed that that reports will be made available on the website in 2018/19.

Issues/ risks/ actions

Forward look: EU withdrawal briefing paper in Q3. MSP feedback due in Q3.

	We develop new and improved processes, products and services
Making a difference	

Key Performance Questions:	2017-18				2018-19				Action
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Are new processes, products and services being developed?	G	G	G	G	G	G			
Are products and study programmes suitable and appropriate for emerging issues?	G	G	G	G	G	G			

Examples of new products and services in Q2 include:

The *Children and young people's mental health* performance audit report was accompanied by a 'key facts' animation and a video. This is part of a broader effort to improve the accessibility of our reports in a range of alternative formats.

The new *Digital e-hub* pulls together different resources from past audit work and other relevant sources and sets out our future plans for auditing digital and digital audit. It is our intention to make available further resources and guidance, including fact sheets on specific digital topics. Internally the Digital Audit Strategy recognises the need to embed digital risks and thinking into our audit processes, including through targeted training for auditors. To support this an externally facilitated workshop took place in September focussing on digital transformation.

The new approach *to auditing devolved financial powers*, including social security and public financial management, was agreed. This includes a specific performance audit considering the new *social security* arrangements in Scotland, and a briefing / issues report on *Public financial management.*

We hosted a *round-table event* looking at how we define and assess *progress within communities*, including transformational change and what success looks like. Amongst those attending were representatives from the Scottish Government, SCVO, COSLA, Scottish Community Safety Network, the Scottish Parliament and the International Futures Forum.

We appointed *Youth Scotland* as our partner to set up and support Audit Scotland's *new young people's advisory panel*. Recognising 2018 as the Year of Young People, we see the panel helping to shape our audit work over the next two years. The panel of 20 young people, known as #Inform100, had its first residential weekend at the end of September. This was an opportunity for the young people to get to know each other and the staff from Youth Scotland and Audit Scotland. It was also an opportunity for them to hear more about what we do in Audit Scotland and start to think about how we can work together. We are continuing to recruit more people to join the 'virtual panel'. This is intended to be a larger group of young people working with the youth advisory panel online to feed in a wider range of views and experiences. The panel will be meeting approximately six times a year over the two years. In-between meetings, they'll be keeping in touch with each other and with Youth Scotland through a new online group. The group plan to meet up again in November, when we'll start to get into more of the detail about auditing public services.

We published the *revised audit guide* which contains several important changes which stemmed from the findings of 2016/17 ICAS and internal quality reviews including:

- clearer reference to wider dimension work
- removing the concept of a 1% default level for overall materiality and encouraging auditors to make and document their judgements based on a scale of 0.5 to 2% of gross expenditure
- referencing specific materiality which may be used for account balances or classes of transactions
- introduction of TRAM 2 agenda (for team risk assessments)
- refreshing the guidance on internal audit and areas auditors can place reliance on re IA work
- providing additional guidance on audit sampling.

Issues/ risks/ actions:

Forward look:
- An additional audit test to confirm compliance with Audit Scotland's GDPR requirements will be added to audit programmes where appropriate to remind auditors of their responsibilities.

	We manage our resources effectively and maximise efficiency
Being a better organisation	
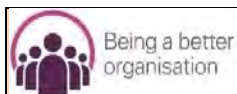
Key Performance Questions:	2017-18				2018-19				Action
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Are we managing our resources effectively	G	G	G	G	G	G			
Are we maximising efficiency?	G	G	G	G	G	G			

Resource management

In the six months to September 2018:
- Audit Scotland's Net Operating Expenditure was £2,165k which was £104k less than budget.
- Capital investment totalled £12k, with the total available budget for 2018/19 being £175k.
- Staff costs £33K (0.4%) less than budget.

Net operating (expenditure) to June 2018.

	Q1	Q2	Q3	Q4	17/18
Actual	(1,180)	(2,165)			(8,514)
Budget	(1,237)	(2,269)			(9,157)
Variance	-4.6%	4.6%			-7.0%

Staff - The average number of staff in the quarter was 98.9% of the establishment and the number at the end of the quarter was 98.3% of establishment.

	Q1	Q2	Q3	Q4	17/18
2018/9 establishment w.t.e:	279.5	279.5			274.9
Average number of staff employed in 2018/19 w.t.e:	271.9	274.2			271.9
No. of staff at end of quarter w.t.e:	270.3	278.3			272.0

Staff and Agency costs

Total staff costs in the six months to September 2018 are below budget.

Business Group	Annual Budget	Actual	Budget	Variance	Actual Average W.T.E	Budget W.T.E
ASG Staff costs (inc NFP)	8,315	4,199	4,091	(108)	156.3	147.5
ASG agency & secondments	70	67	59	(8)		
PABV (inc Professional support) staff costs	3,773	1,769	1,886	118	59.1	64.4
PABV agency & secondments	0	8	0	(8)		
CSG (inc Audit Quality) staff costs	1,996	1,006	998	(8)	36.4	35.3
CSG agency & secondments	0	24	0	(24)		
Business Support staff costs	649	301	324	24	17.5	18.3
Business Support agency & secondments	0	12	0	(12)		
Governance & Other staff costs	1,104	490	497	7	18.7	20.0
Governance & Other agency & secondments	0	0	0	0		
Total Staff costs	15,837	7,764	7,797	33	288.0	285.5
Total agency & secondments	70	111	59	-52		

Expenditure on agency staff by ASG is significantly less than in 2017/18. Expenditure in PABV was on a secondment who has subsequently been appointed in the recent recruitment campaign. Expenditure in CSG and BSS has provided temporary cover where recruitment campaigns are under way.

Legal, professional and consultancy

In the six months to September 2018 expenditure is £34k more than budget. Legal advice has been sought on specialist procurement (car lease contract) and the statutory land tax return. Professional fees include a payment for specialist advice to challenge the business rates uplift. This has proved successful in reducing our business rates charges for which a rebate was received for 2017/18 and the base charges for 2018/19 will also be significantly less than planned.

Estate - Estate costs in the year to September 2018 are £35k (8.2%) lower than budget and lower than previous years spend of £418k.

£000 YTD	Q1	Q2	Q3	Q4	17/18
Actual spend	208	392			938
Budget	215	427			930
Prior year spend	211	418	640	938	

Costs of travel - Travel costs in the year to September 2018 were £3k higher than budget and 24 k higher than last year.

£000 YTD	Q1	Q2	Q3	Q4	17/18
Actual spend	227	455			866
Budget	230	452			922
Prior year spend	204	428	654	866	

Capital Expenditure and Funding: Capital investment for the six months to September 2018 was £12k, with the total available budget for 2018/19 being £175k. The £12k year to date expenditure is on IT hardware. Expenditure plans have been discussed with Digital Services and the allocation will be spent in full by the end of the financial year.

IT network up time Q2

IT Network	Q1	Q2	Q3	Q4	17/18
IT uptime (%)	99.14	99.38			99.6
Working hours lost	1992.5	1432.1			3758
Average time lost per person	6.69 hrs	4.77hrs			660

Most of the downtime this quarter was due to an issue with the password server that was preventing connection to office 365 including outlook. There were serval outages in Glasgow the most severe caused by power cuts followed by a failure of the local IP address server. We have since replaced the server and installed a UPS in the Glasgow office to prevent a reoccurrence of this, as well as including more proactive monitoring out of hours.

IT Incident management summary
- 95.75% (1232/1248) of incidents were accepted within the response time SLA.
- 98.6% (1195/1248) of requests were closed within the fix time SLA.
- An average of 4.2 incidents were logged per user.

Business group productivity:

Business group productivity remains broadly consistent with productivity/ planning assumptions.

	18/19%				17/18%			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
ASG	60	73			57	74	59	67
PABV	70	70			76	74	67	76

Average cost per audit day
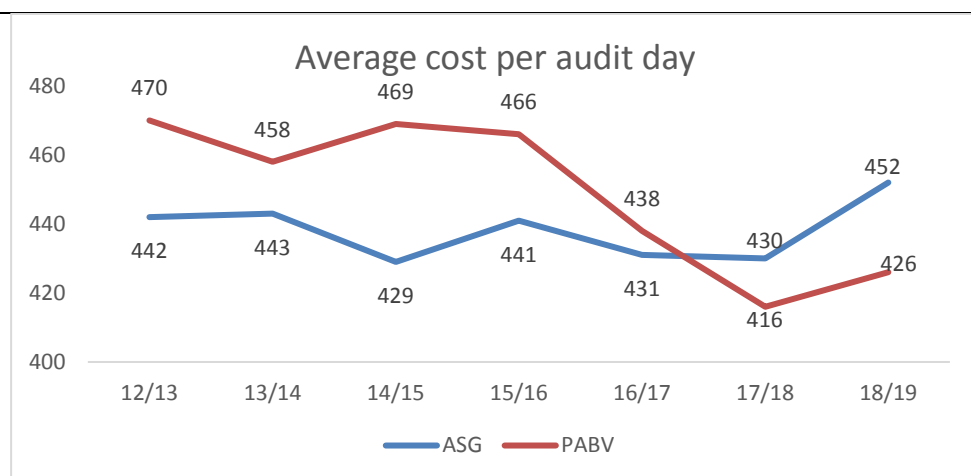
At the end of Q2 the cost per audit day for ASG is £452 and PABV £426. The average cost per audit day of PABV and ASG audits fluctuates between audits and throughout the year. This is due to the timing of audit work, the grade mix deployed and any changes in the daily rate for audit staff made by the finance team at the start of each new financial year.

Issues/ risks/ actions:

Forward look:
- New car lease contract procurement under- way
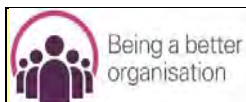
We manage information and intelligence effectively (internal)

Being a better organisation

Key Performance Questions:	2017-18				2018-19				Actions
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Are we managing information and intelligence effectively (Internal)	Y	Y	Y	Y	Y	Y			PMF2018/19 project under way

Examples of managing information and intelligence during Q2 were:

The EU withdrawal team delivered a series of lunchtime drop-in sessions for colleagues about our work in this area.

Extensive use of Yammer to share information on a wide range of subjects including the new financial powers and social security, international work, cyber security, recruitment campaigns and charitable activities.

We received three external scrutiny reports on information management in Q2 (ISO27001 audit, Keeper of the Records progress update report and a mystery shopper exercise conducted on behalf of the Scottish Information Commissioner. All of the reports were positive about our information management arrangements.

The workstream scopes for Performance Management Framework project, were finalised during the quarter. This project includes workstreams that will facilitate better internal sharing of business management and performance information in areas such as audit costs, how staff use their time, and business delivery.

Issues/ risks/ actions:

Forward look:
- Performance Management Framework 2018/19 project is ongoing
- External reviews of information management report to Board October 2018.

	We empower and support our people to be engaged, highly skilled and perform well
Being a better organisation	

Key Performance Questions:	2017-18				2018-19				Actions
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Are our people empowered and engaged?	G	G	G	G	G	G			
Are our people highly skilled?	G	G	G	G	G	G			
Are people performing well?	Y	Y	Y	Y	G	G			
How effective is communication and collaboration across the organisation?	G	G	G	G	G	G			
Are career paths offered across the organisation?	G	G	G	G	G	G			
Do we understand and support diversity within the workforce?	G	G	G	G	G	G			

Empowered and engaged

During Q2 we:

- Launched our new Learning and Development Portal. This includes online learning and a new online learning calendar for 2018/19.

- Published our Learning & Development Report and strategy for 2018/19.

- Concluded our significant one organisation auditor recruitment campaign, with some colleagues starting new promoted roles and external new starters joining the organisation in September. The induction arrangements for the new starts and internal promotions was overseen and delivered by a cross business group team from ASG, PABV and Corporate Services. This model is also being applied to the next major staff intake – Professional Trainees in October 2018.

- Completed the annual Health, Safety and Wellbeing review and forward plan

- Hosted the next in the series of Women in Leadership events with members of the Accounts Commission leading these sessions and sharing their experience of being women in leadership positions

- The ASG / PABV joint resourcing group met during Q2 – the group focussed on the earlier planning of joint audit work in areas such as overview reporting to inform the annual audit planning process in October.

Wellbeing –
Absence levels - Absence levels remain low and in line with previous years.

	Q1 days	Q2 days	Q3 days	Q4 days	ytd days
Audit Scotland - 18/19	1.28	0.76			2.04
Audit Scotland - 17/18	0.69	1.16	1.07	1.12	4.40
Audit Scotland - 16/17	1.03	1.37	1.27	1.28	5.32
Audit Scotland - 15/16	0.89	0.98	1.49	2.05	5.62

Staff turnover -. All leavers are lower than the same quarter last year (3.41) but higher (1.08) than in Q1 2018-19

2018/19	Q1	Q2	Q3	Q4	YTD	17/18	CIPD benchmark
Resignations %	1.08	0.70			1.78	6.75	5.5
All Leavers %	1.08	2.82			3.9	12.79	13.6

Exam results: In Q2 there were twenty exams taken and sixteen passes. The Cipfa exams consist of 12 modules and the pass rate for each module varies. The average pass rate for all modules for 2017 was 76 percent.

	Q1	Q2	Q3	Q4	YTD	17/18
Exams taken	3	20			23	121
Exams passed	3	16			19	106
% pass rate	100	80			82.6	88

Career paths and secondments
To date we have received 20 Career Development Gateways(CDG) submissions. Through this process 12 colleagues demonstrated the required evidence and are therefore progressing into the next zone.

Vacancies filled	18/19 YTD	17/18
Internal	10	15
External	11	21
Total	21	36

Secondments	18/19 YTD	17/18
17/18 - New	1	0
17/18 - Existing	2	7

Highly skilled - L&D events are summarised below. There is traditionally a lower number of events in Q2 due to it being a peak audit time for Local Government Accounts and for the number of staff taking annual leave during this period.

	Q1		Q2		Q3		Q4		YTD		17/18	
	Events	*Attendees*	Events	Attendees	Events	Attendees	Events	Attendees	Events	Attendees	Events	Attendees
Health & Safety	1	1	3	15					4	16	1	25
Knowledge Cafes	2	15	0	0					2	15	12	266
Learning & Development	1	6	1	7					2	13	8	64
Management Development	4	41	2	24					6	65	8	54
Organisational Development	2	20	3	24					5	44	26	496
Technical Training	12	227	2	33					14	260	31	469
Total	**22**	**310**	**11**	**103**					**33**	**413**	**86**	**1,374**

Issues/ risks/ actions:

Forward look:
- Recruitment of nine new ICAS trainees in October 2018, to work across business groups and 1 school leaver who will undertake AAT training and on completion of this has the option to further train to a professional CCAB qualification.
- An external training provider will be training the third tranche of CDG panellists in October 2018. We currently have 27 trained CDG panellists and hope to train another 8-10 colleagues at this session.
- Best Companies Survey – results due November/December 2018.

Purpose

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

Background

2. The BWC strategic improvement programme is a key enabler for achieving our vision to be a world class audit organisation. On 14 November the Audit Committee considered a report on the strategic improvement programme. The report set out how the development objectives in the Corporate Plan will be achieved through a combination of core audit work, working groups forums and professional leads and development projects.

3. The quarterly update reports provide a summary of recent activity and the future plans and milestones in key areas of work.

Progress on the BWC improvement programme

4. We continue to make good progress on the programme over all. Headlines since the last report include:

- Delivering World Class Audit:

  – New financial powers and constitutional change – briefing papers published on the new financial powers and fiscal framework and EU withdrawal, ongoing development of social security methodology and engagement with the new Social Security Scotland agency and the National Audit Office. There is a separate report on this area on the agenda for today's meeting of the Board.

  – Audit Quality – further development of the Audit Quality Framework, including work on auditing and ethical standards, an issues escalation process and arrangements for client engagement surveys

- Being a Better Organisation (BaBO):

  – Professional trainee induction under way

  – Feedback survey on 3D and promotion of the L&D portal

  – Progress on digital projects include Office 365 and the new performance management framework.

- Making a Difference:

  – Extensive parliamentary engagement

  – Innovative products – including e-Hubs, briefing and issues papers, videos and animations and round table meetings.

5. The appendix provides more detailed information on each of the BWC workstreams.

Recommendations

6. The Board is invited to note the progress made in Q2 and the next steps and milestones.

Delivering world-class audit	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.

Project/ initiative/ product	Status update	Next steps
Implementing the Audit Quality Framework	The Audit Quality Committee continues to meet on two monthly basis. The last meeting was on 09/10/18. The annual planning guidance for 2017/18 was agreed by Management Team (MT) on 25/09/18. The Q1/Q2 Audit Quality Report was considered by the Management Team at its meeting on 09/10/18. The report highlighted: • Auditors delivered 100% of NHS and 98% of local government opinions and 100% of PABV reports on time, including BVARs. • Audit plans are of a high quality and comply with the 2016 Code of Audit Practice (the Code). • Non-audit services requests comply with the Ethical Standard, the Code and were reviewed and approved by Audit Quality and Appointments (AQA). • Improvements have been made in response to areas reported in last year's Q1/Q2 report by most auditors. The report will be considered by the Audit Committee at its meeting on 14/11/18. Ongoing development of the Audit Quality Framework includes: • Revised ethical standards policy – approved by Board 31/10/18 • Non-audit services policy statement –agreed and implemented October 2018 • Appointments process – agreed and implemented October 2018	The key milestones are: • Development of communications on public audit model and quality arrangements in Scotland – revised webpage and content December 2018 • Audit issues escalation process - under consultation, implementation planned for January 2019. • Staff survey on quality – Jan-Feb 2019 • KPIs -under consultation until December 2018. A revised suite of indicators will be introduced in 2019/20.

Project/ initiative/ product	Status update	Next steps
	• Audit standards for non-financial audit work – proposals considered by Audit Quality and MT September/October 2018 • Staff survey on quality – considered by MT 04/09/18 The Board considered a report on audit quality and the perception of audit at its meeting on 28/09/18.	

New financial powers and constitutional change (NFPCC) including EU withdrawal	We have established two new cross-organisation teams, with responsibility for the audits of social security and wider public financial management (PFM) work.
	
	The PFM team published a briefing paper on the operation of the fiscal framework on 16/10/18. We sent a copy to Parliament's Finance and Constitution Committee to help support their pre-budget scrutiny, as part of the new budget process.
	
	The social security team are developing their approach to financial and performance auditing, including engagement with the new Social Security Scotland agency and the NAO.
	
	A professional lead for EU withdrawal is working with colleagues across the organisation to develop our audit work programme and manage any organisational implications. MT held a summit on EU withdrawal on 21/08/18. We published a paper on 11/10/18 setting out what we think are the key issues for public bodies and questions that all bodies should be asking themselves, and our current plans for reflecting EU withdrawal in our audit work.
	
	We continue to use a dedicated Yammer site to share information and seek the views of colleagues. We use social media and our e-hub on financial devolution to share our work and other useful resources in this area with an external audience.
		The key milestones are:
		• Updating Management Team on EU withdrawal activity on 06/11/18
		• Developing our audit approach and work programme for the audits of social security and public financial management – ongoing
		   o Agree assurance arrangements for social security with NAO – Jan/Feb 2019
		   o Agree social security financial audit plan Feb 2019
		   o Agree PFM work programme – Dec/Jan 2019
		   o Next in the series of our performance audits on the Scotland Act – Apr 2019
		   o First (1/2 year) Social Security annual audit report – June/July 2019
		• Developing our programme of engagement and audit work in response to EU withdrawal – ongoing
		• Internal audit on preparedness re NFPCC and EU withdrawal – Nov/Dec 2018

	Being 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	The focus for 2018-21 is on getting the benefits of the significant BaBO developments over the last three years. Wellness International have shared the aggregated results of the 2018 wellness checks of 2018/19 with the Health, Safety & Wellbeing Committee in Q2. TED Lunch & Learn event on stress 4 September 18.	The key milestones are: • Management Team summit discussion on our people & Building a Better Organisation – Nov 2018 • Best Companies Survey Oct-Dec 2018 • Wellness checks – Jan – March 2019 • New Performance Management clinics taking place Jan 2019 onwards
How we learn and develop • planning careers • developing skills • professional training schemes	*Learning & Development (L&D)* Refreshed L&D portal promoted July 2018. Ongoing promotion includes; bi-monthly all staff emails, ishare, office screens/, Yammer and discussions on what people want from L&D at business group and super-team meetings (Sept/Oct 2018). *Career Development Gateways* To date we have received 20 CDG submissions, 12 have been 'evidenced', 4 have been 'needs more evidence' and 2 have been 'no evidence'. *3D personal development* A review of 3D this found that most colleagues prefer the flexible, simpler 3D process to the previous traditional performance appraisal system. For some their experience is not as good and was reflected in the free-text comments more so than the data. Around 10% - 20% of colleagues reported that they may not have had a 3D discussion within the previous 12 months. We are exploring whether this is due to under-reporting on e-HR or the meetings not taking place.	The key milestones are: • Implementation of L&D Strategy and Plan during 2018/19 and ongoing promotion of L&D portal • CDG employee / manager training sessions and workshops taking place Nov 2018 • 3D completion statistics are considered in quarterly meetings between HR and business group people leads and the fit and proper and 3D forms have been amended to encourage and remind colleagues on the requirements and their responsibilities.

Project/ initiative/ product	Status update	Next steps
Resourcing	Risk interrogation on capacity and one organisation working – Audit Committee 28/09/18 9 Professional Trainees started in October. Their comprehensive induction programme is ongoing. Budget development and SCPA submission preparation – ongoing reports to MT and Board July - October. MT considered medium term financial strategy 09/10/18.	Key milestones are: • SCPA budget submission 2019/20 – Dec 18 • Management Team summit discussion on organisational capacity and flexibility – Jan 2019 • Discussion on updated medium term financial strategy with Audit Directors – Jan 2019 and revised strategy to Management Team and Board by March 2019 • Review of work programme cluster resourcing – Dec – Mar 2019
Strategic leadership	Professional lead scope documents have been developed along with a development agenda for 2018 including; 360 feedback, a programme of personal development (Inc. MBTI), and external speakers	The key milestones are: • Themed MT summit meetings – ongoing 2018/19 • Programme of external speakers at Leadership Group – ongoing 2018/19 • LG 360 feedback –feedback on pilot – Dec 2018, roll out to LG – Jan – June 2019
Performance management and business intelligence	Implementation of a new Business Intelligence led approach to performance management during 2018/19 ongoing. Update report to Management Team 09/10/18	The key milestones are: • Design phase – Oct – Dec 18 • Build and test phase Dec 18 – March 19 • User guidance & training – Feb 19- April 19 • Single TR go live April 19 • Dashboards and reports – April – June 19
SharePoint Online	During 2018/19 we will complete the Office 365 implementation by introducing a new cloud-based version of ishare to maximise security and enhance functionality. O365 project has already delivered cloud-based versions of Outlook, Office 2016 products and OneDrive. The next stages are the design, build, test and transfer of files to SharePoint Online.	The key milestones are: • Build and test phase – to Feb 2019 • Delivery and file transfer phase Feb – Dec 19

Project/ initiative/ product	Status update	Next steps
	The project is using the Agile approach and is running slightly behind schedule as some O365 performance/ response time issues are being prioritised.	
Digital projects	We have a range of other digital development projects under-way. These include; MKI and Finance system upgrades, the Commission Connected project and HR system replacement.	The key milestones are: • MKI upgrade – Nov/Dec 18 • Finance upgrade Nov/Dec 18 • Commission connected pilot phase re user requirements– Nov/Dec 18 • HR system – Nov 18 – June 19

Making a difference

	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
World Class Programme Development	The five-year rolling work programme is currently being reviewed by cluster groups.	The key milestones are: • Refreshed proposed programme to AGS and Accounts Commission – Dec 18 • Accounts Commission consultation – Jan/Feb 19 • Revised programme agreed – Mar 19
Communications and engagement	The planned review of the Communications and Engagement Strategy scheduled for Autumn has been rescheduled to early 2019 to ensure the new Communications Manager has the opportunity to shape the strategy.	The key milestones are: • Revised strategy for consideration by Management Team and Board – March 2019

Project/ initiative/ product	Status update	Next steps
Strategic approach to Parliamentary Engagement	We continue to work closely with the Parliament and its committees through our audit work and by support the scrutiny of the budget. Since the last update this has included 25 engagements with committees, clerks and forums covering evidence sessions and business planning.	The key milestones are: • MSP feedback – Dec 2018 • Evidence sessions and scrutiny support – ongoing • Joint stocktake on parliamentary scrutiny support – March/April 2019
Digital Audit	The Digital Audit Strategy contains a variety of commitments under three main streams of work: Auditing digital • New Digital e-Hub published • Broadband progress report published 20/09/18 • Co-hosted workshop with local government digital office 09/18 Digital auditing • Refinements to audit analytics in ASG • MT agreed participation in NIAO led GovTech audit analytics project Digital capacity and resilience • Ongoing review of digital audit capacity (current & future needs) • Ongoing meetings with the other UK agencies and topics for collaboration and lead agencies agreed.	The key milestones are: Auditing digital – rolling work programme includes: • Digital progress in CG & health (reporting early2019/20)) • Digital progress in LG (reporting early 2020/21) • Digital services (learning or justice tba) (reporting 2021/22) Digital auditing/ capacity - Audit analytics • staff workshop on SG technical assurance framework – Dec 18 • Audit analytics (ASG) – stocktake report to ASGMT • NIAO led GovTech analytics project (phase 1 Dec 18 – Jul 19
Follow -up and impact	In October we received an internal audit report on follow up and impact which concluded substantial assurance re design and operational effectiveness.	The key milestones are: • Internal audit report to Audit Committee 14/11/18 • Refresh schedule of follow-up and impact reports – Dec 18

Project/ initiative/ product	Status update	Next steps
Innovative audit products	New products include: • Briefing papers on new financial powers and EU withdrawal • Children and young people's mental health – video and key facts animation • Major project and procurement – lessons report and investment and infrastructure e-Hub • Digital e-hub • British Sign Language Plan, including a sub-titled video with BSL interpretation.	Ongoing delivery of new products and processes Risk Interrogation on Innovation – Feb 2019

Annual review of corporate governance policies

Item 14

Corporate Governance Manager

28 November 2018

Purpose

1. This paper invites the Audit Scotland Board to approve the Standing Orders, Financial Regulations and Scheme of Delegation for a further year.

Background

2. The Standing Orders state that Audit Committee is to keep under review the Standing Orders, Financial Regulations and Scheme of Delegation and recommend to the Board any amendments. The last update was in December 2017 and came into force on 1 January 2018.

3. The Audit Committee's Terms of Reference (TOR) states that they will advise the Board on corporate governance requirements and are to be provided with a report on policy documentation reviews.

4. This paper covers updates to the Standing Orders, Financial Regulations and Scheme of Delegation.

5. If approved by the Board the policies will come into effect on 1 December 2018.

Annual review of the corporate governance policies

6. A review of our Standing Orders, Financial Regulations and Scheme of Delegation took place in September 2018. The review found that they were up-to-date and that only minor changes required.

7. The changes were required due to:

7.1. Assistant Directors being renamed as either Associate or Audit Directors.

7.2. Making clear that it is the Auditor General, Chief Operating Officer, Director of Audit Services and Director of Performance Audit and Best Value that formed the Management Team (in the Financial Regulations and Scheme of Delegation).

7.3. The Audit and Appointments Team (AAT) being renamed as Audit Quality and Appointments (AQA).

7.4. The Board meeting in public. Sections 31 and 55 of the Standing Orders were updated to reflect that employees and advisors may attend 'private' sessions of the Board by invitation.

8. All changes are shown as tracked changes in the attached documents.

9. The Audit Committee discussed the changes at their meeting on 14 November 2018 and agreed to recommended to recommend them to the Board for approval.

Recommendations

10. The Board is invited to approve the Standing Orders, Financial Regulations and Scheme of Delegation for a further year.

Standing Orders

AUDIT SCOTLAND

Contents

Standing orders

Introduction

1. The Constitution and membership of Audit Scotland is unusual in having both members appointed by the Scottish Parliament and members with or having access to Direction giving powers. The Board will seek to operate on a consensus basis recognising that on occasion a majority decision may be reached and that the Auditor General and the Accounts Commission may issue Directions for the purpose of or in connection with the exercise of Audit Scotland's functions in relation to either or both of them.

Constitution

2. Audit Scotland is a body corporate established under section 10 of the Public Finance and Accountability (Scotland) Act 2000 ("the Act").

3. The function of Audit Scotland is to provide such assistance and support as the Auditor General and the Accounts Commission require in the exercise of their respective functions and, in particular, to provide them, or ensure that they are provided, with the property, staff and services which they require for the exercise of those functions. The Auditor General and the Accounts Commission may give directions to Audit Scotland in connection with the exercise of their functions. Detailed provisions about the operation of Audit Scotland are contained in Schedule 2 to the Act as amended by the Public Services Reform (Scotland) Act 2010.

4. The Board remains responsible for the exercise of all functions of Audit Scotland. It exercises its powers and authorities through the Scheme of Delegation, which it determines and approves.

5. The members of Audit Scotland are the Auditor General, the Chair of the Accounts Commission and three other members appointed by the Scottish Commission for Public Audit.

6. The three other members will be appointed under terms and conditions, including remuneration, as determined by the Scottish Commission for Public Audit.   The Auditor General and the Chair of the Accounts Commission may not receive any remuneration as members of Audit Scotland.

7. Members of Audit Scotland may terminate their appointments at any time by notifying, in writing, the appropriate appointing body, and following the prescribed period in the letter of engagement.

8. In these Standing Orders the members of Audit Scotland meeting together to discharge their functions are referred to as the Board.

Chair

9. The Scottish Commission for Public Audit will appoint one of the members of Audit Scotland which it has appointed to preside at the meetings of the Board ("the Chair").

Meetings

10. Meetings will be held in public at times, dates and places agreed by the members. In addition, a meeting may be called at any time by the Chair or by not less than three members giving the Chief Operating Officer a written request for such a meeting stating the business to be transacted. The use of video or telephone conferencing by members will be deemed as attendance at the meeting.

Agenda and Papers

11. The Chair will approve the Board agenda, including the consideration of items to be taken in private, 10 working days prior to the scheduled meeting, following discussion with the Chief Operating Officer.

12. At least five clear working days before a meeting of the Board the Chief Operating Officer will send written notice of the approved time and place of the meeting and of the business to be transacted to each member. So far as possible, reports and other papers relating to agenda items will be circulated with the agenda.

13. At least two clear working days before a meeting of the Board the Chief Operating Officer will publish the meeting agenda and reports and papers to be taken in public on the Audit Scotland website.

Conduct of Business

14. The Chair, if present, will preside. If the Chair cannot be present the Board must appoint one of the other members appointed by the Scottish Commission for Public Audit to preside at the meeting.

15. No business other than that stated in the notice of the meeting will be transacted at that meeting other than with the consent of the Chair and a minuted explanation of why the matter had to be conducted without the standard notice.

16. The Chair of the meeting will decide all questions of order, relevancy and conduct of business during the meeting.

17. A quorum for a meeting of the Board is three members including those present by telephone or video conference call. The Auditor General and the Chair of the Accounts Commission must be present for a quorum to be constituted, save that in the event that the Auditor General and/or the Chair of the Accounts Commission are unable to attend a meeting of the Board, either may confirm, by giving notice in writing, by email or where circumstances require verbally by telephone prior to the commencement of the meeting, that (i) they consent to the meeting proceeding in their absence; (ii) that the meeting may be deemed to be quorate

notwithstanding their absence provided the other requirements for a quorum to be constituted as set out in paragraphs 17, 18 and 19 are met; and (iii) that any business detailed on the agenda circulated pursuant to paragraph 12 and transacted at the meeting shall be deemed to be transacted validly provided that all other requirements of these Standing Orders are complied with.

18.	Where the Auditor General and/or the Chair of the Accounts Commission consents to a meeting proceeding in their absence, they shall, within five working days of the date of the meeting, be provided with a copy of the draft minutes of the meeting produced pursuant to paragraph 21.

19.	No business which is not detailed on the agenda circulated pursuant to paragraph 12, and which the Board deems to be material to the operation of Audit Scotland, shall be transacted at a meeting at which either the Auditor General and/or the Chair of the Accounts Commission is not present.

20.	At any meeting the Board may suspend Standing Orders for the duration of the meeting or of any item of business provided a majority of the members present so agree.

Minutes

21.	Minutes of every meeting of the Board will be drawn up and will be approved at the following meeting.

Vacancy

22.	The proceedings of the Board will not be invalidated by any vacancy in membership or by any defect in the appointment of any person.

Code of Conduct

23.	Each member will abide by the Code of Conduct for Members of the Audit Scotland Board current at any time.

Committees

24.	The Board may appoint standing or ad hoc committees consisting of such numbers as the Board may determine. Committees may consist of members and other suitable persons chosen by the Board.

25.	The Board will establish an Audit Committee with the terms of reference contained in Appendix 1.

26.	The Board will establish a Remuneration & Human Resources Committee with the terms of reference contained in Appendix 2.

27.	The Board will establish an Appeals Committee with the terms of reference contained in Appendix 3.

28. Any committee will operate within the terms of remit and any delegation made to it by the Board.

Deeds and Documents

29. Any deed or document requiring formal execution by Audit Scotland will be signed for and on behalf of Audit Scotland by the Chair of the Accounts Commission or the Auditor General for Scotland and the Chief Operating Officer.

Advisers and Committee Co-optees

30. The Board may appoint advisers and/or co-optees to Committees and pay them such remuneration and expenses as the Board decide. The co-option appointment procedure is contained in Appendix 4.

31. Employees of Audit Scotland, advisers and others may ~~attend~~ be present at items taken in private at meetings of the Board at the invitation of the members.

Openness and Transparency

32. The Board will meet in public and will publish agendas, minutes and papers to be taken in public on the Audit Scotland website.

Board Effectiveness

33. The Board will conduct a self-evaluation of its effectiveness on an annual basis.

Application of Standing Orders

34. These Standing Orders will apply to meetings of committees of the Board subject to any due modification of details.

Alteration

35. These Standing Orders may be altered by the Board provided that the alteration is approved by a majority of the members of the Board.

Appendix 1: Audit Committee remit

36. The Audit Committee will consist of members of the Board. The Board may appoint persons who are not members of the Board to be members of or advisers to the Audit Committee, and may pay them such remuneration and expenses as the Board decides. The Chair of the Board and the Accountable Officer may not be members of the Audit Committee but may attend meetings.

37. The purposes of the Audit Committee are detailed in the Audit Committee terms of reference. The key points are:

Internal Control and Corporate Governance

38. To evaluate the framework of internal control, strategic processes for risk and corporate governance comprising the following components:

- Control Environment.
- Risk Management.
- Information and Communication.
- Control Procedures.
- Monitoring and Corrective Action.
- Audit quality monitoring and arrangements.

39. To review the system of internal financial control, which includes:

- The safeguarding of assets against unauthorised use and disposal.
- The maintenance of proper accounting policies and records and the reliability of financial information used within the organisation or for publication.
- To ensure that Audit Scotland's activities are within the law and regulations governing them.
- To monitor performance and best value by reviewing the economy, efficiency and effectiveness of operations.
- To present an annual statement of assurance to the Board to support the Accountable Officer's governance statement.

Internal Audit

- To review the Terms of Reference and appointment of the internal auditors.
- To review and approve the internal audit strategic and annual plans.
- To monitor audit progress and review audit reports.

- To monitor the management action taken in response to the audit recommendations through an appropriate follow up mechanism.

- To consider internal audit's annual report and assurance statement.

- To review the operational effectiveness of internal audit by considering the audit standards, resources, staffing, technical competency and performance measures.

- To ensure that there is direct contact between the Audit Committee and internal audit and that the opportunity is given for discussions with internal audit who should attend every meeting of the Committee.

External Audit

40. To consider all audit material, in particular:

    - Audit Reports.

    - Annual Reports.

    - Management Letters.

    - Management Reports.

41. To monitor management action taken in response to all external audit recommendations.

42. To hold meetings with the external auditors at least once per year and, as required, without the presence of senior management.

43. To review the extent of co-operation between external and internal audit.

44. The external auditor will be appointed by the Scottish Commission for Public Audit under Section 25 of the 2000 Act. The external auditor will examine and certify the account and report on the account to the Commission. The Commission must lay before the Parliament a copy of the account and the auditor's report and publish the account and that report.

Annual Accounts

45. To review and recommend approval of the Annual Accounts.

Standing Orders, Financial Regulations and Scheme of Delegation

46. To keep under review the Standing Orders, Financial Regulations and Scheme of Delegation and recommend to the Board any amendments.

Other duties

47. The Audit Committee may take on other duties as determined by the Audit Scotland Board.

Appendix 2: Remuneration & Human Resources Committee remit

48. The Remuneration & Human Resources Committee will consist of members of the Board. The Board may appoint persons who are not members of the Board to be members of or advisers to the Remuneration & Human Resources Committee, and may pay them such remuneration and expenses as the Board decided.

49. The purposes are detailed in the Remuneration & Human Resources Committee terms of reference.

Remuneration & Human Resources Committee responsibilities

50. In relation to members of Audit Scotland's Management Team, are to:

- Review and approve all terms & conditions of employment, including job descriptions, all pay and benefit reward elements associated with each post.

- Ensure remuneration policy and strategy is aligned to the relevant public sector policies being implemented by the UK and Scottish Governments.

- Set and review the overall reward structure, including the value of pay ranges and general annual pay award strategy.

- Assure itself that effective arrangements are followed for performance assessments in respect of Audit Scotland's Management Team, including any changes to pay and benefits arising from the assessment of performance during the review period.

- Review talent management and succession planning arrangements.

- Approve remuneration packages for newly appointed members of the Management Team.

- Recommend appointments and changes affecting Management Team to the Board.

- Decide on applications for early retirement.

- Determine compensation payments for loss of office.

- Agree, oversee and review the operation of expenses policy.

- Review the expense claims of the Accountable Officer on an annual basis.

51. In relation to other staff employed by Audit Scotland, are to:

- Determine the remuneration policy governing all terms and conditions of employment, including pay, benefits, retirement policy and other policies relating to compensation for loss of office.

- Ensure remuneration policy and strategy is aligned to the relevant public sector policies being implemented by the UK and Scottish Governments.

- Approve the parameters for the annual pay award cycle.

- Review, not less than annually, the application of remuneration policy.

- Assure itself about any issues relating to the overall performance of employees.

Other duties

52. The Remuneration & Human Resources Committee may take on other duties as determined by the Audit Scotland Board.

Appendix 3: Appeals Committee remit

53. The Appeals Committee will consist of at least two members of the Board.

54. The purpose of the Appeals Committee is:

- To consider and dispose of any matters requiring independent deliberation which may be referred to it by the Board.

- To hear and dispose of appeals by members of the Management Team under the Audit Scotland disciplinary and grievance procedures.

Appendix 4: Co-option procedure

Introduction

55. Audit Scotland's standing orders state that:

- The Board may appoint standing or ad hoc committees consisting of such numbers as the Board may determine. Committees may consist of members and other suitable persons chosen by the Board.

- The Board may appoint advisers and/or co-optees to Committees and pay them such remuneration and expenses as the Board decide. Employees of Audit Scotland, advisers and others may ~~attend~~ be present at items taken in private at meetings of the Board at the invitation of the members.

Reasons for co-option

56. There may be times when specialist expertise is required which the Board may be unable to fulfil, or when the current or future balance of skills available to the Board's committees may need strengthened.

57. The Board should discuss and agree the specification of skills and experience being sought through co-option.

Nominations process

58. If the Board agrees to co-opt to its committees to fulfil requirements identified under 55 above, an advertisement seeking expressions of interest will be place on Audit Scotland's website.

Application process

59. Applicants for co-option should provide a written statement of their relevant skills and a CV.

60. Following a shortlisting process, applicants will be interviewed by the Chair of the Board and the Chair of the relevant committee, plus one other member of the Board.

61. Candidates and interviewers must declare any relationships or potential conflicts of interest to the Chair.

62. The Board should approve the final recommendation from the Chair.

Term of Office

63. Co-option is intended to provide specific skills for a fixed term as determined by the Board.

64. There is potential for renewal, subject to the approval of the Board.

Remuneration

65. Remuneration, where applicable, will be determined by the Board and will be no greater than the rate set by the SCPA for Board members.

Conduct of co-opted members

66. Co-opted members will be required to follow the Audit Scotland Code of Conduct for Board members, and the associated disclosure requirements, and their appointment may be terminated by the Chair, subject to the approval of the Board.

Scheme of Delegation

AUDIT SCOTLAND

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Scheme of Delegation

Introduction

1. The Board remains responsible for the exercise of all the functions of Audit Scotland. Regardless of the provisions of this Scheme of Delegation the Board may at any time determine any matter within the competence of Audit Scotland either at the Board's initiative or on the recommendation of an officer to whom the matter is delegated.

2. This Scheme sets out the matters reserved for determination by the Board. All powers which have not been retained as reserved to the Board or specifically delegated in this Scheme will be exercised by the Management Team or their nominees.

Conditions of delegation

3. The delegations made in this Scheme are subject to the following conditions:

   3.1. All delegated powers will be exercised in accordance with the relevant policies decided by the Board.

   3.2. Before exercising any delegated function all appropriate consultations will be undertaken and, in particular, decisions with financial or personnel consequences will be the subject of consultation with the Chief Operating Officer.

   3.3. Delegated powers will not be exercised in a manner which is likely to be a cause for public concern.

Reservations to the Board

4. The following matters are reserved for determination by the Board:

   4.1. Approval of the Corporate Plan.

   4.2. Approval of annual estimates of expenditure and income.

   4.3. Approvals of strategic policies relating to the governance of Audit Scotland are a matter for the Board. (Approval of operational policies of Audit Scotland are a matter for the Accountable Officer and the Management Team).

   4.4. Approval of Standing Orders, Financial Regulations and Scheme of Delegation.

   4.5. Approval of Annual Accounts and Annual Reports.

   4.6. Approval of internal audit arrangements.

   4.7. Approval of conditions of service affecting all employees.

   4.8. Approval of specific matters referred to in the attached Schedule.

5. In exceptional circumstances where a decision of the Board is required and it is not possible to convene a meeting of the Board, a member of the Management Team in consultation with the Chair, or another Board member if the Chair is unavailable, may take the necessary decision and report the action taken to the next meeting of the Board.

Quorum for Management Team

6. The quorum for the Management Team is three, comprising of the Accountable Officer or the Chief Operating Officer plus two others.

Making, revocation and variation

7. The matters reserved to the Board and delegated to officers of Audit Scotland are as detailed above and as shown in the Schedule.

8. This Scheme of Delegation may be varied or revoked by the Board.

Schedule

	Matter	Reserved or delegated to	Comment
1	**Appointment of employees**		
1.1	Appointment of Management Team	Board	
1.2	Appointment of ~~Assistant~~Associate/Audit Directors	Management Team	
1.3	All other appointments	Management Team, Directors or their nominees	The Accounts Commission Chair/members will select for appointment the Secretary to the Accounts Commission
1.4	Appointment of Controller of Audit	Not applicable	The Board does not have a role here. The Controller of Audit is appointed by the Accounts Commission
2	**Personnel matters**		
2.1	Disciplinary action, including dismissal	Appeals Committee and as per approved disciplinary procedure	See Discipline Policy in staff handbook
2.2	Grading of Management Team posts	Board	See also Job Evaluation procedure in staff handbook
2.3	Grading of ~~Assistant~~Associate/Audit Director posts and all other posts	Management Team	See also Job Evaluation procedure in staff handbook
2.4	Changes to Management Team	Board	
2.5	Changes to approved establishment below Management Team	Management Team	
2.6	Variation of conditions of service for members of the Management	Board	

	Team		
2.7	Variation of conditions of service for ~~Assistant~~Associate/Audit Directors and all other staff	Management Team	All staff have a right of appeal to the Remuneration & Human Resources Committee or the Board following discussion by the Remuneration & Human Resources Committee
2.8	Decisions on applications for early retirement: • Management Team • All other employees	Board Management Team	
3	**Financial matters**		
3.1	Approval of expenditure for which there is no provision in the overall budget.	Board	Financial Regulations 15
3.2	Approval of virement within agreed budget: • Virement between budget groups • Virement between budget heads • Virement between budget lines	Management Team Relevant Directors Budget Holders	Financial Regulations 16
3.3	Virement of salary budget over £250,000, cumulatively in one year	Board	Financial Regulations 16
3.4	Approval of Accounting Policies	Board	Financial Regulation 22
3.5	Approval for the issue of credit cards to members of staff and credit limit to be applied. (To be reported at next Management Team meeting) Credit Card default limits: • Management Team £1,500	Accountable Officer and Chief Operating Officer	Financial Regulation 30 – 31 See also Credit Card Procedures. Default amounts may be varied by Management Team for individuals on either a permanent or

	• Other staff £1,000		temporary basis.
3.6	Acceptance of tenders and placing of orders: • Above £250,000 • Between £100,000 and £250,000 • Up to £100,000 • Below £50,000	Board Accountable Officer and Chief Operating Officer Management Team Budget Holders	Financial Regulations 46 See also the Procurement Handbook
3.7	Acceptance of offers for disposal of assets	As for acceptance of tenders and placing of orders	
3.8	Approval of expenditure within agreed budget: • Any budget group • Specific budget group • Specific cost centre budget	Management Team Relevant Director Budget Holder	Financial Regulations 52
3.9	Payment of accounts other than to approved auditors: • Above £50,000 • Below £50,000	Management Team Member of Management Team or as delegated	Financial Regulations 51 – 58 Delegated signatories are approved by Management Team and are responsible for the expenditure approved. As evidence a delegated purchasing authority letter will be issued. Those with delegated authority may request authority to be passed to members of their staff, but the limit of authority granted must be notified to Management Team and Finance who will maintain a list of those approved.
3.10	Payment of accounts for orders placed using electronic purchase	Member of Management Team or as delegated	Electronic purchase orders are sent, via email, to be

	orders.		authorised. The process requires the authoriser to be selected from a list, maintained within the finance system, of signatories delegated to sign for the cost centre and for the value of goods or services being ordered. The signatories are the same as those delegated in the previous section.
3.11	Parameters for automatic payment of electronic purchase orders.	Management Team	Financial Regulations 58 Where an invoice is received as the result of an order placed using the electronic purchase order system it can be processed by Finance for payment if: • The order has been marked as received in the electronic purchase order system, • The value shown on the invoice is within the parameters of +5% or -10% of the value authorised for that order. Any invoice where the value is outwith these parameters must be sent for an additional, manual, authorisation before payment can be made.
3.12	Certification of accounts for payment to approved auditors: • Interim invoices up to £50,000 and final invoices up to £10,000 • Interim invoices over £50,000	A member of the ~~Appointments and Assurance~~<u>Audit Quality and Appointments</u> team ~~Assistant~~ <u>Associate</u>	Financial Regulations 59

	and final invoices over £10,000	Director, ~~Appointments and Assurance~~<u>Audit Quality and Appointments</u> or member of Management Team	
3.13	Miscellaneous expenditure (including travel & subsistence)	The Chief Operating Officer, Secretary to the Accounts Commission, senior managers & other line managers as appropriate. (Details available in Finance)	Financial Regulations 76 - 78 Delegation requires appropriate Director approval and notification to Finance. The initial delegation is £2,000. Variations from this amount may be agreed by the Budget Holder and notified to the Management Team and Finance who will maintain a list of those approved.

Budget Holders comprise: Management Team members, and Corporate Services managers.

Note: Management Team is defined in section 8 of the Financial Regulations as follows "the Management Team consists of the Auditor General, the Chief Operating Officer<u>, the Director of Audit Services and the Director of Performance Audit and Best Value</u> ~~and the Audit Scotland Directors~~, or such other combination of officers as may be determined from time to time by the Board". Decisions can only be made by Management Team when they are quorate as defined in section 6 of this document as follows "The quorum for the Management Team is three, comprising of the Accountable Officer or the Chief Operating Officer plus two others".

Financial Regulations

AUDIT SCOTLAND

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Financial regulations

Introduction

1. Audit Scotland is a body corporate established under section 10 of the Public Finance and Accountability (Scotland) Act 2000. It came into existence on 1 April 2000 under the Public Finance and Accountability (Scotland) Act 2000 (Commencement) Order 2000 (SSI 2000 Number 10(c.1)).

2. The Board of Audit Scotland consists of the Auditor General, the Chair of the Accounts Commission and three other members appointed by the Scottish Commission for Public Audit, one of which will be appointed as Chair.

3. Audit Scotland's function is to provide such assistance and support as the Auditor General and the Accounts Commission require in the exercise of their respective functions and, in particular, is to provide them, or ensure that they are provided, with the property, staff and services which they require for the exercise of those functions.

4. Audit Scotland may impose reasonable charges in respect of the exercise of its functions. In determining the amounts of the charges Audit Scotland must seek to ensure that the total sum received in respect of the charges is, taking one year with another, broadly equivalent to its expenditure. Any expenditure not met out of sums received is payable out of the Consolidated Fund.

5. The Scottish Commission for Public Audit (SCPA), established under section 12 of the Public Finance and Accountability (Scotland) Act 2000, has the duty to designate an accountable officer for Audit Scotland. The SCPA has designated the Auditor General as the Accountable Officer. The responsibilities of the Accountable Officer are set out in section 18 of the 2000 Act. They are:

    5.1. signing the accounts of the expenditure and receipts of Audit Scotland;

    5.2. ensuring the propriety and regularity of the finances of Audit Scotland; and

    5.3. ensuring that the resources of Audit Scotland are used economically, efficiently and effectively.

6. All members of the Board and all employees, shall conduct their business with diligence and with a view to the security of the property of Audit Scotland, avoiding loss, exercising economy and efficiency in the use of resources and conforming with the requirements of Standing Orders, Financial Regulations and the Scheme of Delegation.

7. The Board has made Standing Orders, these Regulations and a Scheme of Delegation to govern the operation of Audit Scotland. They should be read together.

Definitions and interpretation

8. In these Regulations terms will have the following meanings:

8.1. "the 2000 Act" means the Public Finance and Accountability (Scotland) Act 2000

8.2. "the 1973 Act" means the Local Government (Scotland) Act 1973

8.3. "the Board" means the members of Audit Scotland acting together to discharge the functions of Audit Scotland

8.4. "the Management Team" consists of the Auditor General, the Chief Operating Officer, the Director of Audit Service and the Director of Performance Audit And Best Value and the Audit Scotland Directors, or such other combination of officers as may be determined from time to time by the Board.

Corporate Plan

9. A Corporate Plan will be prepared and will be reviewed annually by the Board. It will set out the strategic approach to be adopted by Audit Scotland in performing its functions. So far as possible, it will outline the financial consequences of proposals contained in it.

10. The Corporate Plan will be approved by the Board.

Budget

11. The financial year of Audit Scotland is 1 April to 31 March.

12. Proposals for the use of resources and expenditure for each financial year will be submitted to the SCPA at such times as the Commission requires to enable it to examine the proposals and report to the Parliament under section 11(9) of the 2000 Act.

13. Estimates of expenditure and income will be submitted as budget proposals to the Board for approval prior to the submission to the SCPA. Provided the SCPA report has been submitted to and approved by Parliament, a final version of the budget will be submitted to the Board not later than 31 March in the year preceding the financial year to which it relates.

14. In the event that Parliament has not approved the budget, a version of the budget that includes our best estimate of operational changes will be submitted to the Board by 31 March. A final version to be submitted when the Scottish Government budget is passed.

15. No expenditure will be incurred unless there is provision for the expenditure within the overall budget approved by the Board. Approval of expenditure where there is no provision within the overall budget will be made by the Board. (Scheme of delegation 3.1)

16. There may be virement within the budget, in accordance with the Scheme of Delegation. (Scheme of delegation 3.2 and 3.3)

Budgetary control and reporting

17. Financial performance will be monitored against budget and reported regularly to the Management Team and at least quarterly to the Board.

18. Systems of budgetary control will be devised and maintained to include:

18.1. Regular financial reports as prescribed above containing -

    18.1.1. income and expenditure to date and, when relevant, forecast year end position

    18.1.2. explanations of any material variations

    18.1.3. details of any corrective action necessary

    18.1.4. virement

18.2. The issue of timely, accurate and comprehensible advice on financial reports to each budget holder covering the areas for which they are responsible

18.3. Arrangements for the authorisation of virement.

19. Each budget holder will be responsible for the management of their budgets within the approved policies of the Board.

Accounting

20. An effective system of internal financial control will be maintained including detailed financial procedures and systems incorporating the principles of separation of duties and internal checks. These will be documented and maintained.

21. Proper records will be maintained to show and explain Audit Scotland's transactions in order to disclose, with reasonable accuracy, the financial position of Audit Scotland at any time.

22. Accounting policies will be set consistent with appropriate guidance and all accounting procedures and records will be consistent with any form of accounts prescribed. Accounting policies will be approved by the Board. (Scheme of delegation 3.4)

23. Annual Accounts will be prepared and submitted to the Board for approval no later than 31 August in respect of the financial year finishing on the 31 March.

Bank accounts

24. HM Treasury require public bodies to operate a bank account through the Government Banking Service (GBS), to allow the transfer of monies from central accounts to public bodies and vice-versa.

25. Apart from the requirement to use a bank specified by the GBS for the transfer of central funds, Audit Scotland will, for day to day banking and transactions, make arrangements for the appointment of bankers in accordance with the provisions for the letting of contracts set out in these Regulations.

26. No Audit Scotland monies will be held in any bank accounts outwith those approved by the Board.

27. Detailed arrangements and instructions on the operation of bank accounts will be prepared and maintained as Treasury Management Procedures by the finance department, and will include:

27.1. The conditions under which each bank account is to be operated.

27.2. The limit to be applied to any overdraft.

27.3. Those authorised to sign cheques or other orders drawn on Audit Scotland's bank accounts, and the limits of their authority in accordance with the Scheme of Delegation.

28. Banking arrangements will be reviewed at regular intervals to ensure that they reflect best practice and represent best value for money.

29. Controlled stationery (e.g. cheques) will be held securely at all times and proper records will be maintained in relation to such stationery.

Credit Cards

30. Credit cards will be offered to members of the Management Team automatically. Credit cards will also be offered to other members of staff, with the specific approval of the Accountable Officer and the Chief Operating Officer, where there is an on-going requirement for credit card use.

31. The default credit limit for all cards will be set in the Scheme of Delegation and variations for individual cards will be approved by the Management Team. (Scheme of delegation 3.5)

Income

32. Systems will be designed and maintained for the proper recording, invoicing, collection and coding of all monies due to Audit Scotland.

33. All monies received will be banked promptly.

34. Arrangements will be made for appropriate recovery action on all outstanding debts.

35. Fees and charges, including fees to audited bodies, will be determined in accordance with policies decided by the Board.

Investments and borrowings

36. No borrowing or investments will be made without the expressed agreement of the Board. In exceptional circumstances the Accountable Officer may consult with the Chair of the Board and agree a short term borrowing strategy, but this must be reported to, and ratified by the full Board at the earliest opportunity.

37. All short term borrowings will be kept to the minimum period of time possible, consistent with the overall cash flow position.

38. Any long term borrowing must be consistent with policies decided by the Board.

39. Detailed procedural instructions will be prepared on the operation of investment accounts and regular reports will be made to the Board on the performance of any investments held.

Insurance

40. Arrangements will be made to ensure that all insurance cover is effected, periodically reviewed and adjusted as necessary.

41. Insurance arrangements will be reviewed regularly and the market will be competitively tested and costs will be sought for insurance services in accordance with the provisions set out in these Regulations at least every three years.

Tendering procedures

42. Tendering procedures are contained in the Procurement Handbook, which is published on the intranet. This document provides information on the procedures to be adopted by Audit Scotland staff when purchasing any goods and services and the need to follow value for money principles when carrying out this activity.

43. No contract for the supply of goods and materials, the provision of services or for the execution of works will be made where the probable cost, over the contract period, exceeds £50,000 unless tenders have been invited by advertisement on Public Contracts Scotland, the Scottish Government procurement system.

44. In exceptional circumstances the Chair of the Board, on a report by the Accountable Officer, may except a contract from the above provisions and direct adoption of such other procedure for the letting of the contract as seems appropriate. The decision will be notified to the full Board at the earliest opportunity.

45. Standing contracts for the provision of goods, materials, services or works will be kept under review and competitive tenders for such standing contracts will be sought at least every three years, or later if the contract has been extended under the terms of the original contract. No extension will be greater than three additional years before retendering.

46. The overall value of the tender will determine who is required to approve the acceptance of the tender and place the order for the goods, materials or service. The Scheme of Delegation will list those authorised to accept and place orders. (Scheme of delegation 3.6)

47. All orders will be printed on Audit Scotland headed stationery unless generated through the electronic ordering system. Orders on headed stationery will be signed by the member of staff authorised under the Scheme of Delegation to do so. Where the order has been generated electronically it will be sent for authorisation in accordance with the procedure contained within the Scheme of Delegation (Scheme of Delegation 3.10). All orders must be made in accordance with the procedures and controls and within the terms of the Scheme of Delegation.

48. Official orders will be issued for all work, goods or services to be supplied to Audit Scotland except for supplies of public utility services or periodical payments such as rent or rates or such other exceptions as may be approved by the Management Team.

49. Directives by the Council of the European Union prescribing procedures for awarding forms of contracts shall have effect as if incorporated in these Regulations and Audit Scotland's Procurement Handbook should be followed as appropriate.

50. The appointment of auditors under section 97(6) of the 1973 Act and section 21(3) of the 2000 Act will be recommended to the Accounts Commission and the Auditor General respectively at such intervals as they require. With the exception of the interval between awards (see paras 42-44), the procedure relating to these contracts should follow the procedure set out in these Regulations.

Payment of accounts

51. Before an invoice is paid the certifying officers will satisfy themselves that the account has not been previously passed for payment and is a proper liability of Audit Scotland and that:

    51.1. The works, goods or services to which the account relates have been received or carried out satisfactorily.

    51.2. Prices, extensions, calculations, trade discounts, other allowances, credits and tax are correct.

    51.3. The expenditure has been authorised and is within the relevant estimate provisions.

52. All duly certified invoices shall be authorised for payment by the officer authorised under the Scheme of Delegation. (Scheme of delegation 3.8)

53. An officer shall not add any additional items to an invoice rendered to Audit Scotland by a supplier.

54. When an order has been placed using the electronic purchase ordering (EPO) system, this process incorporates authorisation of the payment prior to an order being placed. In these circumstances the authoriser will be advised of the cost of the goods or services, or an estimate if a firm cost is not available, at the time they receive the EPO. Authorisers are required to satisfy themselves that the cost displayed is reasonable and represents value for money, before they electronically sign the order. Once an EPO is signed the system will not allow any changes to the order by the authoriser or the originator.

55. The EPO system maintains a list of staff with delegated authority to authorise expenditure, as per para. 51 above.

56. When the goods or services have been received the originator records the receipt through the EPO system.

57. On receipt of the invoice, Finance will check whether the goods or services have been marked as received. The invoiced amount charged will be checked against the EPO submitted and, if the amount is within the parameters agreed by the Management Team, the invoice will be accepted and paid. (Scheme of delegation 3.10)

58. Management Team will set agreed parameters and if the value of the invoice is outwith the agreed parameters it will be sent back to the authoriser for an additional manual authorisation. The invoice will not be paid until the second authorisation has been received. (Scheme of delegation 3.11)

59. The receipt, certification and payment of accounts to approved auditors are subject to separate arrangements under the Scheme of Delegation. (Scheme of delegation 3.12)

Audit

60. The Board will establish an Audit Committee with clearly defined terms of reference under Standing Orders.

61. The external auditor is appointed by the SCPA to report on whether expenditure and income have been applied lawfully and the accounts comply with the accounts direction. The external auditor will report to the SCPA who must lay the report and accounts before Parliament and publish them.

62. The internal auditor is appointed by Audit Scotland and reports to the Management Team and the Audit Committee on systems of internal control.

63. The external and internal auditor are entitled to:

    63.1. enter any Audit Scotland establishment at all reasonable times with or without previous notice;

    63.2. have access to all records, documents and correspondence (including computer records) relating to financial and other transactions of Audit Scotland;

    63.3. require and receive explanations as are necessary concerning any matter under examination;

    63.4. require any employee of Audit Scotland to produce cash, equipment or any other property under his/her control; and

    63.5. direct access to the Chair of the Audit Committee.

Security and Fraud Prevention

64. Arrangements will be made to develop and document effective policies on:

    64.1. Prevention of fraud and irregularity.

    64.2. IT security.

    64.3. Security of assets.

65. Proper security must be maintained, at all times, for all buildings, stores, furniture, equipment, cash, information, etc.

66. A register of secure key containers will be maintained by Business Support and kept under review by the Chief Operating Officer. Keys removed from the secure key containers will be signed for and are to be kept safe at all times until returned. The loss of any such keys must be reported immediately to Business Support staff.

67. A register of staff ID (office access) badges and building access fobs will be maintained by Business Support. The loss of ID badges will be reported immediately to Business Support and the Corporate Governance Manager. The ID badges will be deactivated immediately.

68. The Chief Operating Officer is responsible for maintaining proper security and privacy relative to information held in the computer installations.

69. Under the terms of the Counter Fraud Policy, employees are required to notify their Business Group Director or ~~Assistant~~Associate/Audit Director of any financial irregularity or suspected irregularity. Such concerns may be raised under the terms of the Whistleblowing Policy if considered appropriate. The employee, or senior management to whom the concerns are reported, must also advise the Chief Operating Officer. Details of these policies are to be available to all staff through the staff handbook.

Salaries, wages and pensions

70. Arrangements will be made for the payment of all salaries, wages, pensions, compensation and other emoluments due to all employees or former employees of Audit Scotland or the Accounts Commission, the Auditor General for Scotland, appropriate members of the Board and to members of the Accounts Commission.

71. Salaries and other payments will normally be paid by direct transfer to a nominated bank account.

72. A record of all matters affecting the payment of such emoluments shall be kept and in particular the following information will be recorded:

    72.1. appointments, resignations, dismissals, suspensions, secondments and transfers;

    72.2. absences from duty for sickness or other reason, including approved leave;

    72.3. changes in remuneration, including those arising from normal increments and pay awards and agreements of special and general application;

    72.4. information necessary to maintain records of service for superannuation, income tax, national insurance and the like;

    72.5. particulars of any deduction from salary for loans, subscriptions and the like, and the authority for such deduction.

73. All deductions and changes in gross pay entitlement will be certified by Human Resources or other appropriate person and checked by a second officer prior to payment.

74. Pension payments are paid to former staff through the appropriate pension agency. Audit Scotland's role is to make the required deductions from salary and to provide the information

which is required from time to time by the pension supplier to allow them to maintain their records, provide information about pensions and make payments.

75. There are special arrangements in place relating to pensions for former Ombudsman staff and the former Auditor General for Scotland, which are separate from the arrangements for Audit Scotland.

Travelling, subsistence, expenses and other allowances

76. The Secretary to the Accounts Commission shall review, authorise and ensure all travelling or other allowances are paid to Commission Members and advisers who are entitled to claim them upon receipt of a fully completed expense claim form.

77. The Chief Operating Officer shall review, authorise and ensure all travelling or other allowances are paid to Board members and advisers who are entitled to claim them upon receipt of a fully completed expense claim form.

78. All claims by staff for payment of car mileage allowances, subsistence allowances, travelling and incidental expenses and any advances shall be submitted duly certified and made up to the end of each month and in accordance with the current travel and subsistence policy, published in the staff handbook, and the expenses procedures published on the intranet. The officers authorised to certify such records shall be determined by the Scheme of Delegation. Initial delegation is £2,000. (Scheme of delegation 3.13)

Observance of Financial Regulations

79. It shall be the duty of the Accountable Officer to ensure that these regulations are made known to the appropriate Audit Scotland staff and to ensure that they are adhered to.

80. Any breach or non-compliance with these Regulations must, on discovery, be reported immediately to the Chief Operating Officer who will discuss the matter with the Accountable Officer in order to determine the proper action to be taken. Such concerns may be raised under the terms of the Whistleblowing Policy if considered appropriate.

Variation of Financial Regulations

81. These Regulations may be varied from time to time by the Board on receipt of a report and recommendations from the Accountable Officer.

82. The Chair of the Board may authorise, on a report from the Accountable Officer, exceptional treatment of a matter covered by these Regulations. Any such exceptions will be reported in writing to the next available meeting of the Board.