



**Papers and minutes of the
Audit Scotland Board**

2016

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

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

APOLOGIES: None

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

<u>Item No</u>	<u>Subject</u>
1.	Apologies
2.	Declarations of Interest
3.	Chair's Report
4.	Accountable Officer's Report
5.	Accounts Commission Chair's Report
6.	Minutes of the meeting dated 3 December 2015
7.	Review of the Actions Tracker
8.	SCPA Report on Audit Scotland's 2016/17 Budget
9.	Q3 Financial Performance Report
10.	Q3 Corporate Performance Report
11.	Q3 Becoming World Class Improvement Programme Report
12.	Securing World Class Audit (a) Audit Procurement Update (b) Funding and Fees – 2016 Issues and Work Plan (c) Public Sector Risk Monitoring
13.	Openness and Transparency of Board Business
14.	AOB
15.	Date of next meeting

1. **Apologies**

There were no apologies.

2. **Declarations of Interest**

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

3. **Chair's Report**

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

4. **Accountable Officer's Report**

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

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

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

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

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

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

6. Minutes of the meeting dated 3 December 2015

The Board considered the note of the meeting of Board members on 3 December 2015, which had been previously circulated. The Board members who had been present confirmed the note as an accurate record of their meeting. The Board noted, as they had at the time, that the meeting on 3 December 2015 had been inquorate, but having considered the note adopted and ratified it.

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

7. Review of the Actions Tracker

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

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

Action:

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

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

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

9. Q3 Financial Performance Report

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

10. Q3 Corporate Performance Report

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

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

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

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

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

Action:

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

11. Q3 Becoming World Class Improvement Programme Report

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

Martin invited members to consider the progress reported on the programme and welcomed any comments on proposed actions. He advised that it was a comprehensive programme of performance improvement and that in the past quarter a number of significant milestones had been reached.

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

12. Securing World Class Audit

(a) Audit Procurement Update

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

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

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

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

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

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

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

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

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

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

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

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

Following discussion, the Board:

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

Action:

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

(c) Public Sector Risk Monitoring

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

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

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

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

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

13. Openness and Transparency of Board Business

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

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

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

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

Actions:

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

14. AOB

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

15. Date of Next Meeting

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

Minutes of Meeting of **Audit Scotland** held on 24
March 2016 in the offices of Audit Scotland at
102 West Port, Edinburgh

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

APOLOGIES: None

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

<u>Item No</u>	<u>Subject</u>
1.	Apologies
2.	Declarations of Interest
3.	Chair's Report
4.	Accountable Officer's Report
5.	Accounts Commission Chair's Report
6.	Minutes of the meeting dated 26 February 2016
7.	Minutes of the Audit Committee meeting dated 3 December 2015
8.	Minutes of the Remuneration and Human Resources Committee meeting dated 29 October 2015
9.	Review of the Actions Tracker
10.	Audit Scotland Budget 2016/17
11.	Audit Scotland Annual Report and Accounts
12.	Securing World Class Audit (a) Funding and Fees – Fee Setting Policies (b) New Financial Powers Update
13.	Openness and Transparency: Publication of Board Papers
14.	Evaluation of Board Effectiveness
15.	Discussion on Standing Orders
16.	AOB
17.	Date of next meeting

1. Apologies

There were no apologies.

2. Declarations of Interest

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

3. Chair's Report

Ian Leitch advised that he had held regular meetings with Diane McGiffen, Chief Operating Officer, and Martin Walker, Assistant Director Corporate Performance and Risk, to discuss Board matters and discussions with Russell Frith on the progress of work on fees and funding. The Chair congratulated Caroline Gardner on her election as a Fellow to the Royal Society of Edinburgh.

4. Accountable Officer's Report

Caroline Gardner provided an update on her activity since the previous board meeting, including the conclusion of work in advance of the dissolution of the fourth session of the Scottish Parliament. She advised of evidence sessions with the Public Audit Committee on the Community Planning: an update report and on the Changing Models of Health and Social Care report, and the recent publication of Section 22 reports on Further Education colleges. Caroline reported on the work now beginning to prepare for the next session of the Scottish Parliament, and on recent discussions with Scottish Parliament officials on Audit Scotland's role in supporting the orientation process for new MSPs. Caroline also advised that the moratorium on publications for both the Scottish parliamentary elections and the European Union referendum had a significant impact on what was possible before the end of June, but that the report on Common Agriculture Policy Futures Programme: an Update report would be published on 16 May 2016.

5. Accounts Commission Chair's Report

Douglas Sinclair provided an update on the work of the Accounts Commission since the previous meeting of the Board. He advised that the Commission's annual Local Government Overview report had been published and received considerable coverage in the media, and on the outcome of the recent Accounts Commission Strategy Seminar and the discussions held.

6. Minutes of the meeting dated 26 February 2016

The Board considered the note of the meeting of Board members on 26 February 2016, which had been previously circulated. The Board members confirmed the note was an accurate record of the meeting.

The Chair advised that, as previously raised, a discussion on the question of the quorum would be considered in conjunction with item 15.

7. Minutes of the Audit Committee meeting dated 3 December 2015

The Board considered the note of the meeting of the Audit Committee 3 December 2015.

8. Minutes of the Remuneration and Human Resources meeting dated 29 October 2015

The Board considered the note of the Remuneration and Human Resources meeting of 29 October 2015, which had been previously circulated.

9. Review of the Actions Tracker

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

The Chair advised that a discussion on the question of the quorum would be considered in conjunction with item 15.

It was agreed that action was concluded on item 6 on Ethical Standards.

10. Audit Scotland Budget 2016/17

David Hanlon, Corporate Finance Manager, joined the meeting.

David Hanlon, Corporate Finance Manager, introduced the Audit Scotland Budget 2016/17 report, which had been previously circulated.

David invited members to consider and approve the proposed budget for 2016/16 which was based on that approved by the Scottish Commission for Public Audit (SCPA) on 29 January 2016 and included in the 2016/17 Scottish Budget Bill which was approved by Parliament on 24 February 2016.

Members noted the proposed budget and discussed the proposed increase in service charges, the terms of the lease at West Port and the action taken to negotiate a more favourable position with the landlords. Members also discussed the outline plans for modest investment in the Glasgow office to make better use of the available space and to consider the incorporation of a shower to support more active colleagues who cycle and exercise.

Following discussion, members approved the budget.

David Hanlon, Corporate Finance Manager, left the meeting.

11. Audit Scotland Annual Report and Accounts

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

James Gillies introduced the Audit Scotland Annual Report and Accounts report, a copy of which had been previously circulated. Bruce Stoddart provided a demonstration of the Audit Scotland Annual Report and Accounts which provided an outline of the format and proposed content, following which members were invited to comment.

Members welcomed the opportunity to comment on the proposed outline, provided feedback on the proposed design and noted that a final version would be presented to their meeting in June 2016.

Action:

- **The Communications Manager will report on Audit Scotland Annual Report and Accounts. (June 2016)**

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

12. Securing World Class Audit

(a) Funding and Fees – Fee Setting Policies

Russell Frith, Assistant Auditor General, introduced the report on Funding and Fees – Fee Setting Policies, a copy of which had been previously circulated.

Russell invited members to consider the detailed policies to be adopted for the setting of fees from 2016/17 and agree the basis for apportionment of costs in setting fees.

Member considered the proposals and requested further detail on the proposed approach to consultation on fees with clients and stakeholders.

Following discussion, members agreed the basis for the apportionment of costs in setting fees, subject to reviewing the outcomes of the proposals in practice. The Board also noted the work underway to confirm the impact on fees of the proposed policies, the discounts offered by firms and the review of auditor remuneration at individual body level and that a report on the overall likely impact will be brought to the Board at its meeting in May together with a draft consultation paper.

Action:

- **The Assistant Auditor General will report on the impact of the proposed policies and bring a draft consultation paper to the next meeting of the Board. (May 2016)**

(b) New Financial Powers Update

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

Mark Taylor, Assistant Director, Audit Services Group, introduced the New Financial Powers Update report, which had been previously circulated.

Mark invited members to note the key developments surrounding further financial devolution, including Audit Scotland's organisational arrangements in this area. There was considerable discussion of the impact of the new financial powers and the risks and opportunities that they present to the Scottish Government, the Scottish Parliament and to audit work.

Members welcomed the update and discussed their role in overseeing how Audit Scotland is able to respond to the new financial powers, noting the proposal for the team to bring six monthly briefings to the Board, and further briefings where necessary. The Chair thanked Mark for his comprehensive update.

Action:

- **The Assistant Director, Audit Services Group, will provide an update on the New Financial Powers. (September 2016)**

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

13. Openness and Transparency: Publication of Board Papers

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the report on Openness and Transparency: Publication of Board Papers, a copy of which had been previously circulated. Martin invited members to consider and agree the categories and criteria to inform the decision on public/private papers and the supporting guidance and administrative arrangements to achieve increased openness and transparency around the conduct of Board business.

During detailed discussion, members considered the proposed criteria and process to determine public and private papers, the process of publication and the supporting administrative arrangements.

Members welcomed the report and agreed to implement the new arrangements with effect from the papers for the May 2016 meeting. Members also agreed that the effectiveness of the arrangements should be reviewed after six months.

Actions:

- **The Assistant Director, Corporate Performance and Risk to issue the operational guidance for the publication of Board papers prior to the next meeting of the Board. (April 2016)**
- **The Chief Operating Officer to schedule a future agenda item to review the arrangements. (December 2016)**

14. Evaluation of Board Effectiveness

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the report on Evaluation of Board Business, which had been previously circulated. The Chief Operating Officer advised the Board that the questionnaire should be considered in the context of setting up a facilitated session for the Board to consider how it works and its priorities, and that, with the agreement of the Board a date would be set for late May or June 2016. Members agreed that such a session would be useful, and that the questionnaire could help to inform the focus for that event.

There was discussion on the existing review arrangements in place to assess the performance of Board members and the Chair of the Board.

Members considered the proposed process, timeline and agreed the self evaluation process for 2015/16. Members noted that the self evaluation questionnaire could be further refined to better reflect the operating environment and role of the Audit Scotland Board.

Actions:

- **The Chief Operating Officer to identify potential dates and develop options for the facilitated session. (May 2016)**
- **The Assistant Director, Corporate Performance and Risk to refine the self evaluation questionnaire. (May 2016)**

15. Discussion on Standing Orders

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the report on Discussion on Standing Orders, a copy of which had been previously circulated. Martin invited members to discuss the options for changes to Standing Orders in light of recent discussions and reports.

The Chair advised that he wished to undertake further discussion with the Auditor General for Scotland and the Chair of the Accounts Commission for Scotland on the quorum arrangements for meetings and that the item therefore be deferred.

- **The Chief Operating Officer to schedule a future agenda item following the further discussions noted above. (May 2016)**

16. AOB

a) The Board noted the publication of the Public Audit Committee legacy paper which contains several references to Audit Scotland.

- **The Chief Operating Officer to circulate a copy of the PAC legacy paper to Board members. (April 2016)**

b) The Chief Operating Officer provided an update on the arrangements for the opening of the West Port office after the meeting of the Board.

17. Date of Next Meeting

It was noted that the next Audit Scotland Board meeting had been scheduled for **3 May 2016** in the offices of Audit Scotland, 102 West Port, Edinburgh. Russel Griggs advised that he would be able to attend meetings in the morning of 3 May, but would have to leave at lunchtime.

AUDIT SCOTLAND BOARD ON 3 MAY 2016 AT THE CONCLUSION OF THE AUDIT COMMITTEE MEETINGS AND HELD IN THE OFFICES OF AUDIT SCOTLAND, 102 WEST PORT, EDINBURGH

A G E N D A

1.	Apologies
2.	Declarations of interest
3.	Chair's Report – Verbal update
4.	Accountable Officer's Report – Verbal update
5.	Accounts Commission Chair's Report – Verbal update
6.	Minutes of the meeting dated 24 March 2016
7.	Minutes of the Audit Committee meeting dated 26 February 2016
8.	Minutes of the Remuneration and Human Resources Committee meeting dated 26 February 2016
9.	Review of the Actions Tracker
10.	2015/16 Annual Report on Freedom of Information and Environmental Information – Report by the Corporate Governance Manager
11.	2015/16 Annual Report on Complaints Handling – Report by the Corporate Governance Manager
12.	Securing World Class Audit: Review of Funding and Fees – Progress and Issues Arising – Report by the Assistant Auditor General
13.	Corporate Plan Update 2016/17 - Report by Assistant Director, Corporate Performance and Risk
14.	Review of Risk Management Framework - Report by Assistant Director, Corporate Performance and Risk
15.	Draft Information Security Management Policy – Report by Assistant Director, Corporate Performance and Risk
16.	Publication of Board Papers – Report by the Assistant Director, Corporate Performance and Risk
17.	AOB
18.	<p>Date of next meeting</p> <ul style="list-style-type: none"> • 2 June 2016 at the conclusion of the meeting of the Remuneration and Human Resources Committee in the offices of Audit Scotland, 102 West Port, Edinburgh. <p><i>Please submit your apologies to Joy Webber</i></p>

Minutes of Meeting of **Audit Scotland** held on 3
May 2016 in the offices of Audit Scotland at 102
West Port, Edinburgh

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

APOLOGIES: None

IN ATTENDANCE: D McGiffen, Chief Operating Officer
R Frith, Assistant Auditor General
M Walker, Assistant Director, Corporate Performance and Risk
A Devlin, Corporate Governance Manager

<u>Item No</u>	<u>Subject</u>
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9.	Review of the Actions Tracker
10.	2015/16 Annual Report on Freedom of Information and Environmental Information
11.	2015/16 Annual Report on Complaints Handling
12.	Securing World Class Audit: Funding and Fees – Draft Consultation
13.	Corporate Plan Update 2016/17
14.	Review of Risk Management Framework
15.	Draft Information Security Management Policy
16.	Publication of Board Papers
17.	AOB
18.	Date of next meeting

1. Apologies

There were no apologies.

2. Declarations of Interest

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

3. Chair's Report

Ian Leitch advised that, since the previous meeting of the Board, he had held regular meetings with Caroline Gardner, Auditor General for Scotland and Diane McGiffen, Chief Operating Officer, to discuss Board matters and had met with Russell Frith, Assistant Auditor General, to discuss the progress of work on fees and funding.

The Chair advised that planning was underway for the Board development event. Following a brief discussion about dates it was agreed that the Chief Operating Officer would liaise with Board members to secure a date in August. The Chair suggested that discussion of the SCPA legacy paper, which had been circulated, should be scheduled for that event.

The Chair further advised that, following discussions with Caroline Gardner, Auditor General and Douglas Sinclair, Chair of the Accounts Commission about the quorum requirements in the Board's Standing Orders, he proposed that the Standing Orders would remain in the meantime, as currently drafted. However, while recognising the rationale for the existing quorum arrangements, the Chair pointed out that, in the event of the absence by either the Auditor General or the Chair of the Accounts Commission, the Audit Scotland Board could not competently meet and no business could be undertaken. Therefore, the Chair requested that there be further discussion on possible options to handle such circumstances at the development event.

Action:

- **The date for the Board development event to be finalised and the Chief Operating Officer would schedule the SCPA legacy paper for discussion together with quorum options at the event. (May – August 2016)**

4. Accountable Officer's Report

Caroline Gardner provided an update on her activity since the previous board meeting, including ongoing development of ways to support the new Parliament, including members' orientation and continuing development.

Caroline advised of the forthcoming publication of a report on 'Common Agricultural Policy Futures programme, An update' on 19 May 2016, in the period between the Holyrood election publication embargo and the European Referendum publication embargo.

Caroline also provided an update on key internal business issues, including the ballot in favour of the pay offer that had been made to the Principal and Civil Service Union at Audit Scotland, who had balloted their members at Audit Scotland on the pay offer for 2016 and had recommended acceptance of the offer. Caroline also advised that a post project review was underway about the West Port office relocation, as was work to secure new accommodation in Inverness and potential work on the Glasgow office. Finally, she

advised that a full programme of internal and external audit work was ongoing to support the presentation of the final accounts to the next Audit Committee and Board meetings.

Douglas Sinclair commented that he had been impressed by the new secondees that he and the Accounts Commission had met at their most recent meeting. Diane McGiffen advised that there had been a recent welcome increase in the number of secondment opportunities and that currently there were four secondees, one each from the Scottish Parliament, UK Statistics Authority, West Lothian Council and Scotland's Rural College.

5. Accounts Commission Chair's Report

Douglas Sinclair provided an update on the work of the Accounts Commission since the previous meeting of the Board. He advised that there had been recent consideration of the best value follow up work on Edinburgh City Council, which had included the transformation plan for the council and its approach to decentralisation.

Douglas advised that the Accounts Commission was paying close attention to discussions about the future shape of local government and health services that were forming part of the election campaign.

6. Minutes of the meeting dated 24 March 2016

The Board considered the note of the meeting of Board members on 24 March 2016, which had been previously circulated. The Board members confirmed the note was an accurate record of the meeting.

7. Minutes of the Audit Committee meeting dated 26 February 2016

The Board considered the note of the meeting of the Audit Committee 26 February 2016, and adopted the minute subject to the minor changes made at the earlier Audit Committee meeting.

8. Minutes of the Remuneration and Human Resources meeting dated 26 February 2016

The Board considered the note of the Remuneration and Human Resources meeting of 26 February 2016, which had been previously circulated. The Board noted that the minutes of the meeting on 24 March 2016 were still to be circulated.

9. Review of the Actions Tracker

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

Diane McGiffen advised that, in line with the changes agreed for the Audit Committee action tracker, unique identifiers would be added to each item.

10. 2015/16 Annual Report on Freedom of Information and Environmental Information

Alex Devlin, Corporate Governance Manager, joined the meeting.

Alex Devlin, Corporate Governance Manager, introduced the 2015/16 Annual Report on Freedom of Information and Environmental Information report, which had been previously circulated.

Alex invited members to consider the assurance provided on our Freedom of Information (FOI) and Environmental Information Regulations (EIRs) arrangements, requests and performance.

Following discussion, members noted that the assurances provided and that the FOI/EIR arrangements were working well.

11. 2015/16 Annual Report on Complaints Handling

Alex Devlin, Corporate Governance Manager, introduced the 2015/16 Annual Report on Complaints Handling, a copy of which had been previously circulated.

Alex invited members to note the reduction in the number of complaints received and assurance that there are no significant issues to report.

Following discussion, members noted the assurance provided on the handling of complaints during the year and that the process for handling complaints was working well.

Alex Devlin, Corporate Governance Manager, left the meeting.

12. Securing World Class Audit: Funding and Fees – Draft Consultation

Russell Frith, Assistant Auditor General, introduced the report on Funding and Fees – Draft Consultation, a copy of which had been previously circulated.

Russell advised the Board that a lot of work had been completed since the previous Board meeting to develop the underlying models to support greater transparency of fees and had used data from the 2016/17 budget to populate the model. He advised that there was still analysis and discussion required to make a recommendation on where the level of fees should be fixed. He advised that following discussion with Management Team last week, colleagues thought it would be better to complete further analysis on fees and Audit Scotland's efficiency target before providing more detailed information of the content of the planned consultation. He advised that this would result in a delayed but more effective consultation.

The report that the Board was being invited to consider looked at the potential impact of the procurement exercise and identified some of the considerations in setting fees for 2016/17 audits on which early guidance from the Board would be useful. Russell also advised that the final part of the report dealt with the presentation of hourly rates, in response to a previous request from the SCPA.

The Board discussed the contribution that the procurement results make to the overall cost of the public audit model and the contribution that Audit Scotland will make. Diane McGiffen advised that the Management Team would be considering options for the next five years. She outlined the actions that had been taken to reduce the cost of audit by around 25% over the previous five years, including reducing the number of staff employed, by deploying voluntary early release arrangements and recruitment freezes, as well as implementing long term plans to reduce property costs significantly. She also advised that cost reductions had taken place consistently across all business groups.

The Board discussed the decisions which had been taken earlier in the procurement exercise to determine the size and scale of the work to be undertaken by the in-house

team and the firms, and Russell Frith reminded the Board of the range of factors taken into account, including the need for an in-house practice to have a critical mass of work to provide effective competition to the firms, and the views of the Auditor General and the Chair of the Accounts Commission on the additional value offered by the in-house team. The Board also discussed the importance of being able to quantify and cost the added value of the in-house team and of demonstrating value for money and efficiency over the lifetime of the appointments.

The Chair and Heather Logan expressed their concern to understand the implications for the Audit Services Group of the procurement exercise. The Board agreed that the challenge for Audit Scotland was to secure and demonstrate efficiency and reduced costs without sacrificing quality. Caroline Gardner reminded the Board of the importance of the work already undertaken and planned on the costing model which underpins fee setting and of the ability to demonstrate transparency in costing and the apportionment of costs. She advised that, as planned, Russell Frith would bring further reports to the Board on these topics in June, August and September 2016, as set out in the action tracker. It was agreed to consider how the work on Audit Services delivery of best value, which the Board had previously considered, and the added value provided by public audit model could be developed to include costing.

Diane McGiffen advised that the Management Team would be considering the next phase of Audit Scotland's efficiency strategy and the options for setting targets at its next meeting, and that this was central to the preparation of the 2017/18 budget submission.

During discussion, members agreed that it would be helpful to summarise in one place the key decisions taken on the procurement strategy and fees and funding, including the benefits of having an in-house practice.

Caroline suggested, and the Board agreed, that the longer term financial strategy should be modelled over a five year period including fee reductions at various levels above and below 10 per cent alongside the efficiency targets to be set for Audit Scotland's work.

It was agreed that the financial strategy had to balance a number of imperatives including providing assurance to Parliament and the public that audit was providing high levels of assurance and audit quality alongside value for money.

Action(s):

- **Russell Frith to prepare for the next Board meeting:**
 - (a) **a report on fee setting options, including Audit Scotland's efficiency plans**
 - (b) **a summary of all the decisions taken on procurement**
 - (c) **a draft consultation paper on fees and transparency.**

(June 2016)

- **Russell Frith to prepare proposals for developing the work on demonstrating best value in the delivery of audit and the added value provided by the public audit model to be progressed.**

(September 2016)

13. Corporate Plan Update 2016/17

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the Corporate Plan Update 2016/17 report, which had been previously circulated. Martin invited members to consider and approve the Corporate Plan update for 2016/17.

During discussion, members commended Martin on the clarity of the report and drafting.

Following further discussion, members approved the plan subject to final amendments and a further conversation between Douglas Sinclair and Martin Walker about links with the Accounts Commission strategy.

Action(s):

- **The Assistant Director, Corporate Performance and Risk to arrange for publication of the draft Corporate plan following final discussion and amendment. (May 2016)**

14. Review of Risk Management Framework

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the report on Review of Risk Management Framework, which had been previously circulated.

Martin invited members to approve the revised risk management framework, subject to any amendments recommended by the Audit Committee.

Members noted the earlier discussion at the Audit Committee and approved the revised risk management framework.

Action(s):

- **The Assistant Director, Corporate Performance and Risk to publish the Review of Risk Management Framework. (May 2016)**

15. Draft Information Security Management Policy

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the Draft Information Security Management Policy, a copy of which had been previously circulated.

Martin invited members to approve the revised Information Security Management Policy which sets out the overarching principles of information security and the associated roles and responsibilities.

Members noted and approved the updated policy.

Actions:

- **The Assistant Director, Corporate Performance and Risk to publish the Information Security Management Policy. (May 2016)**

16. Publication of Board Papers

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the report on Publication of Board Papers, which had been previously circulated.

Martin invited members to consider the report together with the guidance on the publication of Board papers to agree the reports to be published on the Audit Scotland website following this meeting.

Members discussed and agreed the reports to be published alongside the approved minute of the meeting.

The reports not for publication were:

- Item 8 Minutes of Remuneration Committee (statutory/security/legal - personal information).
- Item 12 Fees and Funding (effective conduct of business - free and frank provision of advice/exchange of views for the purposes of deliberation/conduct of public affairs).
- Item 13 Corporate Plan (effective conduct of business - information intended for future publication).

Actions:

- **The Assistant Director, Corporate Performance and Risk to arrange to publish the reports on the Audit Scotland website alongside the approved minute.
(June 2016)**

17. AOB

There was no further business.

18. Date of Next Meeting

It was noted that the next Audit Scotland Board meeting had been scheduled for **2 June 2016** 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
26 February 2016 at 10:00hrs.

PRESENT: H Logan (Chair)
D Sinclair
R Griggs

APOLOGIES: None

IN ATTENDANCE: I Leitch, Chair of Audit Scotland Board
C Gardner, Auditor General for Scotland/Accountable Officer
D McGiffen, Chief Operating Officer
R Frith, Assistant Auditor General
F McKinlay, Director of Performance Audit and Best Value
M Walker, Assistant Director, Corporate Performance and Risk
C Sweeney, Assistant Director, Performance Audit and Best Value
D Hanlon, Corporate Finance Manager
O Smith, Senior Manager (Procurement and NFI), Audit Strategy
A Devlin, Corporate Governance Manager
C Robertson, BDO LLP Internal Auditors
D Jeffcoat, Alexander Sloan External Auditors

<u>Item No</u>	<u>Subject</u>
1.	Welcome and apologies
2.	Declarations of interest
3.	Minutes
4.	Review of actions tracker
5.	Audit Committee terms of reference
6.	Internal audit progress and reports
7.	Internal audit annual plan 2016/17
8.	Co-operation between internal and external audit
9.	Update on internal audit recommendations
10.	Correspondence handling arrangements
11.	Q3 Financial performance report 2015/16
12.	Timetable for the completion of the statutory accounts to 31 March 2016
13.	Comparison of indicative and agreed fees 2014/15 audits
14.	Review of Risk Register
15.	Risk Interrogation – Failure to maintain efficient access to core systems for ASG
16.	Overview of FRC report on audit systems
17.	External audit plan 2015/16
18.	Business Continuity arrangements annual review
19.	Data incident/loss
20.	Evaluation of Audit Committee effectiveness
21.	AOB
22.	Date of next meeting

1. Welcome and apologies

The Chair advised that a private meeting between the Audit Committee and BDO, internal auditors was held prior to the start of the meeting.

There were no apologies.

The Chair of the Audit Committee informed the members that item 16 on the agenda would be taken after item 10 to aid the sequencing of the agenda. The members agreed to this change.

2. Declarations of Interest

Heather Logan advised that she is a member of the Scottish Public Services Ombudsman Audit and Advisory Committee and that she will demit that role when her current term ends.

3. Minutes

The Audit Committee members reviewed the minutes of the meeting of 3 December 2015, which had been previously circulated.

The minutes were approved as an accurate record.

4. Review of Actions Tracker

The Audit Committee reviewed progress made on outstanding actions and the dates for implementation of the actions.

The Audit Committee members noted progress on outstanding actions.

5. Audit Committee Terms of Reference

The Chair invited comments from members on the paper submitted by the Corporate Governance Manager, which had been previously circulated. The paper advised that there had been a few minor changes to the Terms of Reference.

It was noted that all the planned meetings for 2016 were to be held in Edinburgh and that in doing so limited the accessibility of the Audit Committee and Board members to staff outwith Edinburgh.

After discussion the Chief Operating Officer agreed to revisit the meeting venues for later in the year once the Queen Street station disruption had finished.

The Audit Committee approved the changes and noted the report.

Action(s):

- **The Chief Operating Officer to review meeting venues for later in the year for possible meetings in Glasgow. (June 2016)**

6. Internal Audit Progress and Reports

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

Claire Robertson, BDO introduced the internal audit progress report and three internal audit reports, which had been previously circulated.

(a) Internal audit progress report

Claire Robertson informed the members that the 2015/16 programme of internal audits was on track for completion as planned.

The Chair invited comments and questions from the members in relation to the progress report.

The Audit Committee noted the report.

(b) Procurement of audit firms audit report

Claire Robertson informed the members that the audit achieved substantial assurance with only one recommendation. The members were informed that the audit found that Audit Scotland was transparent in its approach to audit procurement and that the procurement strategy was followed.

The Chair invited comments and questions from the members in relation to the report.

Following discussion the Committee noted the report.

(c) Communications and stakeholder engagement audit report

Claire Robertson informed the members that the audit achieved reasonable assurance and that there were two recommendations, one relating to an overarching communications strategy and one on social media.

The Chair invited comments and questions from the members in relation to the report.

Russel Griggs asked if the Audit Committee or Board had oversight of Audit Scotland's strategies. Fraser McKinlay informed the members that he and Management Team had not brought communications and engagement strategies to the Audit Committee/Board, but would consider this. The Chair asked whether the communications strategy was linked to the Corporate Risk register, noting the inter-relationship between the two.

The Chair of the Audit Committee requested that the annual assurance and control map be reissued to members to show the reporting process and timeline for 2016.

The Chair of the Accounts Commission noted that the Auditor General and the Accounts Commission also carried out a wide range of stakeholder engagement, but they had not been interviewed as part of the audit. He also noted that the report did not cover the Commission's engagement plan. Responding to a question from the Chair, he confirmed that retrospective work was not required, but noted that future internal audit work which covered Commission activity may benefit from consultation with the Secretary to the Commission.

The Chair of the Audit Committee asked if the timescales were achievable for implementing the recommendations. Assurance was given that the timescales were achievable and that the recommendations would be taken forward by James Gillies, Communications Manager.

The Committee noted the report.

Action(s):

- **The Chief Operating Officer to reissue the annual assurance and control map to members. (May 2016)**

PABV programme development

Claire Robertson informed the members that the PABV programme development audit highlighted substantial assurance and that the auditors identified areas of good practice in what Audit Scotland was doing. Claire Robertson provided an overview of why each of the four low level recommendations was made.

The Chair invited comments and questions from the members in relation to the report.

The Chair of the Accounts Commission informed the members that he was surprised by the report saying that the programme was subject to approval by the Auditor General and the Accounts Commission but the Secretary to the Commission was not interviewed as part of the audit. The Chair of the Accounts Commission also highlighted that the report did not cover the Commission's statutory requirements around consultation. Claire Robertson suggested that further work could be conducted to address these issues; however the Chair to the Accounts Commission stated that no further work was required. He also suggested that consideration should be given to interviewing the Secretary to the Accounts Commission in future audits where the Commission's arrangements should also be covered.

The Committee noted the report.

Action(s):

- **The Chief Operating Officer to ensure that interests of the Auditor General and the Accounts Commission are considered at the scoping stage of internal audits. (May 2016)**

Claire Sweeney, Assistant Director, PABV left the meeting.

7. Internal Audit Plan 2016/17

Claire Robertson, BDO introduced the draft internal audit plan for 2016/17 which had been previously circulated.

The Chair invited comments and questions from the members in relation to the plan.

The members raised the following points:

- Whether resource management be included in the plan as a result of the comments from SCPA. The Chief Operating Officer suggested that this may be covered in the VfM audit and she would discuss scoping options with Claire.
- Whether there is a process in place for scanning future resource requirements due to changes in the environment e.g. further fiscal devolution and the outcome of the EU referendum. Again, this was suggested that it could be covered under the VfM audit.
- That the references to Audit Scotland's corporate vision should make it clear that these support the principles contained within Public Audit in Scotland and reflect

the new approach to the audit of Best Value. BDO agreed to reword this section of the plan.

Following discussion the Audit Committee approved the 2016/17 internal audit plan.

Action(s):

- **Claire Robertson, BDO to amend and reissue the 2016/17 internal audit plan. (May 2016)**
- **Chief Operating Officer and Claire Robertson, BDO to discuss the scoping of the VFM audit. (May 2016)**

8. Co-operation between internal and external audit

Claire Robertson, BDO introduced the report on co-operation between internal and external audit which had been previously circulated.

David Jeffcoat, Alexander Sloan's informed the members that they were satisfied with the process.

The Audit Committee noted the report.

9. Update on Internal Audit Recommendations

The Corporate Governance Manager submitted an update report on the implementation of Internal Audit Recommendations, which had been previously circulated. The Corporate Governance Manager informed the members that the report now only contained recommendations that have not been previously reported to the Committee as complete, as requested at the Audit Committee meeting in December 2015.

The Chair welcomed the new format of the report and invited comments and questions from the members on the report.

The Chair asked if we were at risk of not meeting the planned dates for the achievement of ISO 27001. The Chair was informed that although ISO work had been re-scheduled to prioritise resources on the Edinburgh office move we were confident in meeting the revised timescales.

Russel Griggs asked if there should be a review of the Audit Committee meetings and reports at the end of the meeting. The Chair informed the member that this would be covered at the end of the meeting under AOB.

Following the discussion the Audit Committee noted the report.

10. Correspondence Handling Arrangements

The Director of Performance Audit and Best Value gave a verbal update on the work undertaken to improve Audit Scotland's performance in handling issues of concern raised through correspondence.

The members were informed that there had been a major review of our processes and that there was now a full time correspondence manager dealing with issues of concern, and that this had contributed to significant improvement in performance.

The Chair invited comments and questions from the members. The members raised the following points:

- What would happen if the issue of concern related to a public body audited by a firm appointed by the Accounts Commission or Auditor General? The members were advised that the issue would be passed to the firm and that Audit Scotland would be kept informed of the outcome.
- Should Audit Scotland communicate better externally on what we can and can't do when issues of concern were raised by members of the public? The Director of Performance Audit and Best Value informed the members that we have made good progress in this area and that we do publish guidance for correspondents and suggested that he provides a paper on correspondence handling for a future meeting.

The Audit Committee welcomed the update.

Action(s):

- **The Director of Performance Audit and Best Value to provide a paper on the correspondence process at a future meeting. (June 2016)**

11. Overview of FRC Report on Audit Systems

The Chair of the Audit Committee brought forward this item.

The Assistant Auditor General introduced an overview report of the FRC on Audit Systems, which had been previously circulated.

The Chair invited comments and questions from the members in relation to the report.

The members asked if there were any significant concerns on the quality of the audits and how any concerns were raised with the Auditor General, the Accounts Commission or the Audit Committee. The members were informed that any quality concerns would be raised with the appointed auditor directly and, where appropriate, would be reported to the Audit Committee.

The Auditor General informed the members that there is a continual check on quality for the Accounts Commission and the Auditor General and that she had asked the Assistant Auditor General to look at quality as part of the procurement process for the next round of auditor appointments.

The Chair asked if Audit Scotland or the AGS/Accounts Commission should be advising Audit Committees to ask their auditors about monitoring reviews and any findings to enhance oversight. The Auditor General agreed that this was a good point for her and the Accounts Commission and they would look at what they might communicate to Audit Committees.

The Audit Committee noted the report.

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

12. Q3 Financial Performance Report 2015/16

There was submitted a report by the Corporate Finance Manager on Audit Scotland's Q3 Financial Performance, which had been previously circulated.

The Chair invited comments and questions from the members.

The Chair sought clarification on the fees agreed with bodies for additional work and if the timing of the work and agreement of the fee could affect Audit Scotland's budget. The Chair of the Board informed the members that fees was an item on the Board agenda and that questions on this should be reserved for the Board meeting.

The Chair sought clarification on why consultancy costs were higher than budget. The Chair was advised that additional work was undertaken on the Building a Better Organisation initiative.

The Audit Committee noted the report.

13. Timetable for the completion of the Statutory Accounts to 31 March 2016

There was submitted a report by the Corporate Finance Manager on the Timetable for the completion of the Statutory Accounts to 31 March 2016, which had been previously circulated.

There were no comments or questions from the members on the timetable. The members approved the proposed timetable for the completion of the statutory accounts for the year ended 31 March 2016.

14. Comparison of Indicative and Agreed Fees 2014/15 Audits

Owen Smith, Senior Manager (Procurement and NFI) Audit Strategy joined the meeting.

The Assistant Auditor General and Senior Manager (Procurement and NFI) Audit Strategy, introduced a report on the comparison of indicative and agreed 2014/15 audit fees, which had been previously circulated.

There were no comments and questions from the members in relation to the report.

The Audit Committee noted the report.

Owen Smith, Senior Manager (Procurement and NFI) Audit Strategy left the meeting.

15. 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 there was one 'red' risk and that it would be covered under agenda item 15.

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

Russel Griggs asked if the register covered the impact of external changes on the organisation's resources and the ability to respond to them. The Assistant Director, Corporate Performance and Risk informed the members that although there was not a specific risk for this, it was covered by a number of the other risks on the register.

The Chair of the Audit Committee challenged the use of internal audit as a control measure in the register. The Chair was informed that Audit Scotland views internal audit as an independent check on mitigating controls. The Chair also asked the Assistant Director, Corporate Performance and Risk to review the content under 'active monitoring' in the next version of the risk register and consider the use of detective controls.

Following the discussion on individual risks and the mitigating actions the members noted the report.

Action(s):

- **The Assistant Director, Corporate Performance and Risk to review the control measures and how best to indicate when a change in the risk assessment would be expected in light of the planned actions. (May 2016)**

16. Risk Interrogation – Failure to maintain efficient access to core systems for ASG

There was submitted a report by the Assistant Director, Corporate Performance and Risk, on the interrogation of risk twelve – failure to maintain efficient access to core systems for ASG, which had been previously circulated.

The Assistant Director, Corporate Performance and Risk provided an update to the members on the current actions to mitigate this 'red' risk and to address reduced performance in the MKI system.

A discussion followed on the cost to Audit Scotland of this reduction in performance and if the reduction could be traced to Audit Scotland's or our suppliers actions. The Chief Operating Officer informed the members that we were investigating this, including looking at the experience of the other UK audit agencies who also use MKI. The members were also informed that we would be seeking external assistance to identify and evaluate options for alternative systems.

The Audit Committee noted the report.

17. External Audit Plan 2015/16

The external auditors, Alexander Sloan submitted the external audit plan for 2015/16, which had been previously circulated.

David Jeffcoat informed the members that the timescale between the end of the audit, the audit clearance meeting and the approval of the accounts was very tight this year and that he would make the draft management letter available to the Audit Committee as quickly as possible prior to the meeting on 2 June 2016.

The Audit Committee noted the report.

18. Business Continuity Arrangements Annual Review

The Corporate Governance Manager submitted a report on Audit Scotland's Business Continuity Arrangements, which had been previously circulated.

The Audit Committee welcomed the comprehensive and clear plans and arrangements.

The members noted the report.

19. Data Incident/Loss

The Corporate Governance Manager had submitted a report on Data Incidents/Loss, which had been previously circulated.

The Corporate Governance Manager highlighted that one of the incidents related to the use of personal email addresses for distributing controlled and personal information and this was contrary to Audit Scotland's Information Security and Data Protection policies. In addition, this constituted a risk to Audit Scotland's reputation and therefore should be discontinued.

The Audit Committee welcomed the report and supported the cessation of using personal email addresses for distributing controlled and personal information in support of our information security policies.

20. Evaluation of Audit Committee Effectiveness

The Assistant Director, Corporate Performance and Risk, submitted a report on the process for evaluating the effectiveness of the Audit Committee over 2015/16, which had been previously circulated.

The Audit Committee agreed to reissue and complete the Audit Committee self-assessment checklist for 2015/16.

Action(s):

- **The Assistant Director, Corporate Performance and Risk to distribute the checklist for completion and report back to the next Audit Committee on findings. (May 2016)**

21. Any Other Business

The Chair of the Audit Committee reminded members that as part of the 2014/15 Audit Committee effectiveness self-assessment that they should review the standard of the papers submitted to them and the effectiveness of their meetings for any improvements.

After discussion the members agreed to arrange a discussion on how this would be best achieved.

Action(s):

- **The Chief Operating Officer to arrange a discussion with the members about reviewing the standard of reports to the committee and the effectiveness of the meetings. (May 2016)**

22. Date of Next Meeting

The next meeting will be held on **3 May 2016** in the offices of Audit Scotland, 102 West Port, Edinburgh. The date and time of the meeting are to be confirmed following clarification of Committee member's availability.

FORUM	Agenda Item No	Item Title	Action Description	Meeting Date	Due Date	Responsible	Assigned to	Complete/Ongoing	Reported Yes/No	Progress Notes
Board	12 (a)	Securing World Class - Ethical Standards	Board members to consider whether any transitional arrangements need to be put in place for existing appointments.	03/12/2015	31/01/2016	All members	All members	Complete	Yes	The Board agreed on 24/03/2016 that this action has been concluded.
Board	7	Review of Actions Tracker	The Action tracker to be revised to include a deadline of May 2016 for the approval of the Corporate Plan.	26/02/2016	03/05/2016	Diane McGiffen	Martin Walker	Complete	No	The report at item 13 of the Board agenda will be considered on 03/05/2016.
Board	10	Q3 Corporate Performance	Russell Frith, Assistant Auditor General, to consider whether performance reports could include more information on audit quality	26/02/2016	03/05/2016	Russell Frith	Russell Frith	Ongoing		
Board	12(b)	Funding and Fees – 2016 Issues and Work Plan	The Assistant Auditor General to prepare a report for Board consideration	26/02/2016	24/03/2016	Russell Frith	Russell Frith	Complete	Yes	The report at item 12(b) of the Board agenda was considered on 24/03/2016.
Board	12(b)	Funding and Fees – 2016 Issues and Work Plan	The Assistant Auditor General to prepare a consultation report for Board consideration	26/02/2016	03/05/2016	Russell Frith	Russell Frith	Complete	No	The report at item 12 of the Board agenda will be considered on 03/05/2016.
Board	12(b)	Funding and Fees – 2016 Issues and Work Plan	The Assistant Auditor General to report on the 2015/16 accounts for Board approval	26/02/2016	02/06/2016	Russell Frith	Russell Frith	Ongoing		This is scheduled for discussion at the Board meeting on 2 June 2016.
Board	12(b)	Funding and Fees – 2016 Issues and Work Plan	The Assistant Auditor General to report on the final proposed fee strategy	26/02/2016	18/08/2016	Russell Frith	Russell Frith	Ongoing		This is scheduled for discussion at the Board meeting on 18 August 2016.
Board	12(b)	Funding and Fees – 2016 Issues and Work Plan	The Assistant Auditor General to report on 2017/18 budget assumptions	26/02/2016	18/08/2016	Russell Frith	Russell Frith	Ongoing		This is scheduled for discussion at the Board meeting on 18 August 2016.
Board	12(b)	Funding and Fees – 2016 Issues and Work Plan	Board approval of 2017/18 budget and 2016/17 audit fees	26/02/2016	15/09/2016	Russell Frith	Russell Frith	Ongoing		This is scheduled for discussion at the Board meeting on 15 September 2016.
Board	13	Openess and Transparency of Board Business	advise the Board of a start date for the new approach to publishing board papers	26/02/2016	24/03/2016	Diane McGiffen	Martin Walker	Complete	Yes	The report at item 13 of the Board agenda will be considered on 24/03/2016.
Board	13	Openess and Transparency of Board Business	The Assistant Director, Corporate Performance and Risk to develop operational guidance to sit alongside the principles presented in the report for the Board to consider	26/02/2016	24/03/2016	Martin Walker	Martin Walker	Complete	Yes	The report at item 11 of the Board agenda was considered on 24/03/2016.
Board	13	Openess and Transparency of Board Business	The quorum for Board meetings to be discussed at the next meeting.	26/02/2016	24/03/2016	Martin Walker	Martin Walker	Complete	Yes	Discussion of the report at item 15 of the Board agenda 24/03/2016 was deferred to the next meeting on 03/05/2016.
Board	11	Audit Scotland Report and Accounts	The Communications Manager will report on Audit Scotland Annual Report and Accounts.	24/03/2016	02/06/2016	James Gillies	James Gillies	Ongoing		This is scheduled for discussion at the Board meeting on 02/06/2016.
Board	12(a)	Funding and Fees - Fee Setting Policies	The Assistant Auditor General to report on the impact of the proposed policies and bring a draft consultation paper to the next meeting of the Board.	24/03/2016	03/05/2016	Russell Frith	Russell Frith	Ongoing		The report at item # of the Board agenda will be considered on 03/05/2016.

Board	12(b)	New Financial Powers Update	The Assistant Director, Audit Services Group will provide an update on the New Financial Powers.	24/03/2016	15/09/2016	Mark Taylor	Mark Taylor	Ongoing		This is scheduled for discussion at the Board meeting on 15 September 2016.
Board	13	Openess and Transparency: Publication of Board Papers	The Assistant Director, Corporate Performance and Risk to issue the operating	24/03/2016	31/03/2016	Martin Walker	Martin Walker	Complete	No	The guidance was issued to staff on 28/03/2016.
Board	13	Openess and Transparency: Publication of Board Papers	The Chief Operating Officer to schedule a future agenda item to review the arrangements.	24/03/2016	01/12/2016	Diane McGiffen	Diane McGiffen	Ongoing		This is scheduled for discussion at the Board meeting on 1 December 2016.
Board	14	Evaluation of Board Effectiveness	The Chief Operating Officer to identify potential dates and develop options for a facilitated session.	24/03/2016	03/05/2016	Diane McGiffen	Diane McGiffen	Ongoing		Progressing and a verbal update will be provided at the meeting on 03/05/2016.
Board	14	Evaluation of Board Effectiveness	The Assistant Director, Corporate Performance and Risk to refine the self evaluation questionnaire.	24/03/2016	03/05/2016	Martin Walker	Martin Walker	Complete		Self evaluation document distributed 26/04/16
Board	15	Discussion on Standing Orders	The Chief Operating Officer to schedule a future agenda item to further discuss.	24/03/2016	03/05/2016	Diane McGiffen	Diane McGiffen	Ongoing		This item will be covered as part of item 3, Chair's report on 03/05/2016.
Board	16	AOB	The Chief Operating Officer to circulate a copy of the PAC legacy paper to Board members.	24/03/2016		Diane McGiffen	Diane McGiffen	Complete	No	The Chief Operating Officer circulated the SCPA Legacy paper to members on 15/04/2016.

AUDIT SCOTLAND BOARD

3 MAY 2016

REPORT BY THE CORPORATE GOVERNANCE MANAGER

2015/16 ANNUAL REPORT ON FREEDOM OF INFORMATION AND ENVIRONMENTAL INFORMATION

1. Purpose of Report

This is the annual report to the Board on our Freedom of Information (FOI) and Environmental Information Regulations (EIRs) arrangements, requests and performance.

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.

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

2. Background

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).

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.

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.

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.

3. FOI/EIR Overview for 2015/16

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

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.

The FOI/EIR policy was reviewed by the KITGG, re-approved by the Board in August 2015 and staff acknowledge compliance with the policy via the Fit and proper form in November 2015.

Approach to requests

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.

For complex 'business as usual' requests and all other requests, which may have to be considered by an FOI panel, these are recorded in our FOI/EIR system.

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 applying FOI/EIR exemptions and exceptions to complex requests.

The following statistics and analysis are based on our recorded FOI/EIR requests for 2015/16.

Statistics and Analysis

Number of requests received

Audit Scotland recorded 65 FOI and no EIR requests this year. These were received in:

	2015/16 requests		2014/15 requests	
	FOI	EIR	FOI	EIR
Q1 (April – June)	14	0	14	0
Q2 (July – September)	16	0	29	0
Q3 (October – December)	26	0	14	0
Q4 (January – March)	9	0	16	0
Total	65	0	73	0

Sixty were addressed to Audit Scotland, three to the Accounts Commission and two to the Auditor General.

Type of requester

We categorise the requests we receive for analysis purposes. This year we received:

2015/16 requester type	2015/16 requests		2014/15 requests	
	FOI	EIR	FOI	EIR
Commercial organisations	7	0	3	0
Media	10	0	31	0
MSP/MP	3	0	2	0
Organisation	16	0	12	0
Members of the public	25	0	24	0
Public body	2	0	1	0
Other	2	0	0	0

Themes emerging from the requests received

Themes emerging from the information being requested are:

- 32% - AS: staff , finance, cars
- 24% - ICT: equipment, contracts
- 21% - AS: reports, draft & correspondence
- 13% - Data held on other organisations
- 3% - AS: policies, procedures
- 3% - Non IT contracts
- 3% - Other
- 1% - AS Governance

Responding to requests

All information requested was released in full on 46 occasions, partially released on 6 occasions, and the information requested was not held by us on 11 occasions. Two are ongoing.

Cost of administrating and responding to requests

We do not record the actual time spent on specific requests as this is generally covered by the job code for the work information is being requested about. In addition the time spent on FOI/EIR training is coded to the general training and development job code.

However, 10 members of staff recorded 459 hours for administering our FOI systems and procedures, replying to some requests and dealing with complex requests at FOI panels. This equates to approximately £28,000 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

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 60 (94%) occasions and failed to meet it on three (5%) occasions (note two are ongoing). This is a slight deterioration from last year's

98.6% and was the result of extensive consultation with third parties on personal and commercial information prior to release of information.

Charging for dealing with requests

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 2015/16.

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

Panels met ten times this year to consider applying exemptions to some or all of the information being requested. In eight cases we applied exemptions to the information we held. The most commonly used exemptions this year were for 'personal information', 'commercial interests and the economy' and prejudice to effective conduct of public affairs.

Where an applicant is not satisfied with our response to their request they can ask Audit Scotland for a review. We use different FOI/EIR panel members for this task. In 2015/16 there were two requests for a review.

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 no appeals to the SIC from dissatisfied applicants this year.

Information requested but not held by Audit Scotland

Audit Scotland issued 11 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

Where the information requested is already publically available eg in the authorities 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.

Audit Scotland issued two formal section 25 notices informing the applicant that the information was publically available.

FOI/EIR Training

Audit Scotland staff undertake basic FOI/EIR training when they join Audit Scotland. Refresher training is given as necessary. In addition staff updates are published when changes occur. A staff brief was issued in September 2015 and on FOI Day in March 2016 to remind staff of our FOI/EIR arrangements, performance and changes to legislation.

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 2016 only two people had FOI/EIR training outstanding.

4. Recommendation

The Board is invited to note the content of this report.

AUDIT SCOTLAND BOARD

3 MAY 2016

REPORT BY THE CORPORATE GOVERNANCE MANAGER

2015/16 ANNUAL REPORT ON COMPLAINTS HANDLING

1. Purpose of Report

This is the annual report to the Board on complaints received by Audit Scotland. 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.

The report on complaints handling concludes that there are no significant issues that should be brought to the attention of the Board.

The Board are invited to note the contents of this report.

2. Background

The Public Services Reform (Scotland) Act 2010 (the Act) required the Scottish Public Services Ombudsman to introduce a set of complaint handling principles, which all public bodies have to adhere to.

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 update to our guides for staff and members of the public was undertaken in November 2015.

A feature of the arrangements is to systematically analyse the complaints received and report on them to Management Team and the Board.

This is the third annual report on complaints handling under our new complaints handling procedure.

3. Complaints received

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.

The complaints handling review in late 2014 found that Audit Scotland needed to do more to identify and learn from the complaints it received. Work was

undertaken with the correspondence team to identify complaints from the correspondence process and this resulted in a jump in the number of complaints identified for 2014/15.

The correspondence team continued to refine their corresponding handling processes in 2015/16. As a result of improvements in correspondence handling performance the number of complaints being submitted or identified has fallen.

Complaints are mostly dealt with at stage 1, front line resolution within five working days. Where complaints are more complex or are not resolved at stage 1 they are investigated at stage 2, within 20 working days.

Corporate Services maintains the register of complaints received. The register shows that there were four complaints received in 2015/16 (13 in 2014/15).

Table 1 below shows the number of complaints received and recorded by quarter and the stage they were dealt at. Table 2 details the number of complaints received during the last three years.

Table 1 – Number of complaints received by quarter in 2015/16

	Received	Stage 1	Stage 2	In progress	Rejected
Q1	3	1	2	0	0
Q2	1	1	0	0	0
Q3	0	0	0	0	0
Q4	0	0	0	0	0
Total	4	2	2	0	0

Table 2 – Number of complaints over the last three years

	Received	Stage 1	Stage 2	Rejected
2015/16	4	2	2	0
2014/15	13	8	3	2
2013/14	3	0	2	1

All four complaints resulted from failing to meet published correspondence handling timescales. Although the complaints were received in quarter 1 and 2 of 2015/16 they referred to issues communicated to us in 2014/15. As can be seen from the tables above as the correspondence arrangements and performance have improved the number of complaints emerging has fallen.

This is a good example of when ‘getting it right first time’ reduces the risk to our reputation and helps avoid on-costs with dealing with complaints.

4. Scottish Public Services Ombudsman (SPSO)

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 no complaints investigated by Audit Scotland under our complaints handling process were appealed to the SPSO.

However, the SPSO received one complaint about Audit Scotland’s handling of an issue of concern and conclusions in our report – *review of issues around the Lennoxtown Initiative* published on the Audit Scotland website in November 2015. The SPSO’s office reviewed the information submitted by the

complainant and informed the complainant that the matter raised fell outwith their remit under the Act and that no further action would be taken by the SPSO.

5. Conclusions

Our complaints handling process and procedures generally work well. We try to resolve as many complaints at stage 1 with the complainant; however a number will reach the investigation stage. With the improving performance in correspondence handling there has been a corresponding reduction in the number of complaints received this year.

6. Recommendation

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

AUDIT SCOTLAND BOARD

3 MAY 2016

REPORT BY THE ASSISTANT DIRECTOR, CORPORATE PERFORMANCE AND RISK

REVIEW OF RISK MANAGEMENT FRAMEWORK

1. Purpose of Report

This report invites the Board to approve the revised risk management framework, subject to any amendments recommended by the Audit Committee.

2. Background

The Board agreed the 'Policy, strategy and assurance framework' at its meeting on 22 January 2015.

The framework was reviewed by the Performance and Risk Management Group during March 2016 and a number of amendments were proposed. The Management Team considered and agreed these at its meeting on 12 April 2016.

The Audit Committee will consider the framework at its meeting on 3 May in advance of the Board meeting.

3. Recommendation

The Board is invited to approve the revised framework subject to any proposed amendments and recommendations from the Audit Committee.

Audit Scotland

Risk management framework



Version control

Board approval of policy, strategy and framework	January 2015
Review by Performance and Risk Management Group	March 2016
2016 Review by Management Team	April 2016
2016 Review and approval by Audit Scotland Audit Committee and Board	May 2016

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

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Introduction

1. Audit Scotland provides the Auditor General and the Accounts Commission with the services they need to check that public money is spent properly, efficiently and effectively.
2. The risks we identify in the organisations we audit (audit risk) is absolutely central to our role and how we go about our audit work. However we, like the bodies we audit, are also subject to risk (business risk) and we need to have robust arrangements in place to manage those risks.
3. This document sets out our approach to risk management and outlines the key objectives, strategies, and responsibilities for the management of risk across the organisation. It applies to all Audit Scotland colleagues and should be applied consistently across the organisation. It will be supported by training and guidance to ensure that our colleagues are 'risk aware' but not 'risk averse'.

Overview of risk management

4. We are committed to achieving the aims defined in [Public Audit in Scotland](#), our [Corporate Plan](#) and Business Group Business Plans. In so doing, we realise that we will face a variety of risks.
5. Risk is regarded as a quantifiable level of exposure to the threat of an event or action that could adversely affect our ability to achieve our objectives successfully. The task of management is to respond to these risks effectively so as to maximise the likelihood of Audit Scotland achieving its objectives and ensuring the best use of resources.
6. We use risk management to systematically identify, record, monitor and report risks to Audit Scotland to enable the organisation to meet its objectives and to plan actions to mitigate risks. There are five key aspects to our risk management process are illustrated in Exhibit 1.

Exhibit 1

Risk management process



Policy statement

7. We are committed to ensuring that the management of risk underpins all of our business activities and that robust risk management procedures are in place throughout the organisation. The application of this policy and strategy will enable us to identify, assess and respond to a changing risk profile.
8. We have a responsibility to manage risks and support a systematic approach to risk management including the promotion of a risk aware culture.
9. The application of risk management practices cannot and will not eliminate all risk exposure. Through the application of the risk management approach identified in this framework, we aim to achieve a better understanding of the risks faced by - and the implications for the business - and so inform our decision-making.
10. We recognise that risk, as well as posing a threat, also represents opportunities for developing innovative ways of working. There are also risks associated with not looking for, or taking, opportunities when they arise. Innovation and best practice should be shared across Audit Scotland and we want to be 'risk aware', but not 'risk averse'.
11. The importance of risk management is set out in the Corporate Plan and other supporting documentation such as Business Group Plans and risk registers.
12. We expect management to take action to manage and mitigate the effects of those risks that are considered to be in excess of Audit Scotland's risk appetite. Where a risk is deemed to be significant and/or in excess of Audit Scotland's risk appetite it will be highlighted in the Audit Scotland risk register along with the controls and actions being taken to mitigate the risk.
13. The active, ongoing commitment and full support of the Audit Scotland Board through the work of the Audit Committee and Audit Scotland Management Team is a necessary and essential part of this policy. Management will ensure that effective mechanisms are in place for assessing, monitoring and responding to any risks arising.
14. The corporate Performance and Risk Management Group acts as a 'Risk Forum'. Its role includes reviewing, challenging and agreeing which risks should be escalated for inclusion in the Audit Scotland risk register.
15. All colleagues are expected to have a good understanding of the nature of risk within Audit Scotland and the organisation's risk appetite. Also, those acting on behalf of Audit Scotland must accept responsibility for risks associated with their activities.

Risk management approach

Risk management objectives

16. The following objectives form the basis of our Risk Management framework:
- Promote awareness of business risk and embed the approach to its management throughout the organisation.
 - Seek to identify, assess, control and report on any business risk that will undermine the delivery of Audit Scotland's business priorities, at a strategic and operational level.

Risk management vision

17. In order to achieve our vision of being a world class audit organisation we must have strong governance and management arrangements in place. Effective risk management is a core component of these arrangements.
18. We will identify the risk and its cause at the earliest opportunity; assess the potential impact on the organisation and put in place controls to mitigate the risk.
19. Additionally, we will seek to obtain assurance that the controls relied on to mitigate the key risks are effective. An assurance framework has been developed to support the ongoing monitoring of controls (see monitoring and reporting below).

Risk management culture

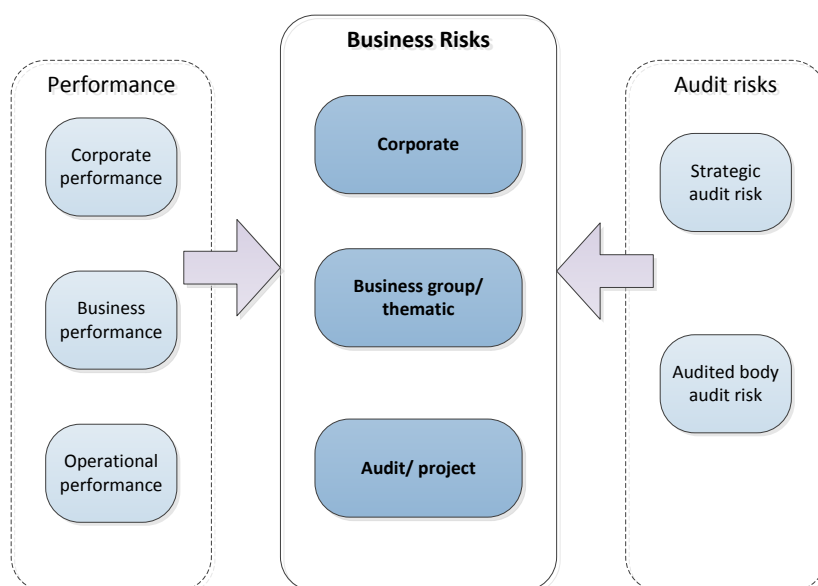
20. We recognise the values of an effective risk management culture. Systems and processes are dependent on the people operating and supporting them. They are also dependent on reflecting the environment within which they operate. Our approach to risk management therefore focuses on all of these aspects. We will:
- review the corporate plan on an annual basis
 - review the Audit Scotland risk register and carry out risk interrogations on selected risks on a quarterly basis
 - integrate risk management with planning at strategic and operational levels
 - implement and monitor risk management arrangements across the organisation
 - welcome independent review of our arrangements, including internal and external audit
 - devolve responsibility for risk ownership and management as appropriate
 - ensure that designated individuals receive the necessary training, ongoing support and advice in connection with risk management
 - ensure that all colleagues understand our approach to, and their role in, risk management.

Risk management structure

21. To ensure that we have a full understanding of the risks we face and their implications risks will be identified and assessed at three levels:
- **Corporate:** Those risks that, if realised, could have a significant detrimental effect on the Audit Scotland's key business processes and activities.
 - **Business group and thematic:** Those business risks that, if realised, could have a significant detrimental effect on a Business Group's key objectives and activities. This also includes thematic risks, for example information risks monitored by the Knowledge, Information and Technology Governance Group (KITGG).
 - **Project/ audit:** Those business risks that, if realised, could have a significant detrimental effect on the outcome of a project/ audit.
22. We will also use other elements of our management arrangements to inform our risk assessments (Exhibit 2). We will routinely consider how audit risks (i.e. those risks affecting audited bodies) identified through our audit risk management framework might impact on Audit Scotland.
23. We will also review risks in the context of our performance management arrangements to ensure that any issues identified through this route are reflected in risk registers. For example if performance reporting identified that audits were not running to schedule, or were over-budget we would assess the risk impact of this.

Exhibit 2

Risk management structure



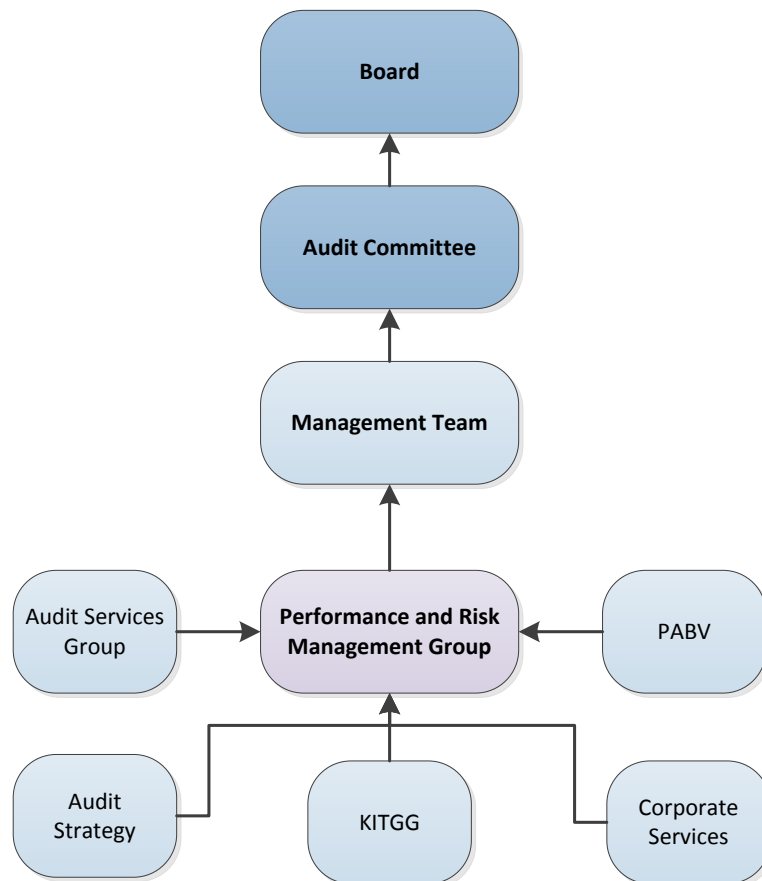
Risk registers

Audit Scotland's 'risk universe'

- 24. Risk registers are a key management tool. A risk register supports the identification, assessment and monitoring of risk. Risk registers also provide provides useful information on risk trends, action planning and offer a means of sharing of lessons / good practice across the organisation.
- 25. Audit Scotland's risk universe i.e. the level to which risks should be captured and recorded in risk registers is summarised in the Exhibit 3:

Exhibit 3

Risk management universe



Responsibilities

26. The Audit Scotland Board through its Audit Committee has ultimate responsibility for the management of risk.
27. The Accountable Officer has overall responsibility for risk management for Audit Scotland.
28. The Audit Scotland Management Team has day to day responsibility for the systems of internal control, including risk management. All staff should be risk aware. The key roles and responsibilities in relation to risk are summarised in Appendix 1.
29. The Audit Scotland Risk Register (ASRR) follows a standard format (Appendix 2) and includes the following elements:
 - gross risk assessments of likelihood and impact
 - active and monitoring controls in place to mitigate the gross risks
 - net risk assessments of likelihood and impact and any changes
 - further actions or monitoring required to reduce risk including; how the planned actions will manage the risk, timescales, action owners and risk review dates
 - target risk and target mitigation date
 - risk owner.
30. All other risk registers will follow the same format as the Audit Scotland risk register to ensure consistency across the organisation and facilitate risks being escalated, monitored and reported.

Risk registers

31. **Audit Scotland risk register:** This register reflects the most significant risks that have the potential to prevent Audit Scotland as a corporate body, from delivering its objectives set out in the Corporate Plan. The Audit Scotland's Management Team maintains and updates the risk register, with support from the corporate Performance and Risk Management Group (PRMG).
32. **Business group and thematic registers:** Business Groups maintain their own risk registers which reflect the specific risks associated with their activities. Any 'red' or 'amber' risks i.e. those which are significant, should be evaluated to decide whether they merit inclusion in the Audit Scotland risk register. This will be done through the PMRG. Nominated champions have responsibility for maintaining and updating risk registers in consultation with their business group management team.
33. **Audit/ project Risk Registers:** Separate risk registers are maintained for each major audit/ project. These cover significant pieces of core work and development projects. As with the business group risk registers risks should be assessed to determine whether they should be escalated to the business group register/ Audit Scotland risk register.

Risk management process

Risk identification

34. Risk identification is an ongoing activity, with individual risks and the impact and/or likelihood of risks materialising changing regularly. Risk identification is the process of determining what risks might prevent us from delivering our objectives, whether these are strategic or operational.
35. Risks can be triggered/ identified from a number of sources including:
 - changes to the operating environment/ periodic horizon scanning
 - planning (at strategic, business group and operational levels)
 - monitoring of audit risks (using the audit risk management framework)
 - monitoring of performance
 - existing forums (board, audit committee, management team, business group management teams, audit team/ project group meetings)
 - risks identified by internal/ external audit.
36. It is important, therefore, that risk features as a standing agenda item on management team meetings and working groups across Audit Scotland. Any risks identified should be reported for inclusion in the relevant risk register which would, in turn, be reviewed by a 'risk champion'.
37. Additional risk prompts/ tools are included as appendix 3.

Risk analysis and assessment

38. Once a risk is identified the risk is assessed. Risks should be assessed consistently across Audit Scotland considering – **likelihood** of the risk occurring, and if that risk was to occur, what the **impact** (i.e. consequences) on the organisation would be.
39. Likelihood will be categorised on a scale of 1 to 5 with one being rare and five almost certain. Impact will also be assessed on a scale of 1 to 5 with one being insignificant and 5 being severe. Likelihood and impact are multiplied together to obtain a total a gross risk score as illustrated in Exhibit 4.

Exhibit 4

Risk scoring

		LIKELIHOOD				
IMPACT	Multiplier	Rare	Unlikely	Possible	Likely	Almost Certain
Multiplier		1	2	3	4	5
Severe	5	5	10	15	20	25
Major	4	4	8	12	16	20
Moderate	3	3	6	9	12	15
Minor	2	2	4	6	8	10
Insignificant	1	1	2	3	4	5

40. A table setting out what is meant by Insignificant, Minor, Moderate, Major and Severe classified by different types of events such as financial, regulatory, business continuity and reputational is included at Appendix 4.

Risk appetite

41. Risk appetite is an expression of how much risk Audit Scotland is prepared to take. Those involved in risk evaluation and prioritisation should, when considering risk, discuss and express the risk appetite as they see it.
42. The risk register format steers risk owners into considering risk appetite when updating a risk entry. They need to consider the risk score before and after existing mitigating action but also the final tolerable risk status (i.e. what they are aiming for in terms of status for that particular risk).
43. Audit Scotland's risk appetite is summarised in Exhibit 5.

Exhibit 5

Risk appetite

Risk Rating	Net risk assessment	Risk appetite response
High	20 - 25	Unacceptable level of risk exposure which requires action to be taken urgently. 'Red risks' at Business Group level should be included in the Audit Scotland risk register.
Medium	12 - 16	Acceptable level of risk but one which requires action and active monitoring to ensure risk exposure is reduced.
Low	1 - 10	Acceptable level of risk based on the operation of normal controls. In some cases it may be acceptable for no mitigating action to be taken e.g. net risk < 4.

Risk response

45. Based on risk scores there are four response options:

- **Terminate** - in this situation the risk is terminated by deciding not to proceed with an activity. For example, if a particular project is very high risk and the risk cannot be mitigated it might be decided to cancel the project. Alternatively, the decision may be made to carry out the activity in a different way.
- **Transfer** - in this scenario, another party bears or shares all or part of the risk. For example, this could include transferring out an area of work or by using insurance.
- **Treat** - this involves identifying mitigating actions or controls to reduce risk. These controls should be monitored on a regular basis to ensure that they are effective.
- **Tolerate** - in this case, it may not always be necessary (or appropriate) to take action to treat risks, for example, where the cost of treating the risk is considered to outweigh the potential benefits. If the risk is shown as 'green' after existing mitigating actions then it can probably be tolerated.

Risk mitigation

46. These are the controls and actions put in place to reduce the likelihood the risk occurring, or minimise the impact of the risk if it does occur. An internal control system incorporating policies, processes, business continuity arrangements and other aspects of Audit Scotland's operations should, when taken together:

- enable the organisation to respond appropriately to business risks
- help ensure the quality of internal and external reporting. This requires the maintenance of proper records and processes that generate the flow of timely, relevant and reliable information, and
- help ensure compliance with applicable laws and regulations, and also with internal policies. This would include, for example, having formal written procedures and policies applied consistently across the organisation supported by training for staff.

47. The residual risk which remains after taking account of the relevant mitigations is the net risk. It is also good practice to define 'target' risk which, in simple terms, is the tolerable level of risk that the organisation should aim for.

48. The risk register format requires active and monitoring controls to be identified to inform the net risk assessment. The risk register also prompts for additional actions where the net risk is above the target risk.

Risk escalation

49. This is a process which ensures that significant risks are escalated to the appropriate person or group. This is necessary to ensure the appropriate decisions and/or actions are implemented to mitigate the risk.
50. It is key to the risk escalation process that risk information is made available to the right people in a timely way. There is no restriction on what may be escalated for action, however the key criteria is that some form of intervention is required from more senior management.
51. It is the responsibility of individual risk owners to raise risks which they believe require action by a higher authority. It should be emphasised though that we want to discourage people from escalating risks that they should be dealing with themselves. High risk issues should be escalated through the hierarchy that makes up the risk universe so that they are captured in the appropriate register for information purposes. However, responsibility for addressing the risk may still remain with the originator.
52. Risks should feature as a standard agenda item at management and working group meetings. Discussions on risk should include:
 - new or emerging issues and risks
 - evaluation and criticality of new or emerging issues and risks
 - decisions required and by whom
 - mitigating actions, action owners, timescales and review points
 - ownerships of new risks
 - review of existing risks and the effectiveness of the current controls in place
53. Risks should be discussed, evaluated and escalated upwards, as appropriate, through the risk universe to ensure that the most significant risks (and mitigating actions) are reflected in the appropriate risk register.

Monitoring and reporting arrangements

Monitoring risks

54. Risk management is an ongoing process that needs to be embedded in everyday activity. The process must be reviewed on a regular basis to remain effective. It is the responsibility, therefore, of each risk owner to review risks on a regular basis and identify whether any revisions are required. The revision may involve a re-assessment of impact and likelihood or planned mitigating actions.
55. As previously stated, it is important that risk is included as a standing item on the agenda for management teams (at all levels within the organisation) and working groups so that risks can be identified and captured. As a minimum, on a quarterly basis each Director will seek assurance from individual risk champions that the risks in their assigned areas are being adequately monitored and action is being completed as agreed in formal action plans.
56. Through the risk champions and the Performance & Risk Management Group (PRMG) risks will be reviewed on a quarterly basis, including a review of the high risks facing Audit Scotland and mitigating action plans. This group will link directly with the Audit Scotland Management Team and will advise them on which risks to escalate / de-escalate for inclusion or deletion from the Audit Scotland risk register.

Action planning

57. In situations where a risk is classified as 'to be treated', and scores either 'amber' or 'red' then an action plan needs to be prepared. The action plan is the mechanism whereby:
 - the risk owner records the actions to be taken
 - the controls that need to be put in place / strengthened
 - the action owner, and
 - the timescale for implementation.
58. Additionally, the action plan should indicate whether planned actions are aimed at reducing the likelihood and / or the impact of the risk. Action updates should be provided at least quarterly to the 'risk champions' so that they can advise the Performance and Risk Management Group (PRMG) of any changes in the risk profile. The PRMG in turn would update the Audit Scotland risk register for the Audit Scotland Management Team to consider and approve, including any additional actions required to further reduce risks.

Reporting and assurance arrangements

59. Audit Scotland's risk management framework will be supported through agreed reporting and assurance arrangements. This is to ensure that the key risks and their owners are clearly identified that mitigation and specified actions are appropriate and that actions are being carried out. The arrangements, include:

Corporate level

60. Audit Scotland's Board will review and approve risk management policies and strategies. It will take advice from the Audit Committee on these matters.
61. On a routine basis the Audit Committee will receive updates on Audit Scotland's risk management framework and risks. Reporting will include:
- the risk management framework and Audit Scotland's approach to risk
 - the Audit Scotland Risk Register including associated action plans for the higher rated risks, and
 - reports on the changing risk profile within Audit Scotland including areas of increasing risk, where controls are not considered to be effective and horizon scanning for areas of possible future risk.
62. The Audit Committee will also review the Audit Scotland Risk Register at each meeting and will receive an annual report on risk management from the internal auditors. The committee will also consider input from other sources of assurance as appropriate.
63. The Audit Committee also considers a detailed risk interrogation of one of the identified risks at its meetings.
64. In its annual written report to Audit Scotland's Board, the Audit Committee will include its review of risk management and an updated version of the Audit Scotland Risk Register.
65. The Audit Scotland Management Team (ASMT) will maintain and regularly review (and update) the Audit Scotland Risk Register of the key risks facing the organisation. The ASMT while retaining ultimate responsibility for updating the Audit Scotland risk register will delegate the detailed review work to the PRMG.

Business Group level

66. Each Director / Head of a Business Group will review risks and actions in mitigation of risk on a regular basis as an integral part of the business planning process. These officers will also ensure that risks identified at a Business Group level and which may have a wider impact on the organisation are escalated through the risk universe, via risk champions initially.
67. Risk champions in each Business Group play a key role in the risk management process. They are responsible for identifying and escalating those high risks that should be considered by PRMG for inclusion in the Audit Scotland risk register. Risk champions in conjunction with

their local Business Group management teams should review on a quarterly basis and consider:

- the status of all high risks (including actions taken)
- any new risks since the last report
- changed risks from the previous report (especially where risk is increasing)
- risks escalated from Business Group / Information / Public Sector registers to the Audit Scotland Risk Register; and
- risks removed from registers.

68. The PRMG, after considering feedback from risk champions, will update the Audit Scotland risk register and provide the Audit Scotland Management Team with an overview of the risk profile across Audit Scotland

Audit/ project level

69. Risks associated with audits/ projects will be reviewed by the manager/ project sponsor or officer responsible for maintaining the project risk register depending on delegated authority. Risks identified in audit/ project risk registers will be reviewed and considered by the relevant the Business Group and will feature as part of the overall review of business group risk register.

Risk management maturity model

70. A key aspect of monitoring and reporting progress is the establishment of a Risk Maturity Model. This model provides senior management with a snapshot of where the risk processes and principles Audit Scotland employs have led to changes and progression in risk management. It provides assurance that risk management processes are fit for purpose and also identifies areas where further improvement is required. Audit Scotland's risk maturity model is attached as Appendix 5.
71. The risk maturity model will be reviewed annually by internal audit with findings discussed by the Audit Scotland Management Team (via the PRMG). The Management Team would then propose any actions to raise 'maturity' in areas of poorer performance for consideration by the Audit Committee and subsequent approval by the Audit Scotland Board.

Appendix 1: Responsibilities

Level	Role & responsibilities	Frequency
Senior Management		
Audit Scotland Board	<ul style="list-style-type: none"> Setting the tone at the top for risk management throughout the organisation Approving the overall risk management arrangements including the appetite for risk Considering reports on the operation of risk management arrangements via reports from the Audit Committee, the Accountable Officer and through consideration of the annual assurances for the completion of the annual report and accounts. 	Annually
Audit Committee	<ul style="list-style-type: none"> Scrutinising Audit Scotland's risk management framework Reviewing the strategic processes for risk, control and governance (including the Accountable Officer's Governance Statement) Monitoring the effectiveness of risk management arrangements Scrutinising Audit Scotland's approach to risk tolerance (i.e. risk appetite) Review the Audit Scotland risk register Review the scheduled risk interrogation. 	Annually At each quarterly meeting
Accountable officer	<ul style="list-style-type: none"> Specific personal responsibility for signing the annual accounts including the Accountable Officer's Governance Statement. 	Annually
Audit Scotland Management Team (ASMT)	<ul style="list-style-type: none"> Owners of the Audit Scotland risk register and are responsible for ensuring its completeness and accuracy Conducting scheduled risk interrogations Reviewing and challenging 'red' (high) risks Ensuring that there is ownership for all significant risks by a member of the ASMT Approving and recommending to Audit 	Quarterly As required

Level	Role & responsibilities	Frequency
	Committee draft risk policies & strategies <ul style="list-style-type: none"> • Determining Audit Scotland’s overall approach to risk and risk tolerance • Reviewing corporate risks including response approach (Terminate /Transfer/Tolerate /Treat) • Preparing corporate business plans incorporating risks and planned mitigating actions • Reviewing risk maturity model 	
Directors and Assistant Directors	<ul style="list-style-type: none"> • Risk owners for specified risks • Responsible for implementing the risk policy, strategy and assurance framework within their areas of responsibility and accountability • Fostering a culture of risk management and risk awareness • Preparing business plans incorporating risks and planned mitigating actions • Ensuring that all identified risks are captured in the relevant risk register and Business Group Register where appropriate • Actively manage risks through identification of mitigating controls, taking action and regularly discussing and reporting on risks • Nominating and appointing ‘risk champions to co-ordinate risk management activity within their areas of responsibility • Risk being a standing item on management meetings. 	Ongoing
Risk Forum & Risk Champions		
Performance & Risk Management Group (PRMG)	<ul style="list-style-type: none"> • Contribute to and review the Audit Scotland risk register, including: <ul style="list-style-type: none"> – testing the content against the risk prompts – testing content against audit risk and performance reports • Reviewing and challenging ‘red’(high) risks based on management information: trends, horizon scanning, areas of increasing risks, 	Quarterly

Level	Role & responsibilities	Frequency
	<p>risks where controls are not effective</p> <ul style="list-style-type: none"> • Challenging progress against risk action plans holding those to account for agreed actions • Liaising with 'risk champions' to identify possible corporate risks • Advising the ASMT on risks to be escalated for inclusion in the Audit Scotland risk register • Challenging risk registers in relation to the identification of risk, the assessment of risk and proposed mitigating actions • Ensuring proper follow-action actions are being implemented where risk exposure remains high despite mitigating controls • Providing training to staff supported by risk champions. 	Ongoing
Risk champions (Senior staff nominated by their Director to support and be integral to the risk management framework)	<ul style="list-style-type: none"> • Supporting Audit Scotland's risk management framework • Being a key reference point for staff in providing support and advice on risk management • Maintaining and updating business group risk registers • Working with other risk champions to ensure consistency of approach across the organisation • Challenging risk owners in relation to the identification of risk, the assessment of risk and proposed mitigating actions and action plans • Actively supporting PRMG by advising on risks to escalate for inclusion in the Audit Scotland risk register. 	Ongoing
Other staff		
Risk owner - the designated individual to manage and monitor risks. (For risks included in Audit Scotland risk register this must be a Director).	<ul style="list-style-type: none"> • Maintaining all aspects of risk assigned to them including the actions needed to mitigate risk and maintaining an action plan • Obtaining senior management support where necessary (e.g. deciding on target risk • Liaising with 'risk champions' to ensure that 	Ongoing

Level	Role & responsibilities	Frequency
	risk registers are kept up to date <ul style="list-style-type: none"> • Escalating risks where appropriate 	
Working groups	<ul style="list-style-type: none"> • Ensuring that risks is appropriately considered at meetings and minuted • Facilitate the sharing of best practice and lessons learnt. 	Per timetabled meetings
Colleagues	<ul style="list-style-type: none"> • Following Audit Scotland's risk management framework (including firms appointed by AS). • Understanding risk and being aware of the role of risk owners & risk champions • Good understanding of the part they play in delivering Audit Scotland's risk management framework • Being risk aware and reporting potential risks to line management for consideration. 	Ongoing
Internal audit		
Internal audit	<ul style="list-style-type: none"> • Internal audit work is undertaken on the major risks faced by the organisation and the effectiveness of associated controls is assessed. • Independent assurance is provided more generally on the management of risk. 	Part of annual audit programme of work

Appendix 2: Risk register format

	Risk description	Gross risk			Controls in place	Net risk			Prev. net risk / change	Planned actions, owners and timescales	Target Risk & mitigation date	Risk Owner
		L	I	Tot		L	I	Tot				
Vision : To be a world class audit organisation that improves the use of public money												
1.	<p>Failure to deliver our vision</p> <p>We do not deliver on our vision to be world class audit organisation that improves the use of public money.</p>	3	5	15	<p>Active controls:</p> <ul style="list-style-type: none"> - Board, MT, LG - External engagement by AC, AGS, CoA and AS - Engagement with SCPA - Strategic plans (Public Audit in Scotland, AC strategy, Corporate plan). <p>Monitoring controls:</p> <ul style="list-style-type: none"> - Annual reports - Quarterly performance & BWC reporting 	2	4	8	8 ➔	<p>Actions</p> <ul style="list-style-type: none"> - BWC programme 2015-18 - Corporate Plan update 2016 (DM) <p>Objectives</p> <p>BWC improvement programme and corporate plan identify improvement objectives to deliver the vision.</p> <p>Review</p> <p>Annual Reports 2015/16</p>	4 31/03/17	CG

Notes

- All risk register should follow the same format as the Audit Scotland risk register
- Gross and net risk scores should be colour coded in accordance with Audit Scotland's risk scoring matrix
- High ('red') net risks should be escalated for inclusion in the Audit Scotland risk register, as appropriate
- Net risk from the previous review period should included in the register for monitoring purposes
- The change in risk profile from one period should be backed up by detailed notes
- Target risk is the level of tolerable risk where no further mitigating actions are required
- The risk register is intended to be a dynamic document reflecting the fact that risks may change between formal reviews. The register will be updated between reviews to reflect changes in risks as they are identified.

Appendix 3 - Risk prompts and tools

Many risk prompts and tools exist and risks are most likely to be identified where different tools are adopted based on the circumstances.

Some options are covered below and the PMRG will develop further guidance as required.

Environmental scanning approaches

Using established tools including

- PESTLE analysis (**P**olitical, **E**conomic, **S**ocial, **T**echnological, **L**egal, **E**nvironmental)
- SWOT analysis (**S**trengths, **W**eaknesses, **O**pportunities, **T**hreats)

Process based approach

- Input risks; including - financial, employees, assets, ICT
- Process risks; including - management processes, methodology
- Output risks; including - quality, timeliness, relevance, demand
- Outcome risks; including - impact, effectiveness, reputation.

Prince2 prompts

- Strategic/ commercial risks
- Economic/ financial/ market risks
- Legal and regulatory risks
- Technical/ operational/ infrastructure
- Organisational/ management/ human factors
- Political factors
- Environmental factors

Corporate strategy prompts

Is there a risk of.....

Vision : To be a world class audit organisation that improves the use of public money
Failure of vision - We do not have a clear vision for the organisation
Failure of shared vision - Divergence of views on direction amongst; AGS, AC, AS, Board, Scottish Parliament, Audited bodies
Failure to deliver our vision - We do not deliver on the objectives contained in our vision
Failure of legitimacy - Our vision is not shared by key stakeholders
Failure of independence - A real/ perceived lack of independence and/or impartiality undermines the impact/value of our work
Failure of relevance - We are unable to manage changing stakeholder expectations effectively leading to a decline in relevance
Failure of reputation - Failure of quality, independence, impact, missed issue, governance or resource management results in damage to credibility, particularly in heightened political climate
Failure of clarity - Lack of understanding about the respective roles of AC, AGS, AS amongst stakeholders
What we do : Helping to improve by holding to account: auditing, reporting, recommending actions
Failure of focus and scope - Our audits focus on the wrong issues, are not timely or miss a significant issue
Failure of quality - We do not deliver quality work leading to reduced confidence and impact.
Failure of impact and influence - Audits do not lead to improvement
Failure of innovation - We fail to innovate and improve, or innovation and improvement are not subject to appropriate control
Failure of capacity - We are unable to meet the demand for audit under the new financial powers and fiscal framework

Failure of process - Our audit work is not carried out in accordance with procedures
Failure of communication (external) - Our messages are not clear to stakeholders (inc audit reports and other corporate communications)
How we do it: Quality & Impact, Knowledge Management, Innovation, Value for Money, Valuing People, One Organisation
Failure to achieve value for money - We fail to achieve or demonstrate value for money
Failure to operate as one organisation - We fail to work effectively across the organisation leading to fragmented impact, mixed messages and inefficiency
Failure of culture - Our culture does not support our vision of becoming work class
Failure of governance - Our governance arrangements fail to manage business effectively
Failure of communication (internal) - Our internal communication arrangements fail to manage communications effectively
Failure of resourcing (people) - We fail to recruit, retain, develop and motivate people with skills we need to do our work leading to reduced quality of our work
Failure of resourcing (people) - Capacity (numbers), Capacity (skills), Recruitment (market impact), selection, induction, skills, training and development, performance management, departure, succession planning
Failure of resourcing (financial) - Budget planning, Budget management, Procurement, Payment
Failure of resourcing (assets) - Edinburgh office move, office availability
Failure of resourcing (ICT) - Systems loss, data loss
Failure of process (performance management) - Our performance management arrangements fail to support us effectively
Failure of process (risk management) Our risk management arrangements fail to identify and manage risk effectively

Appendix 4 - Risk impact descriptions

Description	Financial	Injury or Illness	Asset Loss	Business Continuity	Reputational	Corporate Objectives	Regulatory & Legal
Insignificant	<£50k	Minor injury, or illness, first aid, no days lost	Minor damage to single asset	<0.5 days	Minor media interest	<2.5% variance	Act or Omission resulting in Legal or Regulatory breach causing insignificant impact loss (as categorised in other six impact categories)
Minor	£50k – 100K	Minor injury, or illness, medical treatment, days lost	Minor damage to multiple assets	0.5>1 day	Headline media interest	2.5-5% variance	As above Causing minor loss
Moderate	£0.1>0.25 m	Moderate injury, medical treatment, hospitalisation, <14 days lost, RIDDOR reportable	Major damage to single or multiple assets	1>7 days	Headline media interest causing public embarrassment	5-10% variance	As above Causing moderate loss
Major	£0.25m> 0.5m	Single death, extensive injuries, long-term illness (>14 days)	Significant loss of assets	7>30 days	Short-term media campaign	10-25% variance	As above Causing major loss
Severe	>£0.5m	Multiple deaths or severe disabilities	Complete loss of assets	>30 days	Sustained media campaign/ lobbying	>25% variance	As above Causing catastrophic loss and Legal or

Appendix 4 - Risk impact descriptions

Description	Financial	Injury or Illness	Asset Loss	Business Continuity	Reputational	Corporate Objectives	Regulatory & Legal
							regulatory supervision

Appendix 5 - Risk maturity model

	Risk Governance	Risk identification & assessment	Risk mitigation & treatment	Risk reporting & review	Continuous improvement
Enabled	Risk management and internal control is fully embedded into operations. All parties play their part and have a share of accountability for managing risk in line with their responsibility for the achievement of objectives.	There are processes for identifying and assessing risks and opportunities on a continuous basis. Risks are assessed to ensure consensus about the appropriate level of control, monitoring and reporting to carry out. Risk information is documented in a risk register.	Responses to the risks have been selected and implemented. There are processes for evaluation risks and responses implemented. The level of residual risk after applying mitigating controls is accepted by the organisation, or further mitigations have been planned.	High quality, accurate and timely information is available to operational management and directors. The board reviews the risk management strategy, policy and approach on a regular basis e.g. annually, and review key risks, emergent & new risks, and action plans on a regular basis.	The organisational performance management framework and reward structure drives improvements in risk management. Risk management is a management competency. Management assurance is provided on the effectiveness of their risk management on a regular basis.
Managed	Risk management objectives are defined & managers are trained in risk management techniques. Risk management is written into performance	There are clear links between objectives and risks at all levels. Risk information is documented in a risk register. The organisation's risk	There is clarity over the risk level that is accepted within the organisation's risk appetite. Risk responses are appropriate to satisfy the risk appetite of the	The board reviews key risks, emergent and new risks, and action plans on a regular basis. It reviews the risk management strategy, policy and approach on a regular	The organisation's risk management approach and the Board's risk appetite are regularly reviewed and refined in light of new risk information reported.

	Risk Governance	Risk identification & assessment	Risk mitigation & treatment	Risk reporting & review	Continuous improvement
	<p>expectations of managers. Management and executive level of responsibilities for key risks have been allocated.</p>	<p>appetite is used in the scoring system for assessing risks. All significant projects are routinely assessed for risk.</p>	<p>organisation have been selected and implemented.</p>	<p>basis (annually). Directors require interim updates from delegated managers on individual risks which they have personal responsibility.</p>	<p>Management assurance is provided on the effectiveness of their risk management on an ad hoc basis. The resources used in risk management are become quantifiably cost effective. KPIs are set to improve certain aspects of risk management activity e.g. number of risks materialising or surpassing impact – likelihood expectations.</p>
Defined	<p>A risk strategy and policies are in place and communicated. The level of risk taking that the organisation will accept is defined and understood in some parts of the organisation, and it is used to consider the</p>	<p>There are processes for identifying and assessing risks and opportunities in some parts of the organisation but not consistently applied in all. All risks identified have been assessed with a defined scoring system. Risk</p>	<p>Management in some parts of the organisation are familiar with, and able to distinguish between, the different options available in responding to risks to select the best response in the interest of the organisation.</p>	<p>Management have set up methods to monitor the proper operation of key processes, responses, and actions plans. Management report risks to directors where responses have not managed the risks to a level acceptable to the</p>	<p>The Board gets minimal assurance on the effectiveness of risk management.</p>

	Risk Governance	Risk identification & assessment	Risk mitigation & treatment	Risk reporting & review	Continuous improvement
	most appropriate responses to the management of identified risks. Management and executive level of responsibilities for key risks have been allocated.	information is brought together for some parts of the organisation. Most projects are assessed for risk.		board.	
Aware	There is a scattered, silo-based approach to risk management. The vision, commitment and ownership of risk management have been documented. However, the organisation is reliant on a few people for the knowledge, skills and the practice of risk management activities on a day-to-day basis.	A limited number of managers are trained in risk management techniques. There are processes for identifying and assessing risks and opportunities, but these are not fully comprehensive or implemented. There is no consistent scoring system for assessing risks. Risk information is not fully documented.	Some responses to the risks have been selected and implemented by management according to their own perception of risk appetite in the absence of a board-approved appetite for risk.	There are some monitoring processes and ad hoc reviews by some managers on risk management activities.	Management does not assure the Board on the effectiveness of risk management.

	Risk Governance	Risk identification & assessment	Risk mitigation & treatment	Risk reporting & review	Continuous improvement
Naive	No formal approach developed for risk management. No formal consideration of risks to business objectives, or clear ownership, accountability and responsibility for the management of key risks.	Processes for identifying and evaluating risks and responses are not defined. Risks have not been identified nor collated. There is no consistent scoring system for assessing risks.	Responses to the risks have not been designed or implemented.	There are no monitoring processes or regular reviews of risk management.	Management does not assure the Board on the effectiveness of risk management.

Source: Internal audit report on Risk Management (January 2014)

AUDIT SCOTLAND BOARD

3 MAY 2016

REPORT BY THE ASSISTANT DIRECTOR, CORPORATE PERFORMANCE AND RISK DRAFT INFORMATION SECURITY MANAGEMENT POLICY

1. Purpose of Report

This report invites the Board to approve a revised Information Security Management Policy.

2. Background

The Board approved the Information Services Strategy at its meeting on 17 September 2015. The strategy set out how we are using information technology to support our aim of being a world class audit organisation.

At the same meeting the Board re-approved the Data Protection, Freedom of Information, Records Management and Information Security policies for a further year. The Board also noted that Management Team had requested review be undertaken of our policies and our process for managing them to:

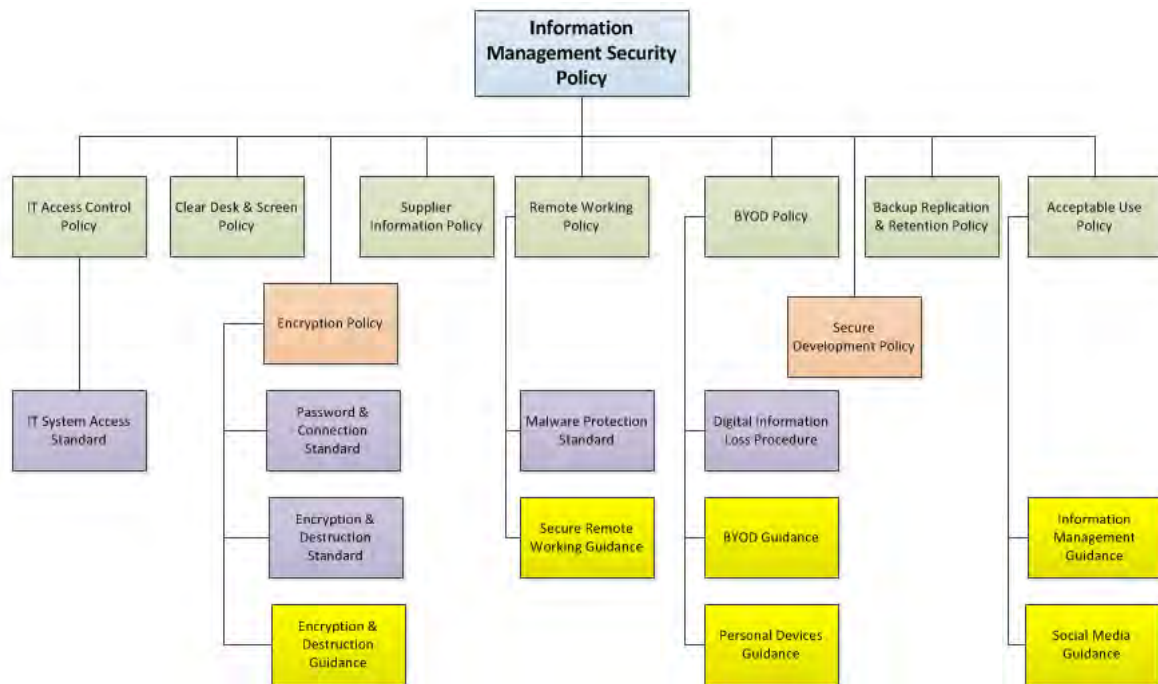
- rationalise, consolidate and simplify the policies wherever possible
- ensure that they are consistent with the culture of empowering and enabling colleagues to work in a flexible way, while retaining the appropriate safeguards, and ensure that this is reflected the tone and language of the policies
- rationalise and enhance 'user friendly' guidance to support the practical implementation of the policies where required
- review the frequency, ownership and authorising environment is appropriate and fit for purpose.

In parallel we are working to achieve ISO 27001:2013 Information Security certification. To achieve certification we must successfully complete two external audits. The first 'stage 1 audit' on 9th May 2016 will review the Information Security Management System documentation and the second 'stage 2' audit, scheduled approximately 12 weeks later (date confirmed following successful Stage 1 audit) will be a more detailed audit to test that our policies and procedures are working in practice.

3. The information security management system

The Information Security Management System (ISMS) comprises of policies, procedures and standards that support world class information security. These

documents are structured in a hierarchical manner and devolve responsibility as shown in diagram below.



Key



The attached Information Security Management Policy is overarching policy for the ISMS. It sets out the overarching principles of information security and the associated roles and responsibilities. All other information security sub-policies, procedures and standards are controlled by this policy and derive responsibility from it. Each level of responsibility must report any policy exceptions and non conformity to its oversight group.

The ISMS and the Information Security Management Policy were reviewed and agreed by Management Team at its meeting on 12 April 2016.

4. Recommendation

The Board is invited to:

- note the ISMS structure and
- review and approve the Information Security Management Policy

Information Security Management Policy

Version:	1.2	Status:	Approved by Management Team (pending Board approval)
Author/Owner:	IT Manager	Approval/Review:	Management Team and Board
Approval Date:	12 April 2016	Review Date:	3 May 2017

Introduction

1. This policy sets out Audit Scotland's strategic commitment to Information Security Management.
2. Audit Scotland will ensure the confidentiality, integrity, quality and availability of all the information it holds and processes.
3. Audit Scotland will ensure all the information it holds and processes will meet its contractual, legal and regulatory obligations.

Scope

4. 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 or contract termination.

Commitments

5. Audit Scotland will take appropriate action to ensure the confidentiality, integrity and quality of all the information it holds and processes.
6. Audit Scotland will produce, maintain and test business continuity plans to ensure the availability of its information and information systems.
7. Audit Scotland will treat information security as a business critical issue.
8. Audit Scotland will ensure that its information is open and not restricted by financial or legal agreements.
9. Audit Scotland will ensure legislative and regulatory requirements are met (including intellectual property rights).

10. Audit Scotland will identify and implement appropriate controls for information assets proportionate to levels of risk.
11. Audit Scotland will communicate all appropriate information security policies to all employees, contractors, consultants, clients and other stakeholders.
12. Audit Scotland will allocate individual accountability for compliance with all appropriate information security policies, standards, guidance and procedures.
13. Audit Scotland will continue to improve its information security management.
14. Audit Scotland will develop, implement and maintain an Information Security Management System (ISMS) in accordance with the best practice contained within ISO/IEC 27001:2013 and ISO/IEC 27002:2013.

Responsibilities

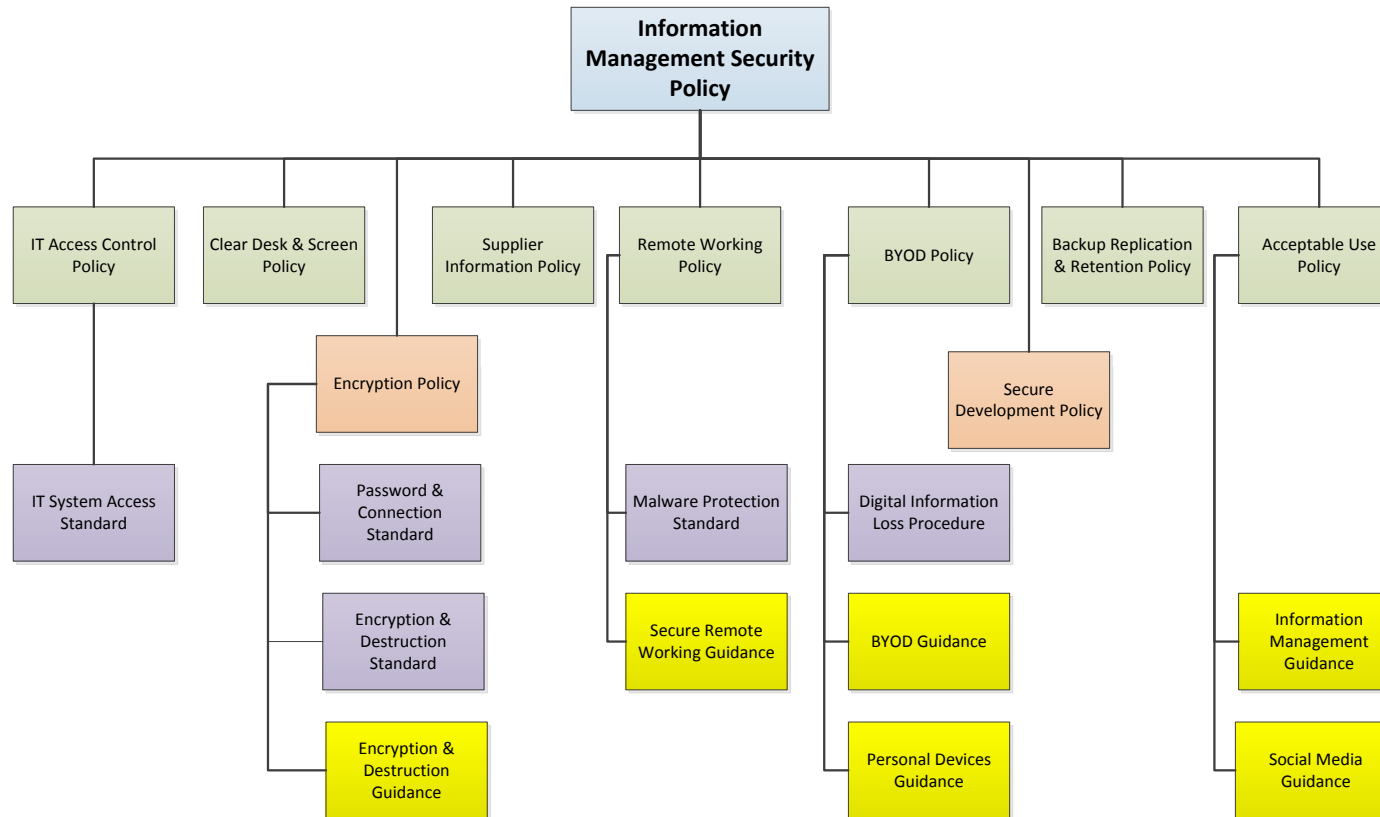
15. Audit Scotland's Board through its Audit Committee has oversight of risks, including information risks.
16. Audit Scotland's Accountable Officer, with support from the Management Team, has overall responsibility for ensuring this policy is effectively implemented and delivered.
17. Audit Scotland's Senior Information Risk Officer is the Chief Operating Officer, who is responsible for the overall management of the organisation's information risks.
18. 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.
19. 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.
20. 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.
21. The KITGG will ensure all information security policies and our performance in meeting their requirements is monitored and reviewed on an annual basis.
22. The Information Services Management Team (ISMT) 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.

- 23. The Corporate Governance Manager is responsible for updating Audit Scotland's data protection notification, managing data subject access requests and providing advice to staff.
- 24. Information Asset Owners must understand the information held by their business area, and approve the permissions required to access it.
- 25. All Managers will be responsible for implementing and communicating appropriate information security policies, guidance and procedures.
- 26. All employees, contractors and consultants employed by Audit Scotland are required to play an active role in the protection of company assets and treat information security appropriately in order that this purpose can be achieved.

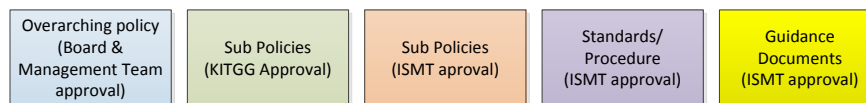
Change Log

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.

Appendix 1



Key



AUDIT SCOTLAND BOARD

3 MAY 2016

REPORT BY THE ASSISTANT DIRECTOR, CORPORATE PERFORMANCE AND RISK PUBLICATION OF BOARD PAPERS

1. Purpose of report

This paper provides guidance for Board members on the publication of papers.

2. Background

At its meeting on 26 February the Board considered a report on options to support greater openness and transparency. The Board agreed that Board papers should be published on the Audit Scotland website in addition to the agendas and minutes.

At its meeting on 24 March the Board considered the process for determining public and private papers, guidance to support this and the arrangements to support the publication process.

The draft minute of the meeting notes that members 'agreed to implement the new arrangements with effect from the papers for the May 2016 meeting. Members also agreed that the effectiveness of the arrangements should be reviewed after six months'.

The working assumption is that the majority of Board papers will be public. However there may be some instances where it is appropriate that papers will be private. The main categories where papers may be considered private are:

- statutory/security/legal
- commercial sensitivity
- effective conduct of business.

3. Public and private papers - guidance

Appendix 1 to this report is a short summary of the categories where papers may be considered private.

Appendix 2 to this report is the more detailed guidance agreed by the Board at its last meeting.

4. Recommendation

The Board is invited to use the attached guidance to help inform its determination of public and private papers.

Summary guidance on publication of Board papers

1. In February 2016 the Audit Scotland Board agreed that board papers should be published on the Audit Scotland website alongside the agenda and minutes of the meetings. The Board agreed additional guidance on this at its meeting on 24 March 2016.
2. This guidance offers advice on determining which papers are appropriate for publication.
3. The presumption is that Board papers will be public unless they contain information which falls into one of the following categories:
 - Statutory/ security/ legal: including
 - Personal information
 - Danger to health and safety
 - Danger to security
 - Prohibitions on disclosure
 - Legally privileged information
 - Information provided in confidence
 - Commercial sensitivity
 - Effective conduct of business: including:
 - Prejudicing the free and frank provision of advice/ exchange of views for the purposes of deliberation/ conduct of public affairs
 - Information intended for future publication
4. Even in these circumstances papers may be published subject to specific redactions from the text.
5. The detailed guidance is available [here](#).

Board papers

Guidance



Prepared for Colleagues
March 2016

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

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Introduction

Background

1. Openness and transparency are fundamental to effective governance and are guiding principles in our Corporate Plan, where we state 'We expect high standards of governance of the organisations we audit and we set high standards for our own governance. We believe that a world-class organisation requires world-class governance arrangements'.
2. In February 2016 the Audit Scotland Board agreed that board papers should be published on the Audit Scotland website alongside the agenda and minutes of the meetings. The Board agreed additional guidance on this at its meeting on 24 March 2016.
3. This guidance offers advice on determining which papers are appropriate for publication.
4. The presumption is that Board papers will be public unless they contain information which falls into one of the following categories:
 - Statutory/ security/ legal
 - Commercial sensitivity
 - Effective conduct of business
5. Even in these circumstances papers may be published subject to specific redactions from the text.

General guidance

6. Audit Scotland has a long standing commitment to clear and concise reporting and reports and other papers should be written in plain and easy to understand language. Further guidance can be found in the [A-Z style guide](#).
7. Board papers should be prepared on the presumption that they will be published and this should be reflected in the tone and content of the report when authors are preparing them.
8. In addition, papers must be supplied in a timely fashion in advance of Board meetings to provide for quality assurance checking. Papers should therefore be supplied one week in advance of the issue date i.e. **two weeks in advance of the Board meeting date** (See appendix).
9. If a report author considers that a report should be a private paper they should bring this to the attention of the Chief Operating Officer along with an explanation of why this should be the case (with reference to the criteria set out below).
10. At the end of its meeting the Board will be invited to confirm which of the papers should be classified as private and the reason for this. This will be reflected in the Board minutes.
11. Board papers will then be published on the website alongside the relevant agenda and minutes when the minute has been agreed by the Board.

Guidance on public and private papers

Introduction

12. We have developed a range of criteria to inform decisions on whether a paper should be private. We used the Freedom of Information (Scotland) Act 2002¹ (FOISA) as a starting point, the logic being that the act presumes openness but also recognises some instances where a degree of privacy is appropriate.
13. The criteria have also been developed with reference to the criteria currently used by the Accounts Commission, the Data Protection Act 1998² and the Local Government (Scotland) Act 1973³, which sets out the criteria for 'exempt items'.
14. All papers remain open to FOI requests and any exemptions are subject to the public interest test.
15. There are three main categories:
 - Statutory/ security/ legal
 - Commercial sensitivity
 - Effective conduct of business
16. The next sections offer more detail on the criteria and the relevant FOI exemptions are shown in brackets.

Statutory/ security/ legal

17. This category includes:
 - Personal information (38)
 - Danger to health and safety (39)
 - Danger to security (30)
 - Prohibitions on disclosure (26)
 - Legally privileged information (36)
 - Information provided in confidence (36)
18. We anticipate that very few Board papers would fall into this category.

¹ [Freedom of Information \(Scotland\) Act 2002](#)

² [Data Protection Act 1998](#)

³ Local Government (Scotland) Act 1973 [Schedule 7a](#)

Personal information

19. 'Personal information means information about any identifiable living individual. Board reports may contain information about members and others persons attending meetings (their attendance, reports of their views and opinions, actions upon them), and information about third parties who are mentioned in discussions.
20. Personal information is protected by the Data Protection Act, which makes it unlawful to transfer or release personal information unless certain conditions are met. This is recognised by section 38 of FOISA which allows personal information to be withheld if its release to a third party would contravene the Data Protection Act.
21. Some personal information dealt with by the Board could be public, and some should be private, for example if releasing it into the public domain would breach the Data Protection Act. The Information Commissioners (the bodies which regulate Freedom of Information and Data Protection⁴) have suggested that public bodies can release certain types of personal information in response to Freedom of Information requests, because doing so does not contravene the principles of the Data Protection Act and is in the interests of accountability.
22. This includes:
 - Basic information about staff in a work capacity, such as names, job titles, roles and responsibilities and work contact details - much of which Audit Scotland publishes on the website.
 - Grades and salary bands of staff (although not specific salaries, except for staff earning over £100,000 where the Information Commissioner suggests salaries should be disclosed).
 - Decisions and actions taken by staff in an official or work capacity, unless the information is exempt for some other reason.
23. Information in these categories can be held back in rare situations where releasing it might endanger an individual's health or safety.
24. Board members serve on the Board and its committees in an official capacity. The guidance above suggests that membership on a committee, members' views and opinions expressed at meetings and actions upon them should not be withheld as personal data. This information should go into open business unless it falls under an item where another Freedom of Information exemption applies, for example a report of a committee member's opinion on a matter which is commercially sensitive.
25. Based on the Information Commissioner's guidance, the following information about third parties can be dealt with under public business and published in public minutes:
 - Routine notices of the appointment, departure or promotion of staff (but not details of reasons, discussions prior to the event etc.).

⁴ Data Protection is covered by the UK Information Commissioner, FOI is covered by the Scottish Information Commissioner

- Information about the roles, duties and responsibilities of staff.
 - Minor references to individuals which do not convey anything substantive about them.
 - Information which is already in the public domain (e.g. on the Audit Scotland website).
 - Information about the decisions or actions of staff in an official or work capacity, unless it is exempt for other reasons.
26. Other personal information which might on occasion come before the Board should go into private business, as releasing it could breach the privacy rights of individuals under the Data Protection Act. The following are examples of information that should be considered in private:
- Sensitive employment-related information about individual staff (grievance, discipline, performance etc.).
 - Information about the health, welfare or personal lives of individuals.
27. The Board will sometimes discuss posts rather than individuals. Information about a post is not necessarily personal data: e.g. discussion about creating a post will not be personal data because no one holds the post. However, information about a post will be personal information if the post can be associated with an individual through sources such as the website. Whether discussion about a post should go into public or private business will therefore depend on the wider context and the factors outlined above.
28. As personal information can make it difficult to place minutes into the public domain, it is good practice to adopt a style of writing which de-personalises minutes as far as possible.

Danger to health and safety

29. Information whose release might endanger the health or safety of any person should always be dealt with in private, as it is likely to be exempt under section 39 of FOISA. This might occur if there was a risk that placing the information in the public domain would lead to an individual receiving threats or harassment, or would aggravate a known medical condition such as a mental illness.

Danger to security

30. An item should be considered in private if it involves information whose release would be likely to endanger the organisation's security. For example, if it would:
- reveal sensitive information about security arrangements, procedures and monitoring systems;
 - compromise IT security systems and protocols; or
 - reveal financial procedures and processes which might make it easier for someone to defraud the organisation.
31. This information is likely to be exempt under section 30c of FOISA. However, detailed information like this should not normally be recorded in minutes.

Legally privileged information

32. Discussions about legal advice provided to Audit Scotland or another organisation, or communications with the organisation's solicitors, should always be considered as private business. This information is likely to be exempt under section 36 of the FOISA.

Information supplied in confidence

33. If an agenda item involves information which then the item should be considered in private, as it may involve the discussion of information whose release would be an actionable breach of confidence (i.e. the Audit Scotland could be taken to court). Examples include information which:
- has been supplied by an organisation or individual outside Audit Scotland
 - the information is not in the public domain; and
 - we do not have permission to make the information available; and
 - the supplier of the information has indicated that they regard it as confidential; or
 - a reasonable person would assume that permission should be sought before making the information publicly available.
34. This information is likely to be exempt from release under section 36 of FOISA.

Commercial sensitivity

35. Commercially sensitive information is information whose release would harm the commercial interests of Audit Scotland or another organisation. Items which are likely to involve commercially sensitive information should be considered as private business, as the information may be exempt under section 33 of FOISA. Examples might be:
- Discussion about forthcoming contracts, negotiations or purchases.
 - Details of ongoing negotiations, where release of information might jeopardise the negotiations or Audit Scotland's bargaining position.
 - Sensitive pricing or operational information and trade secrets received from suppliers, tenderers, contractors etc.
36. High-level financial information about Audit Scotland's income and expenditure will not usually be commercially sensitive. However, detailed breakdowns of financial information might be exempt in certain circumstances: e.g. if it would reveal the price charged by a supplier, or the salary of an individual (see Personal data).
37. Confidential information and commercially sensitive information will often overlap. For example, information from a contractor may be supplied in confidence, and also be commercially sensitive to the contractor.

Commercial interests and the economy⁵

38. Section 33 of FOISA contains four distinct exemptions. Information may be withheld if:
- it is a trade secret (section 33(1)(a))
 - disclosure would (or would be likely to) prejudice substantially the commercial interests of any person or organisation (section 33(1)(b))
 - disclosure would (or would be likely to) prejudice substantially the economic interests of the whole or part of the UK (section 33(2)(a)) or
 - disclosure would (or would be likely to) prejudice substantially the financial interests of an administration in the UK (section 33(2)(b)).
39. All of the exemptions in section 33 are subject to the public interest test. This means that, even if the exemption applies, the information must be disclosed unless the public interest in withholding it outweighs the public interest in disclosing the information.
40. The exemptions in section 33(1) don't last forever. In general, they can't be applied to information that is more than 15 years old. However, the exemptions in section 33(2) can be applied to information regardless of how old it is.

'Commercial confidentiality'

41. Information which is commercially sensitive is often described as being 'commercially confidential'. However, there is no single exemption in FOISA covering 'commercial confidentiality'. FOISA draws a distinction between information where disclosure would have a detrimental effect on commercial interests, and information which is 'confidential' under Scots law.

Effective conduct of business

42. This category includes papers/ information which:
- Prejudice the free and frank provision of advice, exchange of views for deliberation or effective conduct of public affairs (30)
 - is intended for future publication (27)

Free and frank advice and discussion

43. Section 30 of FOISA allows information to be withheld if releasing it would prejudice 'the free and frank provision of advice', 'the free and frank exchange of views for the purposes of deliberation' or 'the effective conduct of public affairs'.

⁵ Scottish Information Commissioner guidance
<http://www.itspublicknowledge.info/Law/FOISA-EIRsGuidance/section33/Section33.aspx>

44. Under this criteria, it would be valid to consider in private high-level policy or strategic discussions (for example about the future of the organisation), if release of the record of the discussions would prejudice/ constrain the discussions or similar discussions in the future. However, this should be done sparingly, as Audit Scotland would need to make a strong case in order to use this exemption in response to a Freedom of Information request. It is also more likely to apply to a detailed record of who said what at a meeting, rather than to what was decided at the meeting.

Information intended for future publication

45. Section 27 of FOISA allows for information to be withheld if it is intended for future publication.
46. It would be appropriate to consider draft versions of plans and strategies in this category as these documents would be published in final form in due course.
47. The guidance on this states 'The exemption in section 27(1) applies to documents which are ready for publication and to information in draft form where further work on it needs to be carried out. It will include information published at regular intervals, such as annual or quarterly reports, or minutes of scheduled meetings, where it is easy to demonstrate a commitment to publish the information within 12 weeks. But it could also include drafts of speeches, press releases and announcements, or incomplete data from a fact-finding project, as long as the final version of the information is due to be published within 12 weeks'.
48. It would also be appropriate to consider discussion papers and options papers in this category where they are part of an ongoing process which would ultimately result in a decision paper being submitted to the Board.

FOI requirements and the public interest test

49. All of the categories and criteria should be used sparingly and the presumption should be for publication wherever possible.
50. In addition, while the FOISA exemptions have been used as a guide for helping to determine public / private papers all exemptions under the Act are subject to the public interest test.
51. The test requires authorities to undertake a balancing exercise to consider the public interest in disclosing information and the public interest in maintaining the exemption. Where the public interest in maintaining the exemption outweighs the public interest in the disclosure of the information, then the information can be withheld. If the public interest in disclosing the information is equal to or greater than the public interest in maintaining the exemption, then the information must be disclosed.

Appendix - Board dates 2016

Meeting	Submit papers	Issue papers	Meeting date
May	19/04/16	26/04/19	03/05/16
June	19/05/16	26/05/16	02/06/16
August	04/08/16	11/08/16	18/08/16
September	01/09/16	08/09/16	15/09/16
October	13/10/16	20/10/16	27/10/16
December	17/11/16	24/11/16	01/12/16

AUDIT SCOTLAND BOARD ON 2 JUNE 2016 AT THE CONCLUSION OF THE AUDIT COMMITTEE AND REMUNERATION AND HUMAN RESOURCES COMMITTEE MEETINGS HELD IN THE OFFICES OF AUDIT SCOTLAND, 102 WEST PORT, EDINBURGH

A G E N D A

1.	Apologies
2.	Declarations of interest
3.	Chair's Report – Verbal update
4.	Accountable Officer's Report – Verbal update
5.	Accounts Commission Chair's Report – Verbal update
6.	Minutes of the meeting dated 3 May 2016
7.	Minutes of the Remuneration and Human Resources Committee meeting dated 24 March 2016
8.	Review of Actions Tracker
Performance Information	
9.	Q4 Financial Performance Report – Report by the Corporate Finance Manager
10.	Q4 Corporate Performance Report – Report by the Assistant Director, Corporate Performance and Risk
11.	Q4 Becoming World Class Improvement Programme – Report by the Assistant Director, Corporate Performance and Risk
Annual Assurance and Accounts	
12.	2015/16 Carbon Scrutiny Board Annual Report - Report by the Assistant Director, Audit Services Group
13.	2015/16 Monitoring Report on Equalities – Report by the Chair of Diversity & Equality Steering Group
14.	2015/16 Governance Statement on Internal Control and Certificate of Assurance – Report by the Chief Operating Officer
15.	2015/16 Annual Report from the Chair of the Audit Committee to the Board– Report by the Chair of the Audit Committee
16.	Draft Annual Report and Accounts – Report by the Corporate Finance Manager and Communications Manager
Items for Information, Discussion and Approval	
17.	Becoming World Class <ul style="list-style-type: none"> (a) Securing World Class Audit: Review of Funding and Fees – Report by the Assistant Auditor General (b) Securing World Class Audit: Final Audit Appointments 2016-2021 – Report by the Assistant Auditor General (c) Making A Difference: New Approach to Auditing Best Value – Report by the Director of Performance Audit and Best Value (d) Building a Better Organisation: Inverness Office Relocation – Report by the Corporate Finance Manager
18.	Accounts Commission Strategy 2016-21 and Engagement Strategy 2016/21 – Report by the Secretary to the Accounts Commission
19.	Climate Change Plan 2015/16 to 2019/20 – Report by the Assistant Director, Performance Audit and Best Value
20.	Publication Schedule and Forward Programme - Report by the Assistant Director, Performance Audit and Best Value and the Communications Manager
21.	Publication of reports
22.	AOB
23.	Date of next meeting <ul style="list-style-type: none"> • 18 August 2016 at the conclusion of the Audit Committee meeting in the offices of Audit Scotland, 102 West Port, Edinburgh. <p><i>Please submit your apologies to Joy Webber</i></p>

Minutes of Meeting of **Audit Scotland** held on 2
June 2016 in the offices of Audit Scotland at 102
West Port, Edinburgh

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

APOLOGIES: None

IN ATTENDANCE: D McGiffen, Chief Operating Officer
R Frith, Assistant Auditor General
M Walker, Assistant Director, Corporate Performance and Risk
M Roberts, Senior Manager, Performance Audit and Best Value

<u>Item No</u>	<u>Subject</u>
1.	Apologies
2.	Declarations of Interest
3.	Chair's Report
4.	Accountable Officer's Report
5.	Accounts Commission Chair's Report
6.	Minutes of the meeting dated 3 May 2016
7.	Minutes of the Remuneration and Human Resources Committee meeting dated 24 March 2016
8.	Review of the Actions Tracker
9.	Q4 Financial Performance Report
10.	Q4 Corporate Performance Report
11.	Q4 Becoming World Class Improvement Programme
12.	2015/16 Carbon Scrutiny Board Annual Report
13.	2015/16 Monitoring Report on Equalities
14.	2015/16 Governance Statement on Internal Control and Certificate of Assurance
15.	2015/16 Annual Report from the Chair of the Audit Committee to the Board
16.	Draft Annual Report and Accounts
17.	Becoming World Class: (a) Securing World Class Audit: Review of Funding and Fees (b) Securing World Class Audit: Final Audit Appointments 2016-21 (c) Making a Difference: New Approach to Auditing Best Value (d) Building a Better Organisation: Inverness Office Relocation
18.	Accounts Commission Strategy 2016-21 and Engagement Strategy 2016/17
19.	Climate Change Plan 2015/16 to 2019/20
20.	Publication Schedule and Forward Programme
21.	Publication of Board Papers
22.	AOB
23.	Date of next meeting

1. Apologies

There were no apologies.

2. Declarations of Interest

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

3. Chair's Report

Ian Leitch advised that, since the previous meeting of the Board, he had held regular meetings with Caroline Gardner, Auditor General for Scotland and Diane McGiffen, Chief Operating Officer, and that he had met prior to this morning's meeting with Russell Frith, Assistant Auditor General to discuss papers scheduled for discussion at item 17.

The Chair advised that planning was underway for the Board development event.

4. Accountable Officer's Report

Caroline Gardner provided an update on her activity since the previous board meeting, including ongoing development of ways to support the new Parliament.

Caroline reported on the publication of the Common Agricultural Policy Futures programme: an update and advised on communication with new cabinet secretaries following the appointment of the new Scottish Cabinet.

She also advised that once the new parliamentary committee structure and membership is announced she will make contact with new Convenors. She reported on the work of Antony Clark, Assistant Director, Performance Audit and Best Value to lead our engagement with the new parliament and to strengthen relationships with the Parliamentary committee clerks.

Caroline advised that there was a further embargo on publications in advance of the EU referendum on 23 June 2016.

5. Accounts Commission Chair's Report

Douglas Sinclair provided an update on the work of the Accounts Commission since the previous meeting of the Board. He advised that there had been recent consideration of Engagement strategy and annual report, which had been recently published and that he and the Secretary had recently met with the Scottish Local Government Partnership. He advised that he was looking forward to an early meeting with the new Ministerial team for local government.

6. Minutes of the meeting dated 3 May 2016

The Board considered the note of the meeting of the Board on 3 May 2016, which had been previously circulated, and confirmed the note was an accurate record of the meeting.

7. Minutes of the Remuneration and Human Resources Committee meeting dated 24 March 2016

The Board considered the note of the meeting of the Remuneration and Human Resources on 24 March 2016 and adopted the minute as an accurate record of the meeting.

8. Review of the Actions Tracker

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

9. Q4 Financial Performance Report

The Board noted the Q4 Financial Performance Report which had been previously circulated and discussed at the earlier meeting of the Audit Committee.

10. Q4 Corporate Performance Report

Martin Walker, Assistant Director, Corporate Performance Risk, introduced the Q4 Corporate Performance report, a copy of which had been previously circulated.

The Board discussed various elements of performance, including the relationship between the transparency and quality report considered in the Audit Committee and indicator 3.1 on systematically improving the quality and impact of work and how rescheduling of other work had enabled the delivery of more reports than planned under objective 2.1.

Following further discussion, members noted the Q4 Corporate Performance report.

11. Q4 Becoming World Class Improvement Programme

Martin Walker, Assistant Director, Corporate Performance Risk, introduced the Q4 Becoming World Class Improvement Programme report, which had been previously circulated.

Martin invited members to note progress made against a number of significant milestones in Q4. The Board discussed the variety of ways in which world class auditing can be assessed and evidenced.

The Board noted the report and thanked Martin for the update.

12. 2015/16 Carbon Scrutiny Board Annual Report

Mark Roberts, Senior Manager, Performance Audit and Best Value, joined the meeting.

Mark Roberts, Senior Manager, Performance Audit and Best Value, introduced the 2015/16 Carbon Scrutiny Board Annual Report, a copy of which had been previously circulated.

The Board noted the annual report and the progress made.

Mark Roberts, Senior Manager, Performance Audit and Best Value, left the meeting.

13. 2015/16 Monitoring Report on Equalities

The Board noted the results of the 2015/16 Monitoring Report on Equalities which had been previously circulated.

14. 2015/16 Governance Statement on Internal Control and Certificate of Assurance

Diane McGiffen introduced the 2015/16 Governance Statement on Internal Control and Certificate of Assurance which had been previously circulated and advised the Board that the assurance process had been thoroughly followed by business groups and that there were no significant issues to bring to the attention of the Accountable Officer or the Board.

Following discussion, the Board noted the Governance Statement and Certificate of Assurance.

15. 2015/16 Annual Report from the Chair of the Audit Committee to the Board

Heather Logan, Chair of the Audit Committee, introduced the 2015/16 Annual Report from the Chair of the Audit Committee to the Board, which had been previously circulated and which had been approved at the earlier meeting of the Audit Committee.

The Board noted the report and thanked Heather and the Audit Committee members for their work during the year.

16. Draft Annual Report and Accounts 2015/16

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 them on 7 June 2016.

Action:

- **The Auditor General to sign the annual report and accounts 2015/16. (7 June 2016).**

17. Becoming World Class

(a) Securing World Class Audit: Review of Funding and Fees

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

Russell advised the Board that a lot of work had been completed since the previous Board meeting. The report included several scenarios for a potential future financial strategy and their broad implications for cost levels.

The Board discussed financial pressures on public expenditure across the public sector and the increasing expectations of Audit Scotland from the Scottish Parliament's new financial powers, ongoing public sector reform, the new code of audit practice and the new approach to auditing best value.

Caroline advised that the scenarios presented in the analysis were based on the same volume of work, and did not factor in new work, although known changes had been incorporated.

Heather Logan commented that in order for Audit Scotland to guarantee quality audit services to the Auditor General for Scotland and the Accounts Commission, there had to be an appropriate level of investment in the in-house team capacity. That, alongside the fact that Audit Services Group cannot sell audit services to other organisations, means that a comparison with firms' costs cannot be on a like for like basis. She advised that in that scenario it was important for Audit Scotland to demonstrate the added value delivered by the in-house team, and it was important for the Board to manage effectively any risks to the delivery of audit across the public sector given that firms may be vulnerable to external risks.

Russell advised that further work was ongoing to capture a comprehensive picture of the additional value added by having a strong in-house team.

Diane McGiffen, Chief Operating Officer, advised that Management Team had discussed the financial strategy on several occasions and that directors were working with their teams to establish the scope and phasing of further cost reductions. She also advised that modelling both the strategic and operational impact of different scenarios was important given that a number of changes were also being made to accounting and reporting costs by sector. She therefore requested that the Board allow further detailed work to be undertaken over the summer before considering more detailed options in August and September.

Douglas Sinclair advised that he was cautious about the impact of some of the scenarios under discussion without further information on how they would be delivered and sought to be satisfied that the Accounts Commission's work programme, alongside that of the Auditor General would continue to be delivered to a high standard.

Following further discussion, the Board agreed to continue discussion of the financial strategy in August and September to inform the Budget Proposal 2017/18 to allow the executive team to undertake further work.

Action(s):

- **Russell Frith to present further updates and recommendations on the longer-term financial strategy and potential impacts on Audit Scotland and on fees to the Board meetings in August and September 2016.**

The Board then discussed the draft consultation paper on fees and funding which had been previously circulated. Ian Leitch and Heather Logan advised they felt the draft was too detailed and internally focussed on what mattered to Audit Scotland and needed to be much shorter and more clearly focused on what matters most to stakeholders. Ian Leitch requested that the revised paper also include detail on the current feeing arrangements in order that consultees could see the improvements being proposed. The Board agreed and Caroline thanked the Board for bringing a fresh perspective to the matter, and acknowledged that Audit Scotland may have been too focussed on the detail and that paragraphs 7 – 23 could easily be deleted. Following further discussion it was agreed that Russell Frith would redraft the consultation paper to be shorter, more clearly focussed on stakeholders' interests and to set the consultation in the context of all the work on world class audit that has been done and to trail what is coming.

Action(s):

- **Russell Frith to circulate a revised consultation paper to the Board by correspondence as soon as possible for comment.**

(b) Securing World Class Audit: Final Audit Appointments 2016-2021

Russell Frith, Assistant Auditor General, introduced the report on Final Audit Appointments 2016-2021, which had been previously circulated.

The Board noted the confirmed appointments for the Auditor General for Scotland and the Accounts Commission.

(c) Making a Difference: New Approach to Auditing Best Value

The Board noted the report on the New Approach to Auditing Best Value which had been previously circulated. Heather Logan commented on the benefit of highlighting strong practice to make it easy for local authorities to learn from each other. Douglas Sinclair advised that the Accounts Commission were clear on the benefits of the new approach including sharing good practice.

(d) Building a Better Organisation: Inverness Office Relocation

The Board noted and welcomed the update on the Inverness Office relocation and discussed the benefits of the option being progressed.

The Board expressed their thanks for the detailed report by the Corporate Finance Manager.

18. Accounts Commission Strategy 2016-2021 and Engagement Strategy 2016/17

The Board noted the Accounts Commission Strategy 2016-21 and Engagement Strategy 2016/17 which had been previously circulated and published. The Board thanked Douglas for the opportunity to hear more about the Accounts Commission's work.

19. Climate Change Plan 2015/16 to 2019/20

The Board approved the draft Climate Change Plan 2015/16 to 2019/20 which had been previously circulated and thanked the Carbon Scrutiny Group for their work to develop the plan.

20. Publication Schedule and Forward Programme

The Board noted the publication schedule and five year rolling programme of work which had been previously circulated and welcomed the proposed annual reporting of the forward programme which it was proposed would form part of future reporting to the Board on an annual basis.

21. Publication of Board Papers

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the report on Publication of Board Papers, which had been previously circulated.

The Board approved all reports for publication with the following exceptions:

- Item 7 - Minutes of Remuneration Committee (statutory/security/legal - personal information).
- Item 12 – 2015/16 Carbon Scrutiny Board Annual Report (information intended for future publication).
- Item 13 - 2015/16 Monitoring Report on Equalities (information intended for future publication).
- Item 16 – Draft Annual Report and Accounts (information intended for future publication).
- Item 17 (a) Fees and Funding (effective conduct of business - free and frank provision of advice/exchange of views for the purposes of deliberation/conduct of public affairs).
- Item 17 (c) – New approach for auditing Best Value (information intended for future publication).
- Item 17 (d) Inverness Office relocation (commercial sensitivity).

Actions:

- **The Assistant Director, Corporate Performance and Risk to arrange to publish the reports on the Audit Scotland website alongside the approved minute. (June 2016)**

22. AOB

There was no further business.

23. Date of Next Meeting

It was noted that the next Audit Scotland Board meeting had been scheduled for **18 August 2016** in the offices of Audit Scotland, 102 West Port, Edinburgh.

Russell Griggs submitted his apologies for the 15 September 2016 Board meeting.

No.	FORUM	Agenda Item No	Item Title	Action Description	Meeting Date	Due Date	Responsible	Assigned to	Complete/Ongoing	Reported Yes/No	Progress Notes
	Board	7	Review of Actions Tracker	The Action tracker to be revised to include a deadline of May 2016 for the approval of the Corporate Plan.	26/02/2016	03/05/2016	Diane McGiffen	Martin Walker	Complete	Yes	The report at item 13 of the Board agenda was considered on 03/05/2016.
	Board	10	Q3 Corporate Performance	Russell Frith, Assistant Auditor General, to consider whether performance reports could include more information on audit quality	26/02/2016	03/05/2016	Russell Frith	Russell Frith	Ongoing		
	Board	12(b)	Funding and Fees – 2016 Issues and Work Plan	The Assistant Auditor General to prepare a consultation report for Board consideration	26/02/2016	03/05/2016	Russell Frith	Russell Frith	Complete	Yes	The report at item 12 of the Board agenda was considered on 03/05/2016.
	Board	12(b)	Funding and Fees – 2016 Issues and Work Plan	The Assistant Auditor General to report on the 2015/16 accounts for Board approval	26/02/2016	02/06/2016	Russell Frith	Russell Frith	Complete	No	This is scheduled for discussion at the Board meeting on 2 June 2016 at item 16 a
	Board	12(b)	Funding and Fees – 2016 Issues and Work Plan	The Assistant Auditor General to report on the final proposed fee strategy	26/02/2016	18/08/2016	Russell Frith	Russell Frith	Ongoing		This is scheduled for discussion at the Board meeting on 18 August 2016.
	Board	12(b)	Funding and Fees – 2016 Issues and Work Plan	The Assistant Auditor General to report on 2017/18 budget assumptions	26/02/2016	18/08/2016	Russell Frith	Russell Frith	Ongoing		This is scheduled for discussion at the Board meeting on 18 August 2016.
	Board	12(b)	Funding and Fees – 2016 Issues and Work Plan	Board approval of 2017/18 budget and 2016/17 audit fees	26/02/2016	15/09/2016	Russell Frith	Russell Frith	Ongoing		This is scheduled for discussion at the Board meeting on 15 September 2016.
	Board	11	Audit Scotland Report and Accounts	The Communications Manager will report on Audit Scotland Annual Report and Accounts.	24/03/2016	02/06/2016	James Gillies	James Gillies	Complete	No	This is scheduled for discussion at the Board meeting on 02/06/2016 at item 15.
	Board	12(a)	Funding and Fees - Fee Setting Policies	The Assistant Auditor General to report on the impact of the proposed policies and bring a draft consultation paper to the next meeting of the Board.	24/03/2016	03/05/2016	Russell Frith	Russell Frith	Complete	No	The report at item 12 of the Board agenda will be considered on 03/05/2016.
	Board	12(b)	New Financial Powers Update	The Assistant Director, Audit Services Group will provide an update on the New Financial Powers.	24/03/2016	15/09/2016	Mark Taylor	Mark Taylor	Ongoing		This is scheduled for discussion at the Board meeting on 15 September 2016.
	Board	13	Openness and Transparency: Publication of Board Papers	The Assistant Director, Corporate Performance and Risk to issue the operating	24/03/2016	31/03/2016	Martin Walker	Martin Walker	Complete	Yes	The guidance was issued to staff on 28/03/2016.
	Board	13	Openness and Transparency: Publication of Board Papers	The Chief Operating Officer to schedule a future agenda item to review the arrangements.	24/03/2016	01/12/2016	Diane McGiffen	Diane McGiffen	Ongoing		This is scheduled for discussion at the Board meeting on 1 December 2016.
	Board	14	Evaluation of Board Effectiveness	The Chief Operating Officer to identify potential dates and develop options for a facilitated session.	24/03/2016	03/05/2016	Diane McGiffen	Diane McGiffen	Complete	No	Progressing and a verbal update will be provided at the meeting on 03/05/2016 and a further update will be provided at the 02/06/2016 meeting.
	Board	14	Evaluation of Board Effectiveness	The Assistant Director, Corporate Performance and Risk to refine the self evaluation questionnaire.	24/03/2016	03/05/2016	Martin Walker	Martin Walker	Complete	Yes	Self evaluation document distributed 26/04/16
	Board	15	Discussion on Standing Orders	The Chief Operating Officer to schedule a future agenda item to further discuss.	24/03/2016	03/05/2016	Diane McGiffen	Diane McGiffen	Complete	No	This item will be covered as part of item 3, Chair's report on 03/05/2016.

	Board	16	AOB	The Chief Operating Officer to circulate a copy of the PAC legacy paper to Board members.	24/03/2016	03/05/2016	Diane McGiffen	Diane McGiffen	Complete	Yes	The Chief Operating Officer circulated the SCPA Legacy paper to members on 15/04/2016.
ASB1	Board	3	Chair's Report	The date for the Board development event to be finalised and the Chief Operating Officer would schedule the SCPA legacy paper for discussion together with quorum options at the event.	03/05/2016	02/06/2016	Diane McGiffen	Diane McGiffen	Ongoing		A verbal update will be provided at the meeting of the Board on 02/06/2016.
ASB2	Board	12	Funding and Fees – Draft Consultation	Russell Frith to prepare a report on fee setting options, including Audit Scotland's efficiency plans.	03/05/2016	02/06/2016	Russell Frith	Russell Frith	Ongoing		This item will be covered as part of item 19 a 02/06/2016.
ASB3	Board	12	Funding and Fees – Draft Consultation	Russell Frith to prepare a summary of all decisions taken on procurement.	03/05/2016	02/06/2016	Russell Frith	Russell Frith	Ongoing		This item will be covered as part of item 16 a 02/06/2016.
ASB4	Board	12	Funding and Fees – Draft Consultation	Russell Frith to prepare a draft consultation on fees and transparency.	03/05/2016	02/06/2016	Russell Frith	Russell Frith	Ongoing		This item will be covered as part of item 19 a 02/06/2016.
ASB5	Board	12	Funding and Fees – Draft Consultation	Russell Frith proposals for developing the work on demonstrating best value in the delivery of audit and the added value provided by the public audit model to be progressed.	03/05/2016	15/09/2016	Russell Frith	Russell Frith	Ongoing		This is scheduled for the Board meeting on 15/09/2016.
ASB6	Board	13	Corporate Plan 2016-17	The Assistant Director, Corporate Performance and Risk to arrange for publication of the draft Corporate plan following final discussion and amendment.	03/05/2016	02/06/2016	Martin Walker	Martin Walker	Complete	No	The Corporate Plan was amended and published on 27/05/16.
ASB7	Board	14	Review of Risk Management Framework	The Assistant Director, Corporate Performance and Risk to publish the Review of Risk Management Framework	03/05/2016	30/05/2016	Martin Walker	Martin Walker	Complete	No	The Risk Management Framework was published on 23/05/16
ASB8	Board	15	Draft Information Security Management Policy	The Assistant Director, Corporate Performance and Risk to publish the Information Security Management Policy	03/05/2016	30/05/2016	Martin Walker	Martin Walker	Complete	No	The Information Security Management Policy was published on 23/05/16.
ASB9	Board	16	Publication of Board Papers	The Assistant Director, Corporate Performance and Risk to arrange to publish the reports on the Audit Scotland website alongside the approved minute.	03/05/2016	30/06/2016	Martin Walker	Martin Walker	Ongoing		The reports and minutes will be published after the meeting of the Board on 02/06/2016.

AUDIT SCOTLAND BOARD

2 JUNE 2016

REPORT BY THE CORPORATE FINANCE MANAGER

Q4 FINANCIAL PERFORMANCE REPORT

1. Purpose

This report presents the draft financial results for the twelve months to March 2016. These results support the quarter four performance report presented to today's Board meeting at agenda item 9. This paper was also discussed at today's Audit Committee meeting at agenda item 15.

2. Background

The draft Management Accounts and finance report for the twelve months to March 2016 which was discussed by Management Team on 3 May 2016 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 2015/16
- Schedule 8a Work in Progress 2014/15 Audit Year
- Schedule 8b Work in Progress 2015/16 Audit Year
- Schedule 8c Financial Year - audit completion percentages
- Schedule 9 2015/16 Financial year – fee income analysis

Since preparing these management accounts a number of adjustments have been made that are reflected in our draft Statutory Accounts. Appendix 1 to this paper provides information on the movements.

3. Virement

There were no instances of budget virement in excess of £20k in the 12 months to March 2016.

4. Action

The Board is invited to note the draft financial results for the twelve months to March 2016.

RECONCILIATION FROM MANAGEMENT TO STATUTORY ACCOUNTS

12 MONTHS TO MARCH 2016

	Actual £k	Budget £k	Variance £k
Management Accounts - Net Operating Costs - 28/04/16	7,606	8,404	798
In-house income - Management review of WIP percentages	65	0	-65
Manual accrual adjustments	24	0	-24
Statutory Accounts	7,695	8,404	709

AUDIT SCOTLAND BOARD

2 JUNE 2016

REPORT BY THE ASSISTANT DIRECTOR, CORPORATE PERFORMANCE AND RISK

Q4 CORPORATE PERFORMANCE REPORT

1. Purpose of Report

This report provides the Board with an overview of Audit Scotland's performance during quarter four of 2015/16 and highlights areas for improvement.

2. Background

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

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

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

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

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

The report was considered by the Management Team at its meeting on 17 May 2016.

3. Performance headlines Q4

The Q4 indicators present a positive picture overall and this is consistent with the previous quarterly reports. We continue to deliver high quality audits substantially on time and within our overall revenue budget. The Q4 performance headlines include:

Outputs and outcomes

- 13 audit reports, including three statutory reports.
- Publication of the National Local Government Scrutiny Plan and 32 local scrutiny plans.
- The highest number of recorded report downloads to date.

Processes

- During quarter 4 the Accounts Commission and Auditor General formally approved the new rolling five year PABV audit work programme. This followed consultation with a range of key external stakeholders. The programme was informed by our world class programme development work, and due to its rolling nature will continue to be updated to reflect any emerging areas of audit risk or significant public concern.
- In Q4 all the business groups recorded higher productivity levels than those of the same quarter last year.
- ASG issued annual audit plans to clients which summarise the key challenges and risks and set out the audit work that we propose to undertake during 2016/17, the last year of our current appointments.
- The certification of the European Agricultural Funds Audit was completed in Q4.

Resourcing

- Business groups expenditure on audits varied slightly across the business groups but overall was delivered under budget.
- Professional qualifications – there was a 93% pass rate in the 86 exams taken.

4. Performance review Q4

In summary:

Four of the nine corporate objectives are assessed as 'green'. These are:

- 2.1 We conduct relevant and timely audits of the way the public sector manages and spends money.
- 2.2 We report our findings and conclusions in public.
- 3.1 We systematically improve the quality and impact of our work.
- 3.6 We work together to deliver excellent audits.

Five objectives are assessed as 'amber'. The amber assessments are principally a consequence of our ambitious aspirations, rather than indicative of poor or declining performance. The Board will recall that 'the bar was raised' for three of the objectives with effect from Q1 2015/16 to reflect our world class aspirations. The amber assessments are:

- 2.3 We identify risks and make clear and relevant recommendations for improvement and follow these up.
- 3.2 We seek out and manage information and intelligence to deliver excellent audits.
- 3.3 We develop new and improved products to maximise the impact of audit.
- 3.4 We maximise our efficiency and effectively manage our resources to reduce the costs of audit.
- 3.5 We empower and support our people to be engaged, highly skilled and perform well.

None of the objectives are assessed as 'red'.

5. Performance headlines 2015/16

The Q4 results also provide the opportunity to review performance over 2015/16. The headlines include:

- we published 176 reports, eight more than originally planned
- we published nine section 22 statutory reports, more than in any previous year
- audits were delivered 2.2% under budget
- reports gained significant attention from the Accounts Commission, the Scottish Parliament, in the media and online
- in the twelve months to 31 March 2016, Audit Scotland's net operating cost at £7,606k was £798k less than budget
- capital investment in the twelve months to 31 March 2016 totalled £1,405k and was £125k less than the available budget of £1,530k
- low absence rates
- positive examination results for the professional trainees.

This has been achieved alongside our extensive Becoming World Class Improvement Programme which has included:

- the new Code of Audit Practice and audit appointments
- a new five year rolling programme of audits
- a new website
- the Edinburgh office relocation to West Port.

The annual report and accounts, summarising 2015/16 performance is at item 13 on the agenda. This forms part of a suite of annual reports which also includes the Transparency and Quality Report, the Carbon Scrutiny Report and the Equality Outcomes Monitoring Report.

6. Areas requiring attention

Developments in the areas requiring attention are being managed through the Becoming World Class improvement programme. A progress report on the programme is item 10 on today's agenda.

Management Team will be having a workshop at its meeting on 21 June to review performance and risk at a strategic level to inform the planning and budgeting process.

7. Conclusion and Recommendations

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

Performance Management Framework: Overview

Appendix 1

Objective	2014-15				2015-16				KPI	2014-15				2015-16																					
	Q 1	Q 2	Q 3	Q 4	Q 1	Q 2	Q 3	Q 4		Q 1	Q 2	Q 3	Q 4	Q 1	Q 2	Q 3	Q 4																		
2.1 We conduct relevant and timely audits of the way the public sector manages and spends money.	G	G	G	G	G	G	G	G	2.1.1 To what extent are we delivering our audits on time?	G	G	G	G	G	G	G	G	2.1.1.1 Audit progress vs schedule	G	G	G	G	G	G	G	G									
									2.1.2 To what extent are we delivering our audits on budget?	G	G	G	G	G	G	G	G	2.1.2.1 Audit costs vs budget	G	G	G	G	G	G	G	G									
									2.1.3 To what extent are we delivering relevant audits?	G	G	G	G	G	G	G	G	2.1.2.2 Audit costs vs benchmarks	G	G	G	G	G	G	G	G									
									2.1.4 To what extent are our audits world class?	A	A	A	A	A	A	A	A	2.1.3.1 Manager's assessment	G	G	G	G	G	G	G	G	2.1.3.2 No of significant missed issues	G	G	G	G	G	G	G	G
																		2.1.4.1 Quality assessment world class	A	A	A	A	A	A	A	A	2.1.4.2 Feedback	G	G	G	G	G	G	G	G
2.2 We report our findings and conclusions in public.	G	G	G	G	G	G	G	G	2.2.1 To what extent are we publishing our reports on schedule?	G	G	G	G	G	G	G	G	2.2.1.1 Number of reports produced vs schedule	A	A	A	A	A	A	A	A									
2.2.2 How well are we getting our messages out?									G	G	G	G	G	G	G	G	2.2.2.1 Media coverage	G	G	G	G	G	G	G	G										
																	2.2.2.2 Web analytics	G	G	G	G	G	G	G	G										
																	2.2.2.3 Manager's assessment Compliance with plain language	G	G	G	G	G	G	G	G										
2.3 We identify risks and make clear and relevant recommendations for improvement and follow these up.	G	A	G	G	A	A	A	A	2.3.1 To what extent are we making practical, clear and relevant recommendations in everything we publish?	G	G	G	G	G	G	G	G	2.3.1.1 Manager's assessment that recommendations are clear, SMART, linked to findings, practical and have checklists where appropriate.	G	G	G	G	G	G	G	G									
																		2.3.1.2 % of recommendations accepted	G	G	G	G	G	G	G	G									
									2.3.2 To what extent have our recommendations led to improvements?	G	A	A	A	A	A	A	A	2.3.2.1 Manager's assessment (have recommendations been acted upon/have they gone to the governing body of the audited organisation?)	G	G	G	G	A	A	A	A									
																		2.3.2.2 Findings from impact reports	G	A	G	G	A	A	A	A									
3.1 We systematically improve the quality and impact of our work	G	G	G	G	G	G	G	G	3.1.1 To what extent are we improving the way we are working?	G	G	G	G	G	G	G	G	3.1.1.1 Internal quality review findings	G	G	G	G	G	G	G	G									
																		3.1.1.3 Manager's assessment of improvement activities	G	G	G	G	G	G	G	G									
3.2 We seek out and manage information and intelligence to deliver excellent audits.	A	A	A	A	A	A	A	A	3.2.1 To what extent are we gathering, organising and providing access to knowledge people need?	A	A	A	A	A	A	A	A	3.2.1.1 Staff survey/focus group feedback	A	A	A	A	A	A	A	A									
																		3.2.2 To what extent are we building the appropriate knowledge resources?	A	A	A	A	A	A	A	A	3.2.1.2 Manager's assessment	A	A	A	A	A	A	A	A

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

On target/ no need for additional management action	Progressing and additional management action planned	Not progressing/significant additional management action required
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Corporate objective – 2.1 We conduct relevant and timely audits of the way the public sector manages and spends money

Key Performance Questions:	Q1 RAG	Q2 RAG	Q3 RAG	Q4 RAG	PERFORMANCE HEADLINE: In Q4 we published 13 reports, including 3 statutory reports on colleges. We also published the national scrutiny plan for local government and 32 local scrutiny plans. Over the year we published 176 reports eight more than originally planned. Audits were delivered 2.2% under budget.
To what extent are we delivering our audits on time?	G	G	G	G	
To what extent are we delivering our audits on budget?	G	G	G	G	
To what extent are we delivering relevant audits?	G	G	G	G	
To what extent are our audits world class?	A	A	A	A	

Narrative:**On time:**

Reports were delivered on schedule in Q4.

- **ASG** issued annual audit plans to clients which summarise the key challenges and risks and set out the audit work that we propose to undertake during 2016/17, the last year of our current appointments. The certification of the European Agricultural Funds Audit was also completed in Q4.
- **PABV** completed eight audits. This included section 22 reports on Edinburgh, and Glasgow Clyde colleges, and the Glasgow Colleges Regional Board.
- As previously reported, the Angus Best Value, Roads Maintenance follow up, and Higher Education audits were provisionally scheduled for 2015/16 publication, but will now report in 2016/17. These will all publish in Q2 having been rescheduled from Q1 due to the European Union referendum publications moratorium from mid May to the end of June.

During Q4 the Accounts Commission and the Auditor General formally approved the new rolling five year PABV audit work programme. This followed broad consultation with a range of key external stakeholders. The programme was informed by our world class programme development work, and due to its rolling nature will continue to be updated to reflect any emerging areas of audit risk or significant public concern.

During 2015/16:

- We delivered eight more audits/reports than the planned 168 (details are include in the table on page 10)
- 37 were delivered earlier than the due date
- Six reports were rescheduled to a later date,
- There were nine Statutory Reports and one HB review report that arose during the course of the year.

The table below compares the number of reports with 2014/15.

Business Group	2015/16	2014/15
ASG	130	189
AST	19	20
PABV	27	30
Total	176	239

Note: the total number of reports, for ASG, is not directly comparable as two annual audit reports were combined into one for 2015/16.

On budget:

Business groups expenditure on audits varied slightly across the business groups but overall was delivered under budget.

Business Group	2015/16			
	£ Budget	£ Actual	£ Variance	% Variance
ASG	8,329,463	8,092,213	-237,250	-2.8
AST	179,094	171,285	-7,809	-4.4
PABV	1,991,086	2,005,773	14,687	0.7
Total	10,499,643	10,269,271	-230,372	-2.2

During 2015/16 PABV delivered audits across a wide range of sectors and audited bodies, with these audits being delivered to within 1% of their planned budgets. For the overall year collectively we delivered our audits 0.7% over budget, which is well within an acceptable tolerance level. This compares with the previous year where we delivered our overall audit programme 6.4% under budget, and 2013/14 where we were 5.4% over budget.

Forward look:

- Accounts Commission sponsors will be identified for 2016/17 and early 2017/18 Commission and Joint Commission / AGS audits.
- Appraisal and scoping work for forthcoming 2016/17 audits will continue during Q1.
- In Q1 2016/17 we will publish a range of Corporate reports including the Audit Scotland annual report and business plans for individual business groups.
- The HB performance audit will move from Audit Strategy to Audit Services in October 2016.

Key risks / Issues:

- Corporate risk register 'Failure to deliver our vision', 'Failure of focus and scope' and 'Failure of capacity'.

Performance details: *Audit products planned for the year 2015/16:*

The business group activity is shown below. For ASG this includes the annual certifications but does not include other products such as annual audit plans, key control reports, ISA260 reports, annual audit reports, other reports / returns required by the annual planning guidance. Including these, ASG's total external-facing outputs currently are in excess of 700, and this total is likely to increase as the audit year progresses. For Audit Strategy - housing benefit work including risk assessments and follow ups, thematic studies and welfare reform updates; for PABV performance, Best Value, CPP, overview, how councils work and statutory reports.

Business Group	Planned	Completed (YTD)	
ASG (14/15 audits)	130	130	100%
AST	17	19	112%
PABV	21	27	129%
Total	168	176	

Audit Costs Q4 2015/16

Year to end of Q4 (costs relate to completed audits).						Last quarter comparator	Average cost per audit day by business group																				
Business group	Number Audits Completed YTD	Budget £	Actual £	Variance £	Variance %	Variance %																					
ASG	130	3,676,715	3,678,108	1,393	0	+2.5	<p>Average Cost per Audit Day</p> <p>Legend: 2012/13 (Green), 2013/14 (Blue), 2014/15 (Red), 2015/16 (Purple)</p> <table border="1"> <caption>Average Cost per Audit Day Data</caption> <thead> <tr> <th>Business Group</th> <th>2012/13</th> <th>2013/14</th> <th>2014/15</th> <th>2015/16</th> </tr> </thead> <tbody> <tr> <td>ASG</td> <td>442</td> <td>443</td> <td>429</td> <td>441</td> </tr> <tr> <td>AST</td> <td>366</td> <td>457</td> <td>446</td> <td>450</td> </tr> <tr> <td>PABV</td> <td>470</td> <td>458</td> <td>469</td> <td>466</td> </tr> </tbody> </table>	Business Group	2012/13	2013/14	2014/15	2015/16	ASG	442	443	429	441	AST	366	457	446	450	PABV	470	458	469	466
Business Group	2012/13	2013/14	2014/15	2015/16																							
ASG	442	443	429	441																							
AST	366	457	446	450																							
PABV	470	458	469	466																							
AST	19	179,094	171,285	-7809	-4.4	-4.2																					
PABV	27	1,991,086	2,005,773	+14,687	0.7	1.6																					

Feedback received:

The results of the Local Government Quality questionnaire were received in Q4, and show a sustained level of positive feedback relating to our local government audit work.

We received positive feedback from Accounts Commission members about the quality of performance audit and Best Value work.

Feedback on the HB performance audit has been received from three councils this quarter. Comments have been positive and included:

'We have found the experience to be extremely beneficial in our efforts towards continuous improvement and we found that our auditor had an excellent understanding of the challenges we face'.

The current audit appointments are coming to an end. ASG are receiving positive feedback from clients thanking audit teams for their support.

The Oregon Audit Office picked up an Audit Scotland blog and shared it including a link to our Tableau publication, about which they commented that 'You may well be reading about the future of auditing itself: almost anything quantifiable can be presented in creative and illuminating ways'.

Corporate objective – 2. 2 We report our findings and conclusions in public

Key Performance Questions:	Q1 RAG	Q2 RAG	Q3 RAG	Q4 RAG	PERFORMANCE HEADLINE:
To what extent are we publishing our reports on schedule?	G	G	G	G	We published more reports than planned in Q4 and in 2015/16 overall. We continue to deliver reports to schedule. Reports receive attention in the Parliament, Accounts Commission, the media and on-line.
How well are we getting our messages out?	G	G	G	G	

Narrative:

Reporting on schedule

During Q4 11 reports were scheduled and 13 were published. Three reports were previously rescheduled to 2016/17 and one HB risk assessment was published earlier than originally planned. In addition we published three Statutory reports and one HB review of activity report. In Q4 we also published the national scrutiny plan and 32 local government scrutiny plans.

Getting our message out

As part of our engagement with Voluntary Health Scotland, the Health and social care integration audit team participated in a workshop with various stakeholders from across the sector to discuss our audit findings and integration more generally in Q4. Due to the level of demand (the workshop was fully subscribed in less than 24 hours) the team participated in a second workshop.

The total media activity for Q4 saw 278 mentions. The three most covered reports were; Changing models of health and social care report, Local Government overview and Major capital investment in councils follow up. The Oregon Audit Office picked up an Audit Scotland blog and shared it including a link to our Tableau publication.

Online activity 2015/16

Downloads: Comparison with previous years downloads is not available due to the change in data collection methods during 2015/16. However there has been an increase of 29,807 downloads compared with Q3.

Social Media: The number of 'engagements' with our Social media activity increased sharply in March. This will be monitored to see if this is an increasing trend or a spike in interest.

Total downloads – Q4 2015/16	
Month	All downloads*
Q1	122,266
Q2	153,840
Q3	150,044
Q4	179,851
Total	606,001

Month	Engagements*	Re tweets
Q1	727	262
Q2	388	65
Q3	989	262
Q4	1848	207
Total	3952	796
*Engagement = not only received but reacted to one of our tweets		

Forward look:

- During Q1 we will publish a report on the Scottish Government's CAP Futures payment programme. As a result of the two moratorium periods due to the Scottish Parliamentary election, and EU Referendum, publications during Q1 will be limited to this one report.
- The new approach to auditing BV will result in an increased number of publications each year and we are starting to look at the implications of this.
- The new Code of Audit Practice will see all audit outputs be published on the website. This will substantially increase the transparency and accessibility of reports.

Key risks / Issues:

- Corporate risk register – 'Failure of capacity' and 'Failure of Impact and Influence'.

Performance details:

Publication schedule				
In 2015/16, Audit Scotland plan to publish 168 audits/reports. Variation in the schedule is shown as ✓ = delivered, (QX) = rescheduled to /from quarter identified in the brackets. Statutory reports arising during the year are included in the 'Other' row.				
	Q1	Q2	Q3	Q4
Performance Audit (9)	✓ Fire Service reform ✓ Managing ICT contracts – f-up	✓ Sheriff Court Efficiency	✓ Health and Social Care Integration ✓ Scotland Act - progress report	✓ Capital Investment in Councils F-up ✓ Models of Health and Social care Higher Education (Q2 16/17) Roads Maintenance F-up (Q2 16/17)
Best Value (6)	✓ East Dunbartonshire Falkirk (Q2)	✓ Aberdeen City ✓ Falkirk (Q1)	✓ Moray ✓ Argyll and Bute City of Edinburgh (Q4)	✓ City of Edinburgh (Q3) Angus (Q2 16/17)
Community Planning Partnerships (1)				✓ Community Planning National summary
How Councils Work (1)		✓ Following the Public pound		
Overview (3)	✓ Scotland's Colleges		✓ NHS in Scotland	✓ Local Government in Scotland
HB Risk Assessment (10)	✓ East Dunbartonshire ✓ Clackmannanshire	✓ North Ayrshire Council ✓ Aberdeen City ✓ Renfrewshire ✓ Orkney	Orkney (Q2) ✓ Moray ✓ North Lanarkshire (Q4) ✓ East Lothian (Q4)	✓ Perth & Kinross North Lanarkshire (Q4) East Lothian (Q4) ✓ Falkirk (Q1,16/17)
HB Follow up (4)	✓ East Ayrshire	✓ East Renfrewshire ✓ West Lothian Clackmannanshire (Q3)	✓ Clackmannanshire (Q2)	
Thematic study (1)		✓ Review of activity to minimise fraud & error in HB		
ASG Planned audit statutory deadline (130)	✓ 9 NHS ✓ 13 CG (Q3)	✓ 67 LG ✓ 21 CG (Q3)	51 CG ✓ 17 CG ✓ 2 FE	✓ 1 CG
Total scheduled (167)	18	77	60	12
Other	✓ S22 Coatbridge College ✓ HB Annual Report		✓ S22 NHS Highland ✓ S22 NHS 24 ✓ S22 NHS Tayside ✓ S22 Scottish Police Authority ✓ S22 SG consolidated accounts	✓ s22 Edinburgh College ✓ s22 Glasgow Clyde College ✓ s22 Glasgow Colleges' Regional Board ✓ review of 2014/15 subsidy certification ✓ Clackmannanshire follow up
Total delivered	31	99	33	13
				TOTAL 176

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

Key Performance Questions:	Q1 RAG	Q2 RAG	Q3 RAG	Q4 RAG	PERFORMANCE HEADLINE: We continue to publish recommendations in all reports and there is evidence of improvements as a result of our work.
To what extent are we making practical, clear and relevant recommendations in everything we publish?	G	G	G	G	
To what extent have our recommendations led to improvements?	A	A	A	A	

Narrative: *(Note: The assessment benchmark for this objective was raised in Q1 2015/16).*

Identifying risks

In Q4 we published the national scrutiny plan and 32 local government scrutiny plans. These are developed in conjunction with our scrutiny partners through the Shared Risk Assessment process.

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

There were no reported rejected recommendations arising from our performance audit or best value work in Q4.

All six HB recommendations were accepted by councils for the two risk assessments completed this quarter. 86% of the previously identified risks have been addressed. The average for 2015/16 is 85%.

During 2015/16

The risk hotlist reports went to Management Team on a monthly basis during 2015/16. The Assistant Directors and Management Team carried out the six monthly public sector risk register review in March.

Forward look:

- The Annual Report and Accounts will be published in Q1 and will contain narrative and examples of where we have made a difference during 2015/16.
- The new Code of Audit Practice raises expectations around the clarity and value added by audit recommendations.
- Briefing and appraisal activity will continue as part of our work to continually develop our world class audit programme.
- ASG audit teams will be handing over to the new teams as part of the audit rotation in October 2016; incoming teams will consider previous recommendations.
- 'Making a difference' is a core objective in the revised Corporate Plan and a core workstream in our Becoming World Class Improvement Programme.

Key risks / Issues:

- Audited bodies do not always implement recommendations according to the agreed timetable
- Insufficient progress with measuring the impact of our audits could undermine our credibility with a wide range of stakeholders.
- Corporate risk register 'Failure of relevance' and 'Failure of impact and influence'

Performance details:

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

- We are not aware of any recommendations from audit reports issued in Q4 having been rejected.

Recommendations have been acted upon:

Dimensions of Public Audit	Examples where our work has had impact
Financial sustainability	<p>A Holyrood.com article on the need for political consensus on the future of the NHS in Scotland made several references on sustainability to both our Changing models of health and social care and Health and social care integration reports.</p> <p>A Nuffield Trust article also referred to these reports in relation to the financial position and other pressures facing health and social care.</p>
Value for money	<p>The impact report for the Procurement in Councils performance audit showed clear improvement in council's procurement capability and capacity, including action to address the recommendations within our original audit report.</p> <p>Our Reshaping care for older people highlighted the impact our work, and the ongoing engagement activity of our audit team, in shaping the Health Scotland Outcome Framework, and Joint Improvement Team report on the Change Fund.</p>
Transparency of reporting	<p>PABV team members delivered the keynote speech at the health and social care chairs and vice chairs development day. This focussed largely on our Health and social care integration report published in December (Q3), including the key messages and report recommendations.</p> <p>PABV team members delivered presentations to health and social care colleagues within the Analytical Services Division of the Scottish Government, focussing on four current reports – Changing models of health and social care, Health and social care integration, NHS in Scotland 2015 and Social Work in councils. Again, there was a focus on key messages and report recommendations.</p> <p>Our use of Tableau data presentation software for the Major capital investment in councils audit enabled us to present complex data in a more accessible and transparent way, thereby increasing the effectiveness of our work.</p>
Governance and financial management	<p>Audit Strategy reviewed a sample of 2014/15 AARs for quality purposes to identify good practice and areas for improvement. The aim is to improve the quality of auditor reporting in terms of code compliance, transparency and value-added. 14/15 reports are significantly better than 13/14 reports, demonstrating that the checklist we issued last year has had the desired effect.</p> <p>Members of the PABV team delivered sessions at a series of College Development Network events relating to our recent work and statutory reports on the further education sector. At these events Audit Scotland was cited as an important voice and influencer within the sector.</p> <p>As a result of the failures in governance identified in our Scotland's Colleges report, and s22 reports on North Glasgow and Coatbridge colleges, the Cabinet Secretary for Education convened a task group to review and recommend changes to college governance arrangements. The recommendations and actions will seek to fill the gaps identified by our work.</p> <p>Members of the PABV team presented the findings of the Major capital investment in councils audit at the 7th annual Capital Investment and Infrastructure conference on 25 February.</p>

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

Key Performance Questions:	Q1 RAG	Q2 RAG	Q3 RAG	Q4 RAG	PERFORMANCE HEADLINE:
To what extent are we improving the way we are working?	G	G	G	G	95% of local government audited bodies agree that auditors are delivering a high quality service. The new Code of Audit Practice was agreed in Q4.

Narrative:

In Q4 the new Code of Audit Practice (COAP) was agreed. This includes the quality expectations for audits with effect from October 2016.

The results of the Local Government Quality questionnaire went to the Accounts Commission in February 2016. 82% of the 34 audited bodies responded to the survey. 95% of respondents agreed that the auditors (both Audit Scotland and Firms) delivered a high quality service. This compares with 97% the last time the survey was completed. 86% agreed the highest areas of impact are; improved governance and financial management and more transparent reporting of financial and other performance.

PABV Assistant Directors met with several external organisations to exchange best practice during a recent visit to London. These included the National Audit Office, the Centre for Public Scrutiny, the Institute for Government, and the RAND research and analysis non-profit think tank.

The TSU carried out a review of the quality of the 2014/15 independent auditor's reports for central government & NHS audited bodies and fed back to auditor's areas for improvement. This will help inform auditors' judgements and promote professional scepticism.

ASG's professional standards and quality improvement (PSQI) group undertook a series of post sign off cold reviews to assess the quality and efficiency of our external audit work. The results were used to inform training sessions that were delivered to ASG staff at Superteam meetings in Q1. ICAS were procured to carry out a similar review of our 2014/15 audit work and will report their findings in Q1 2016/17.

During 2015/16 - We have continued to make good progress on our Becoming World Class Improvement Programme. This is the subject of a separate report on today's agenda.

Forward look:

- The annual Transparency and Quality Report will be published in Q1.
- Quality questionnaires response for Central Government will be reported to Management Team in Q1 2016/17.
- A review of audit files by ICAS is taking place and findings will be considered by management team and the board in Q1. We will review and respond to their findings, modify our audit approach if necessary, and provide further training to colleagues if required.
- The new COAP takes effect from October 2016. The Assistant Auditor General is currently considering the Quality Assurance and Quality Review arrangements.

Key risks / Issues:

- Corporate risk register 'failure of quality', 'failure of impact and influence'

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

Key Performance Questions:	Q1 RAG	Q2 RAG	Q3 RAG	Q4 RAG	PERFORMANCE HEADLINE:
To what extent are we gathering, organising and providing access to knowledge people need?	A	A	A	A	Work continues on portfolio briefings, audit intelligence, data analytics to inform risk assessment, programme development, audit work and audit reporting.
To what extent are we building the appropriate knowledge resources?	A	A	A	A	

Narrative:

In Q4 we published a data analytics facility on the website to help users analyse the data underpinning the Management of Capital Projects in Councils report. (This is covered in more detail in 3.3 below).

During Q4 our programme development portfolio cluster groups published briefings. These provide an overview of key developments, risks and issues for each policy area, and are also shared with both the Accounts Commission and Auditor General.

During 2015/16

We have refined and integrated the risk assessment processes. (The approach was presented to the Board in February 2016).

Work is progressing on a number of fronts as part of the 'Making a Difference' and 'Building a Better Organisation' workstreams in our Becoming World Class Improvement Programme. This includes; testing of the Audit Intelligence (AI) data warehouse, a range of analytical tools and a specific workstream in the new approach to Best Value audit project focussing on audit intelligence. This workstream includes colleagues from across the organisation and is looking at how best to effectively share real time audit intelligence relating to councils.

Forward look:

- In Q1 Management Team will consider a report summarising the progress to date on a family of data and intelligence improvement projects including the AI data warehouse, economic and social data analytics, the data analytics specialist skills group and the ASG audit analytics work. Management Team will also agree the priorities for phase 2 of the AI project including a focus on outcome and financial data.
- Audit intelligence summaries are being developed as part of the audit appointment handover will be finalised in Q1.

Key risks / Issues:

- Failure to gather and share information may lead to issues being missed.
- c.f. corporate risk register 'Failure to deliver our vision', 'Failure of relevance' and 'Failure of innovation'.

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

Key Performance Questions:	Q1 RAG	Q2 RAG	Q3 RAG	Q4 RAG	PERFORMANCE HEADLINE:
To what extent are we developing new products and services?	A	A	A	A	We continue to develop our audit methodologies and outputs to ensure our work adds value.
How well are our products / is our audit programme suitable and appropriate for the emerging issues?	A	A	A	A	

Narrative: (Note: We raised the assessment benchmark for this objective in Q1 2015/16).

In Q4 the Major capital investment in councils team published supplementary information using Tableau data presentation software. An external blog promoting this new output has had over 400 views to date. The Oregon Audit Office in the US picked up the blog and shared it including a link to our Tableau publication, about which they commented that 'You may well be reading about the future of auditing itself: almost anything quantifiable can be presented in creative and illuminating ways'. On the back of this positive reception we are now looking at options for Tableau to present data and complex information in more engaging formats across our wider audit and programme development programme.

The new Code of Audit Practice was agreed in Q4, this sets the expectations for the new audit appointments taking effect from October 2016.

TSU have been delivering a programme of new technical training on specific technically complex areas. These include Financial instruments, leases and Housing Benefit certification.

We launched a new social media infographics communication, for staff, this is available on ishare every Friday.

During 2015/16 we launched the new website; this offers a range of outputs in addition to the audit reports. We also developed a new approach to programme development and this informed the new five year rolling audit programme. Work continues on developing the new approach to auditing Best Value.

Forward look:

- Further development and engagement will take place during Q1 and Q2 on the new approach to BV. This will include consideration on the style and content of new products such as Best Value Assurance reports and the Controller of Audit's Annual Assurance and Risks report.
- ASG has commenced a review of the application of data analytics to its audit work. A small team is developing our understanding and approach over the next six months until October 2016.
- During 2016/17 Audit Strategy will develop the agreed actions to improve quality and impact of our work across all the business groups.
- Work will progress in the major improvement projects in the Becoming World Class Improvement Programme.

Key risks / Issues:

- Failure to add value to our clients and therefore reducing the impact of our work.
- Corporate risk register 'Failure of innovation' and 'Failure of capacity'.

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

Key Performance Questions:	Q1 RAG	Q2 RAG	Q3 RAG	Q4 RAG	PERFORMANCE HEADLINE:
To what extent are we improving our efficiency?	A	A	A	A	<p>The procurement process for the five year audit appointments was completed in Q4 and offers significant cost reductions.</p> <p>Productivity levels remain consistent with previous levels and work is under way to improve efficiency further.</p>

Narrative: (Note: We raised the assessment benchmark for this objective in Q1 2015/16).

In Q4 we completed the procurement process for the new round of audit appointments. This has offered a significant cost reduction.

A review of internal PABV meetings has resulted in a significant reduction in planned management meetings. The full time saving from this will start to become apparent from Q1.

In Q4 we formed a short life working group to review the arrangements for time recording and costing across the organisation. The group has agreed short term actions and priorities. The objective of these is to increase efficiency and improve business intelligence and management information.

During 2015/16 - in the twelve months to 31 March 2016, Audit Scotland's Net Operating Cost at £7,606k was £798k less than budget. The main reasons for the variance were:

- Total income recorded was £502k higher than the phased budget. Fee income including central charges contributed £457k to the favourable variance with a further £34k generated from other income (secondment income) and £11k, from bank interest.
- Expenditure levels were £296k less than budget. Favourable variances were recorded for own staff costs £278k, IAS19 pension charges £140k, property costs £206k, travel and subsistence £172k, training and recruitment expenditure £145k, and printing and office costs £64k. These variances were partly offset by higher fees and expenses paid to external audit firms £35k, a VERA provision of £346k, increased agency and secondment costs £256k and ICT expenditure £108k.

Over the course of 2015/16 the Becoming World Class Improvement has focussed on improving efficiency and effectiveness across the three main workstreams. This includes; the audit procurement process (Securing World Class Audit), workforce flexibility and development and the office relocation (Building a Better Organisation) and the new approaches to programme development and Best Value (Making a Difference).

Forward look:

- There will be an Internal Audit on VFM/ efficiency during Q2.
- A number of staff are due to leave during 2016 as a result of the new VERA process offered to staff in the previous quarter.
- Developments across the Becoming World Class improvement programme.

Key risks / Issues:

- Corporate risk register 'Failure to achieve value for money'

Performance details:**Cost vs budget:****Cumulative Net operating cost to March 2016**

£000	Q1	Q2	Q3	Q4
Actual	£1,299	£2,754	£4,256	7,694
Budget	£1,414	£2,891	£4,777	8,404
Variance	£115	£137	£521	£709
% variance	8.9%	5.0%	12.2%	8.4%

Business group Net operating (cost)/surplus summary 12 months March 2016 (£'k)

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

	ASG	AST	PABV	CSG
Actual	2078	697	3615	5571
Budget	1352	683	3755	5290
Variance	+726	-15	+140	-281
+ = favourable				
- = adverse				

Capital expenditure:

Capital investment in the twelve months to 31 March 2016 totalled £1,405k and was £125k less than the available budget of £1,530k. The main reasons for the variance were:

- Investment in the fit-out of our new office at 102 West Port was £115k less than the available budget mainly as a result of the competitive price obtained through the tender process to appoint our contractor.
- Investment in IT assets and software was £10k less than budget. The majority of expenditure supported our move to 102 West Port.

Staff:

Our staff costs in the twelve months to 31 March 2016 were £278k lower than budget. In the period Audit Scotland employed an average of 270.1 w.t.e. which was 6.4 w.t.e. below the establishment figure. The favourable variance in the year was a result of both reduced staff numbers and a lower than budgeted average actual staff cost per employee.

	Q1	Q2	Q3	Q4
2015/16 establishment w.t.e:	276.5	276.5	276.5	276.5
Average number of staff employed in 2015/16 w.t.e:	266.6	266.9	269.3	270.1
No. of staff at end of quarters w.t.e:	268.2	261.4	274.0	272.8

Estate:

Property costs in the year to March were £206k less than budget. The agreement of dilapidation charges for 18 and 110 George Street at amounts £284k less than the provisions held for the settlements and which was released to the income and expenditure account was the main contributor to the under spend.

£000	YTD- Q1	YTD- Q2	YTD- Q3	YTD- Q4
Actual spend	389	805	1,245	1,298
Budget	399	830	1,243	1,503
Prior year spend	281	571	880	1,267

Costs of travel:

Expenditure on travel and subsistence was £172k less than budget with £57k due to lower car lease costs (driven by the change in lease provider and rebates arising from reduced mileages at contract ends). The balance, £115k was mainly due to lower travel and subsistence expenditure. In total, ASG contributed £150k to the underspend (cars £47k, T&S £103k).

£000	YTD- Q1	YTD- Q2	YTD- Q3	YTD- Q4
Actual spend	217	448	624	858
Budget	219	476	734	1030
Prior year spend	231	442	636	889

IT network up time Q:

	IT uptime	Working hours lost	Av. hours lost per person
Q1	99.67	476	1.5
Q2	99.67	476	1.5
Q3	99.06	1506	5
Q4	98.23	2575	8.5

In Q4 the total uptime for the quarter was 98.23% and 2575 working hours were lost. This is an average of 8.5 hours per person over the quarter (528 days). The majority of the downtime this quarter was due to shutting down Citrix after a Malware infection was discovered, no data was lost. One Internet Service Provider issue during the quarter meant one WAN site was down for 3 days while an engineer fixed the line.

IT incident management:

	incidents accepted within response time	requests closed within SLA fix time	Av. incidents logged per user
Q1	96.88	99.12	3
Q2	99.71	95.14	2.3
Q3	98.33	96.16	2
Q4	97.55	96.73	2.84

Internal Audit recommendations:

There were seven internal audits and one follow up completed in 2015/16. The reports are rated for level of assurance in both design and operational effectiveness. Five reports were rated substantial for both and two were rated as reasonable for both. The reports include a total of 15 recommendations as shown in the table below.

Year	Total no. Audits	Total no. recommendations	High	Medium	Low
2015/16	7	15	0	3	12

Business group productivity:

Business group productive time includes all audit and development work. Productivity, within each business group, fluctuates during the year, however in Q4 all the business groups recorded productivity levels above those of the same quarter last year.

	2015/16			2014/15		
	ASG	AST	PABV	ASG	AST	PABV
Q1	73%	88%	65%	75.6%	91%	69%
Q2	75.9%	91.5%	72.6%	77%	92%	70%
Q3	54%	89%	66%	58%	91%	65%
Q4	69%	91	67%	67%	89%	64%

Corporate objective – 3. 5 We empower and support our people to be engaged, highly skilled and perform well

Key Performance Questions:	Q1 RAG	Q2 RAG	Q3 RAG	Q4 RAG	PERFORMANCE HEADLINE: Performance is better than benchmarks for absence and leavers The Best Companies survey results show colleague engagement overall has been sustained in 2015/16.
To what extent have we got empowered and engaged people?	A	A	A	A	
To what extent are our people continuing to be highly skilled?	G	G	G	G	
To what extent are our people performing well?	G	G	G	G	
To what extent do we understand and support diversity within our workforce	G	G	G	G	

Narrative:

Best Companies:

During Q4 the Directors shared the best companies results with colleagues. Specific follow up activity has included dedicated wellbeing sessions for managers (PABV), a follow up pulse survey and discussion in CSG on customer service and wellbeing, and a discussion is scheduled for the next ASG Managers meeting.

Best Companies Knowledge Cafes were held on the topics of 'Wellbeing and work-life balance' (12 Jan) 'Careers and Personal Growth' (13 Jan) and colleague feedback has been fed into planning for both the Health, Safety & Wellbeing group and the PDG group. The key areas being progressed include managing flexible working to best effect, and supporting our manager's wellbeing and supporting all colleagues through organisational change relating to BaBO.

Wellbeing:

Wellness checks for staff (and family/friends) took place between January and March 2016 - 178 employees (62%) and 3 family members attended. Managers within PABV held the first in a series of wellbeing sessions following a decline in wellbeing scores in the Best Companies survey.

L&D

As at 31 March 2016, 93% of employees had completed their 3D discussion with their line manager.

ASG has been preparing for the new round of audit appointments during 2016 and a senior audit manager has been appointed to oversee this and communicate developments with colleagues. A number of working groups and workshops covering topics such as risks, allocation, resources, accommodation and IT have been set up to manage the process.

PABV has launched a self-directed learning pilot project. This sees colleagues given responsibility for their own personal learning and development budget. Meetings have taken place to discuss the approach, collate the development ideas, and encourage people to progress. Around 16 people are involved and have until December 2016 to carry out their development activities and feedback the learning arising from this.

Forward look:

- The main focus for BaBO is finalising the new role profiles, and engaging with the external reward specialist to design the new pay structure and begin the process of mapping colleagues over to the new roles. Supporting development is being considered for leaders, managers and team members, and includes topics like coaching and mentoring, giving and receiving feedback, resilience, career development and change leadership.
- We continue to build a programme for wellbeing, and are currently working to achieve our Silver Healthy Working Lives award.
- The PDG group are in the process of finalising the L&D plan for 2016-17, and this will be shared with Management Team and colleagues in May 2016.
- Diversity and Equality actions plans for all business groups will be finalised In Q1.

Key risks / Issues:

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

Performance details:**Engaged staff:****Learning and development opportunities in Q4:**

39 events and 747 places in Q4. This included a mix of knowledge cafes, technical training, conferences, lunch and learn (TED talks), building a better organisation workshops, and management development (WCL). The table below lists the number of delegate places on L&D over the last quarter:

BaBO workshops (3D / Job Design)	221
Knowledge Cafes	220
General L&D events	197
World Class Leaders (2 days x 8)	16
Best Companies	33
Technical training workshops	30
CIPFA conference (2 days x 15)	30
	747

Highly skilled – exam results

In Q4 86 exams were taken and 81 (94%) passed. The exam pass rate, of 93%, for the year 2015/16 compares with the 94% in 2014/15 however there has been a significant increase (41%) in the number of exams taken rising from 88 last year to 124 this year.

	Exams taken	Exams passed	% pass rate
Q1	5	4	80
Q2	22	21	96
Q3	11	9	82
Q4	86	81	94.2

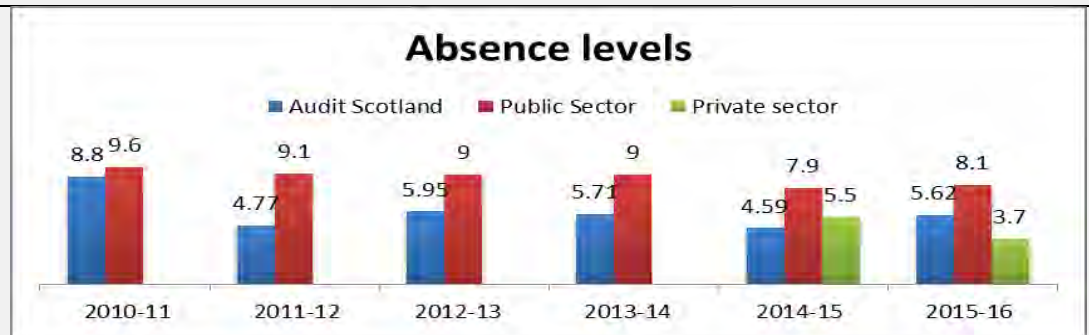
During Building a Better Organisation (BaBO) events in 2015, employees voted in favour of a new future focused, simpler approach to performance development. The approach that has been introduced for 2015/16 is a 'conversation based' check-in meeting called the Development Discussion Document (3D). This is an interim solution which does not generate a performance score, has no ranking system or link to pay and uses past experiences to inform learning for the future.

Absence levels:

The average level of employee absence, compared to last year, has increased from 4.59 days per employee to 5.62 days, although it remains lower than 2013/14 (5.99 days). Absence levels are within the historical range for Audit Scotland (4.77 to 5.99), with an average of 5.3 days per employee over the past 6 years.

We benchmark absence levels against the 2015 CIPD absence survey – non manual employees. Our performance is better than the public sector average of 8.1 days but is higher than the 3.7 days per employee for the private sector.

	Q1 days	Q2 days	Q3 days	Q4 days	ytd days	14/15 total
ASG	1.1	1.39	1.22	2.40	6.11	4.91
Audit Strategy	0	0	0.00	2.00	2.00	1.62
CSG	0.83	0.65	3.05	0.21	4.74	4.47
PABV	0.61	0.49	0.90	1.42	3.42	3.31
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*	
Audit Scotland 12/13	1.51	1.28	1.66	1.47	5.95*	



*(this figure was adjusted after to take into account availability of late data.)

Staff turnover:

Overall, voluntary leavers (resignations only) has increased from 2.54 (2014/15) to 5.37 (2015/16). This increase is also reflected in the figures for all leavers which has increased from 6.95 (2014/15) to 8.24 (2015/16).

2015/16	Q1	Q2	Q3	Q4	2015/16	2014/15	CIPD benchmark
Resignations	1.44%	1.8%	1.78	0.35	5.37%	2.54%	
All Leavers	2.15%	3.6%	2.14	0.35	8.24%	6.89%	13.6%

Equalities:

The average completion rate for information on the protected characteristics for our employees has increased from 91% to 92.2% in the last quarter of 2015/16. Members of the Diversity and Equality steering group participated in training on equality impact assessment, with a view to rolling this out across the organisation.

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

Key Performance Questions:	Q1 RAG	Q2 RAG	Q3 RAG	Q4 RAG	PERFORMANCE HEADLINE: One organisation working continues to improve and is more extensive than it has ever been.
To what extent are we communicating and collaborating well across organisational departments?	G	G	A	A	
To what extent are we offering career-paths across the organisation?	G	G	G	G	

Narrative:

One organisation working continues with opportunities to communicate and collaborate across Audit Scotland.

Examples in Q4 include:

- Preparation for the start of the new audit appointments, focussing on joint resourcing.
- The development of the new approach to Best Value audit, which incorporates where key output from this work is jointly resourced audit work based on integrated working between local auditors and PABV.
- ASG held its annual audit update conference in Dunblane in January. This was attended by colleagues from all across business groups. In addition to technical updates, there were presentations on health and social care integration, the new audit appointments, auditing Best Value, and recent case studies.
- The BaBO work stream is continuing including 3D workshops – 60 colleagues came along to 3D knowledge cafés to find out more, and a further 30 colleagues attended dedicated 3D coaching clinics.
- Job Design – 131 colleagues joined in Knowledge Cafes in Edinburgh, Glasgow and Perth, and smaller discussions were also held in Inverness and Aberdeen. Colleagues have been sending in feedback on the new job profiles, and work on these will continue into 2016-17.

Career paths and secondments

During Q4 there were 13 internal permanent/acting up promotions and 37 in total during 2015/16 this compares with 28 in 2014/15. As well as this there were 15 external appointments in Q4 and a total of 30 during the 2015/16. The filled vacancies table below shows all vacancies filled over the last three years. In 2015/16 there were 15 trainee appointments. This is 29% higher than the previous year. There are 110 (40%) staff with flexible contracts, that include mobility across the organisation, and this compares with 69 (26%) in 2014/15.

Filled vacancies

2015/16	2014/15	2013/14
67	52	50

There were two new and seven ongoing secondments in Q4 this is lower than the 14 secondments in Q4 2014/15. This also included an external secondee joining PABV for 1 year as Audit Manager, on secondment from the UK National Statistics Authority.

Forward look:

- BaBO work shops will continue throughout the year to engage with staff in a number of initiatives including role profiles.
- The new audit appointments will come into effect in October 2016.
- Further mixed portfolios for ASG and PABV colleagues will come into effect.
- Our approach to place portfolios at Senior Manager level will be revisited during Q1

Key risks / Issues / Learning points / Action Points:

- Corporate risk register - 'Failure to operate as one organisation'

AUDIT SCOTLAND BOARD

2 JUNE 2016

REPORT BY THE ASSISTANT DIRECTOR, CORPORATE PERFORMANCE AND RISK

Q4 BECOMING WORLD CLASS IMPROVEMENT PROGRAMME

1. Purpose of Report

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

2. Background

During 2014, we carried out an extensive review of the expectations people have of public audit. This, along with consultation with colleagues and an analysis of our operating environment, informed the principles and themes in Public Audit in Scotland, our Corporate Plan 2015-18, and our BWC strategic improvement programme.

The last BWC update report was considered by the Board on 26 February.

3. Progress on the BWC improvement programme

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


- *Securing World Class Audit* – where we have:
 - finalised the new Code of Audit Practice
 - concluded the procurement and appointment process for the next round of audit appointments
 - continued to develop the analysis and proposals for fees and funding.
- *Building a Better Organisation (BaBO)* – where we have:
 - consulted extensively on job design
 - started the procurement process to secure external support on reward and recognition workstream
 - offered a wide range of opportunities to support wellbeing
 - concluded the 3D development and appraisal process.
- Making a Difference – where we have:
 - finalised a new programme development methodology and published the five year rolling programme
 - carried out extensive consultation on the new approach to BV audit and developed the audit and reporting framework

- published an interactive data analysis tool to support the Managing Capital Projects in Councils report, reviewed audit intelligence projects and agreed priority areas for the data warehouse and analytics tools.

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

4. Recommendation

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

	<p>Our objective is to ensure that public audit in Scotland: • applies the highest professional and ethical standards • is efficient, proportionate and risk based • is informed by an excellent understanding of the strategic and operational context • responds effectively to changing circumstances and emerging issues • reports clearly and authoritatively • follows the public pound wherever it is spent • promotes transparency, accountability and Best Value.</p>	
Project/ initiative/ product	Status update	Next steps
Code of Audit Practice (COAP)	<p>The draft COAP was issued for consultation to stakeholders and published on the website in October 2015 and consultation closed on 03/12/15.</p> <p>The revised code was considered by the Accounts Commission and Auditor General in March and was formally approved on 12 May 2016.</p>	<p>Development of supplementary planning guidance to support the code in advance of the all sector planning meeting in the Autumn.</p> <p>Development of the quality assurance and review arrangements to support the code.</p>
Fees and funding	<p>The Board agreed the 2016/17 budget proposal and fee strategy on 29/10/15. The SCPA recommended budget proposal to the Scottish Parliament. Discussion papers and reports have been considered by the MT and the Board during 2015 and 2016.</p> <p>The Internal Audit report on the costs of audit/ fees and funding provided reasonable assurance and was considered by the Audit Committee on 03 May 2016.</p>	<p>The key milestones are:</p> <ul style="list-style-type: none"> • 2 June - Board consideration of fee proposals and consultation paper including outline budget strategy. • Mid June - Issue consultation paper (6-7 week consultation period). • Early August - Closing date for consultation • 18 August - Board discussion of 2017/18 budget, 2016/17 fees and results of consultation. • 5 September - Board approval of 2017/18 budget & 2016/17 fees.
Procurement	<p>In November 2015 tenders were issued with a closing date of 16/12/15. Tenders were evaluated and interviews took place in February 2016.</p> <p>An internal Audit Report on Procurement of Firms, which provided substantial assurance, was considered by the Audit Committee on 26/02/16.</p> <p>The Auditor General and the Accounts Commission approved the provisional recommendations in March. In April and May we consulted on the provisional appointments and the final confirmation was made on 12/05/16.</p>	<p>Appointment letters for the firms will be issued in May 2016.</p> <p>ASG has been preparing for the new round of audit appointments during 2016 and a senior audit manager has been appointed to oversee this and communicate developments with colleagues. A number of working groups and workshops covering topics such as risks, allocation, resources, accommodation and IT have been set up to manage the process.</p>



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
<p>How we work together Job Design Reward & Recognition Performance Appraisal.</p>	<p>Options report published in May 2015 and review of the report in September including the consultants, the project steering group and co-creation workshop leads. This was followed by seven workshop events attended by 190 colleagues.</p> <p>Job Design – 131 colleagues joined in Knowledge Cafes in Edinburgh, Glasgow and Perth, and smaller discussions were also held in Inverness and Aberdeen. Colleagues have been sending in feedback on the new job profiles, and work on these will continue into 2016-17.</p> <p>Reward and recognition – we are currently running a procurement process to appoint consultants to support us on this workstream.</p> <p>Streamlined 3D process for appraisal and development process was launched 02/12/15. 60 colleagues came along to 3D knowledge cafés to find out more, and a further 30 colleagues joined attended dedicated 3D coaching clinics. All colleagues have now completed the 3D process, and the HR&OD team are in the process of gathering feedback. This will be woven into the next iteration of 3D.</p>	<p>The target dates are:</p> <ul style="list-style-type: none"> • Job design – in place by Oct 2016. • Reward and recognition – in place by Apr 2017. • New approach to personal development – in place by Apr 2017.
<p>How we learn and develop Planning careers Developing skills Professional training schemes Becoming better managers and leaders</p>	<p>A wide range of initiatives continue, MT approved Development & Growth Strategy and plan in May 2015 and a new L&D portal was launched in August.</p> <p>A Leadership Group development workshop took place in December and world class leadership programme</p>	<p>2016/17 – We will deliver a wide range of L&D throughout the year, including training on core audit and personal effectiveness skills. L&D also supported through; ilearn, mentoring, individual coaching, hot Shoes / secondments, building specialist skills groups, TSU Technical Updates and quarterly trainee meetings.</p>

Project/ initiative/ product	Status update	Next steps
	<p>events took place in January 2016.</p> <p>Refreshed the pool of mentors and mentees and mentoring workshop took place on 20/01/16.</p>	
Wellbeing	<p>Wellness checks for 178 colleagues (62%) took place between January and March 2016.</p> <p>Best Companies Knowledge Cafes were held on the topics of 'Wellbeing and work-life balance' (12 Jan) 'Careers and Personal Growth' (13 Jan) and colleague feedback has been fed into planning for both the Health, Safety & Wellbeing group and the PDG group. The key areas being progressed include managing flexible working to best effect, and supporting our manager's wellbeing and supporting all colleagues through organisational change relating to BaBO.</p>	<p>Healthy Working Lives sub group to continue to build on the wellness checks through relevant information campaigns, encouraging holistic therapies, increasing mental health awareness, Health & Safety training and by supporting manager wellbeing through the World Class Leaders and World Class Managers development programme.</p>
Resourcing	<p>RemCo agreed workforce plan on 29/10/15.</p>	<p>Joint resourcing work ongoing in a range of areas including new approach to Best Value and joint ASG/PABV roles.</p>
Office accommodation	<p>Relocation successfully completed within budget on 09/11/15. George Street Dilapidations for 18 & 110 George Street agreed.</p> <p>Post project review arrangements have taken place and a report is being prepared.</p>	<p>The property steering group will consider the West Port post project review report on 30/05/16.</p> <p>Projects are under way to consider reconfiguration of the Glasgow office to make more effective use of the space and to secure new office accommodation in Inverness.</p>



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

Project/ initiative/ product	Status update	Next steps
Auditing Best Value	<p>The Accounts Commission considered an update report at its meeting on 12/05/16. This included:</p> <ul style="list-style-type: none"> • Engagement with stakeholders on a review of the BV statutory guidance. • Engagement with COSLA and the Scottish Local Government Partnership, SOLACE, the Improvement Service, Education Scotland, the national chief internal auditors group and colleagues across business groups. • Progress on the development of the new BV framework, the associated reports and integrating audit processes. 	<p>The key milestones are:</p> <ul style="list-style-type: none"> • Summer 2016 – Accounts Commission engagement seminars with stakeholders. • Aug 2016 - detailed Audit Management Framework, revised toolkits and detailed guidance finalised. • Oct 2016 - commencement of Year 1 programme. • From Apr 2017 – first new BV public reports. • September 2017 – first annual audit reports including integrated BV/ wider scope elements. • Winter 2017 – Controller of Audit Annual Assurance and Risk Report.
World Class Programme Development	<p>New programme development process in place and five year rolling programme published.</p> <p>An internal audit report on programme development, which provided substantial assurance, was considered by the Audit Committee on 26/02/16.</p>	<p>Programme delivery from 2016/17 onwards.</p>
Audit Intelligence	<p>In March we published an interactive data analysis tool on the website to support the Major Capital Projects in Councils report.</p> <p>On 12 April 2016 Management Team considered a review and status update report on the Audit Intelligence projects. This included:</p> <ul style="list-style-type: none"> • the data warehouse and analytical tool development • audit analytics on economic and social trends • data informing the portfolio clusters, programme development • the data analytics specialist skills group • the financial data analytics project in ASG. 	<p>The key milestones are:</p> <ul style="list-style-type: none"> • From June 2016 – demonstrations on the data warehouse/ analytics tools. • Summer – Winter 2016 – phase II development work including outcome and financial data to support risk assessments, programme development and BV audits.

Project/ initiative/ product	Status update	Next steps
	Management Team also approved the priority areas for the second phase of the data warehouse and tool development.	
New website	Nov 2015 - New website launched.	Ongoing content development and development of 'Supporting Improvement' part of the site including case studies, checklists and exhibits.
Social media	<p>Aug 2015 – Internal social media strategy and guidance material approved. Increased use of tweets, Pinterest etc including tweets on selected annual audit reports and Facebook page live from Sept 15.</p> <p>First tweet to promote a statutory report in December 2015. First AGS tweet May 2016.</p>	<p>Ongoing content development, particularly on blogging, and social media monitoring.</p> <p>June 2016 – Management Team agreement of overall communications and engagement strategy for Audit Scotland.</p>
Building impact into the whole audit cycle	Work ongoing to review and refine the PABV Audit Management Framework to integrate the 'MAD cycle'.	<p>Ongoing integration of the cycle into PABV audit manual</p> <p>ASG reviewing opportunities to integrate impact (including team risk assessments, annual audit plan template, impact log and business planning).</p>
Correspondence review	Review completed, including new policy and investigations process, website content, training, appointment of correspondence manager and performance reporting.	<p>Ongoing – Development of costing arrangements for correspondence and investigations framework.</p> <p>Annual Correspondence Report to the Audit Committee on 2 June 2016.</p>

AUDIT SCOTLAND BOARD

2 JUNE 2016

REPORT BY THE ASSISTANT DIRECTOR, PERFORMANCE AUDIT AND BEST VALUE

2015/16 CARBON SCRUTINY BOARD ANNUAL REPORT

1. Purpose of report

To seek approval of the Carbon Scrutiny Board's annual report for 2015/16.

2. Background

This report details Audit Scotland's greenhouse gas emissions for 2015/16. Emissions were 370 tonnes carbon dioxide equivalent (tCO₂e).

This is an increase relative to 2014/15 (343 tCO₂e) and reflects an increase in energy consumption caused by the simultaneous operation of the two old George Street offices and the new West Port office in Edinburgh. We anticipate energy consumption will reduce in 2016/17.

Elsewhere in the board's agenda is five year climate change plan which sets out our ambitions for reducing emissions for the period to 2019/20. Given the "spike" in emissions for 2015/16 noted above, the climate change plan will use 2014/15 as a baseline.

3. Recommendation

The board is asked to approve Carbon Scrutiny Board's annual report for 2015/16.

Carbon Scrutiny Board

Annual Report 2015/16



Prepared for Audit Scotland Board
June 2016

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

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Carbon Scrutiny board annual report 2015/16

Background

1. Climate change represents a significant, long-term global challenge. Scotland has ambitious targets to reduce its greenhouse gas emissions and the public sector has a key leadership role in taking forward this agenda. Audit Scotland has a part to play in holding public sector organisations to account for their performance in this area. We are also committed to reducing the greenhouse gas emissions that are caused by our own operations.
2. The Carbon Trust developed a Public Sector Carbon Management programme to assist organisations to save money on energy and put it to good use in other areas, whilst making a positive contribution to the environment by lowering their carbon emissions. In 2009, Audit Scotland participated in that programme. In partnership with the Carbon Trust, we developed a Climate Change Plan, which committed us to reducing our tonnes carbon dioxide equivalent (tCO₂e) by 20 per cent by 2014, relative to our 2008/09 baseline figure.
3. Our Climate Change Plan was approved by Audit Scotland's Board in June 2010 and then revised in April 2011. The revision captured changes to our original projects and incorporated updated benchmark data. As part of our commitment to delivering the Climate Change Plan, a corporate Carbon Scrutiny Board was then established to monitor and report on progress against the Climate Change Plan and to identify and promote environmentally friendly activities and practices across the business.

About us

4. The Auditor General for Scotland, the Accounts Commission for Scotland and Audit Scotland work together to deliver public audit in Scotland:
 - The **Auditor General for Scotland** is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government and health bodies and report to Parliament on their financial health and performance.
 - The **Accounts Commission for Scotland** is an independent public body appointed by ministers to hold local government to account. The Controller of Audit post is independent, established by statute and whose functions involve reporting to the Commission on the audit of local government.
 - **Audit Scotland** provides services to the Accounts Commission and the Auditor General. It 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 who are appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.

5. Our vision is to be a world-class audit organisation that improves the use of public money. Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value.
6. Audit Scotland employed 273, whole time equivalent, people and managed a budget of £24.5 million in 2015/16. Our local audit teams work at the offices of the public bodies we audit or in our dedicated offices in Edinburgh, Glasgow and Inverness.

This report

7. This report sets out our 2015/16 carbon emissions and associated costs with comparisons against our previous plan. The new baseline year of 2014/15 will be the year against which our future performance is assessed against.
8. Audit Scotland is a listed body under Schedule 1 of the Climate Change (Scotland) Act 2009. This report has been prepared on the basis that it will satisfy our Climate Change reporting requirements under the Climate Change (Duties of Public Bodies: Reporting Requirements) (Scotland) Order 2015.

Reporting our Climate Change performance

9. As a listed body under Schedule 1 of the Climate Change (Scotland) Act 2009 Audit Scotland is required to report specific aspects of our performance under six main headings:
 - Organisational profile
 - Governance and management
 - Corporate emissions
 - Adaptation
 - Procurement
 - Validation
10. This report is organised under those headings so that it can be used to meet our reporting obligations under this piece of legislation.
11. We are obliged to submit an annual report to the Scottish Sustainable Network (SSN) detailing our compliance with the climate change duties. SSN has developed a Public Bodies Climate Change Duties reporting platform which Audit Scotland staff are due to be trained on in May 2016. We will use this platform as the primary vehicle for reporting our Climate Change performance in future years.
12. To meet our reporting obligations for 2015/16 a copy of this annual report will be submitted to SSN once it has been approved by Audit Scotland's Management Team and Board.

Governance, Management and Strategy

Leadership, governance and accountability for carbon management in Audit Scotland

13. Effective and ongoing ownership of our approach to climate change and carbon management needs a well defined governance structure, supported by clear leadership throughout the organisation. Audit Scotland's arrangements for ensuring effective leadership, oversight and accountability and improvements in environmental performance are through a corporate Carbon Scrutiny Board which reports annually to Audit Scotland's Management Team and Board.
14. The main groups that are involved in leading, managing and holding us to account for our carbon management performance are: our Board; Audit Scotland's Management Team, the Carbon Scrutiny Board, and Audit Scotland's four business groups (Audit Services, Performance Audit and Best Value, Audit Strategy and Corporate Services). The particular roles and responsibilities of these groups are set out in Appendix A.

Resourcing and ownership

15. Our Climate Change Plan and carbon saving targets are approved by the Board following consideration by Audit Scotland's Management Team. This approach provides endorsement and a clear leadership commitment at the highest level of the organisation (both executive (Management Team) and non-executive (Board)) to embedding improved environmental performance across the whole organisation.
16. Our Corporate Plan 2015-18 commits us to maximising the efficiency and effectiveness of all of our resources and ensuring that we offer the maximum benefit that our unique position of auditing across the public sector in Scotland offers in terms of providing insights into what works, foresight on future risks and opportunities and by supporting improvement. Improving our environmental performance is an important aspect of our World Class audit ambitions and providing effective leadership in this area is an important part of our 'making a difference' agenda.
17. During 2014/15 we developed a new Climate Change Plan 2015/16 - 2019/20 (CCP) that supersedes our previous plan (2008/14). The specific objectives of the new plan will be cascaded through into individual business group plans.
18. Corporate and business group performance will be monitored on a quarterly basis by our corporate performance team as part of our routine performance management. The Carbon Scrutiny Board will continue to provide long-term organisational momentum for embedding the Climate Change Plan and carbon savings across the organisation.

Performance (2010/11 - 2015/16) - Emissions, Targets and Projects

19. Our 2008-2014 Climate Change Plan set a target of reducing our carbon footprint by 20 per cent by 2014. That equated to a reduction of 107(tCO₂e), we significantly exceeded that ambition and achieved a reduction of 190(tCO₂e) or a 36¹ per cent reduction over our baseline figure.
20. The major gains in reducing our carbon footprint came from our property rationalisation programme. In 2008 we had six offices and by March 2015 four offices. The final stage of the property rationalisation took place in 2015/16 when we reduced our two Edinburgh offices to a single office at 102 West Port, Edinburgh. Exhibit 1 compares our 2015/16 performance against the 5 years of the previous CMP. Our energy consumption increased during 2015/16 owing to simultaneous operation of the two old Edinburgh offices and new office.

Exhibit 1 Carbon footprint 2010-2016 (tCO₂e)

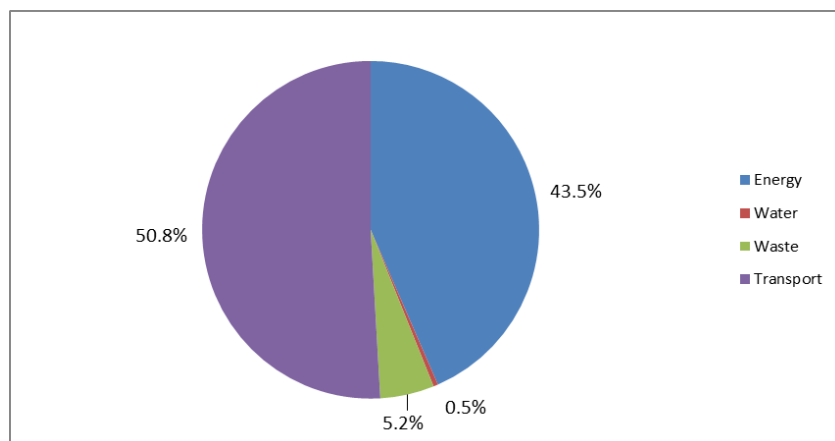
	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Energy	351	323	172	115	125	161
Water	-	-	2	2	2	2
Waste	-	-	15	17	17	19
Transport	159	156	215	220	199	188
Total	510	479	404	353	343	370

Source: Audit Scotland

21. Audit Scotland's overall carbon footprint for 2015/16 has been estimated at 370 (tCO₂e). [Graph 1](#) shows that transport (51%) and energy (44%) are the largest contributors to our carbon footprint.

¹ Audit Scotland's annual report 2014/15 estimated a 41% reduction. This was based on the available data at the time of producing the report. Additional data has been reviewed and the figure has been revised to 36 per cent.

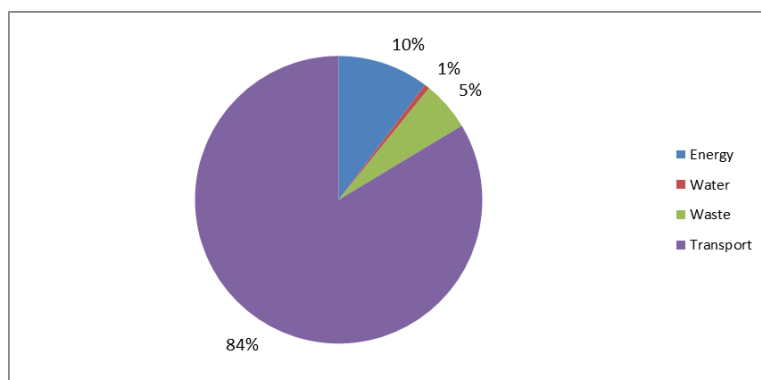
Graph 1 showing 2015/16 Carbon footprint - split by source (tCO₂e)



Source: Audit Scotland

22. The cost of our Carbon Footprint for 2015/16 has been estimated at £272,250. Graph 2 reveals that travel (84%) constitutes the largest cost with flights 26 per cent, car travel 34 per cent, rail 18 per cent, taxis four per cent and bus two per cent. Although energy represents 44 per cent of our Carbon footprint its impact on overall cost is smaller as shown in the graph 2.

Graph 2 showing 2015/16 Carbon footprint - split by source (cost £)



Source: Audit Scotland

23. We do not routinely monitor the financial savings associated with our reductions in carbon emissions and during the life of the plan we have changed the way we measure different aspects of our carbon footprint and this makes it difficult to estimate the total savings from the start of our CMP.
24. However, our analysis indicates that we have achieved significantly more than our original £35,900 target saving figure over the period of our initial Climate Change Plan.
25. We estimate that since 2010 we have saved:
- around £37,000 in travel and subsistence claims
 - around £41,000 in reduced energy usage due to property rationalisation.

Performance against our projects in 2015/16

26. Our total carbon footprint increased in 2015/16 to 370 (tCO₂e). The increase was expected due to the running of three Edinburgh offices for part of the year. Therefore 2015/16 is expected to be a spike year and we anticipate that our planned projects will continue to reduce our overall carbon foot print in the coming years.
27. Our 2015/16- 2019/20 Climate Change Plan identified a range of projects and included anticipated (tCO₂e) savings for energy, travel and waste. The project list is summarised at Appendix B.
28. The key projects that we focused on during 2015/16 were those which relate to our two largest contributors to carbon emissions, i.e.:
- Property rationalisation.
 - Reducing the impact of our business travel.
29. Performance for energy consumption in 2015/16 increased on the previous year from 458,236 to 640,099 KWH (40%) due to the running of both George Street offices and West Port (See exhibit 2). However energy consumption will decrease from 2016/17 due to the reduction to one Edinburgh office and to the better energy efficiency of the West Port building.

Exhibit 2 Energy consumption 2010/11 - 2015/16

	2010/11 KWH	2011/12 KWH	2012/13 KWH	2013/14 KWH	2014/15 KWH	2015/16 KWH
Electricity	234,905	273,979	205,655	149,110	136,412	155,929
Gas	319,879	294,932	286,934	231,131	321,824	484,170
Total	554,784	568,911	492,589	380,241	458,236	640,099

Source: Audit Scotland

30. Our overall trend for business travel mileage shows a steady reduction however in 2015/16 there has been a small increase on the previous year for total car miles as shown in exhibit 3.

Exhibit 3 Car travel data 2010/11 - 2015/16

	2010/11 miles	2011/12 miles	2012/13 miles	2013/14 miles	2014/15 miles	2015/16 miles
lease petrol*	306655	321,864	85,821	63,305	26,976	53,384
Lease diesel	--	--	219,015	221,227	202,347	201,605
Lease Hybrid	--	--	--	14,298	17,209	701
Non-lease	97,910	101,554	74,539	63,309	58,408	62,236
Total	404,565	423,418	379,375	362,139	304,940	317,926

* 2010/11 and 2011/12 we do not have the split for petrol and diesel

Source: Audit Scotland

31. Audit Scotland is continuing a downward trend in reducing the total (tCO₂e) emissions for all forms of business travel.
32. Total (tCO₂e) emissions for all forms of transport have decreased slightly on the previous year, exhibit 4, and remain below the peak level of 2013/14. Rail travel is increasing in part as a consequence of our policy commitment to reduce car use and flights wherever possible and instead use greener forms of transport such as trains and buses.

Travel (tCO₂e)

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Car travel	96.3	91.5	114.78	107.79	89.76	95.65
Flights	55.17	59.8	87.62	97.39	95.41	76.35
Rail	5.45	3.14	9.73	12.08	12.35	13.28
Other travel (bus, taxi)	1.99	1.83	1.68	1.55	1.04	2.90
Total	158.91	156.27	213.81	218.81	198.56	188.18

Source: Audit Scotland

Adaptation

33. As a listed body under Schedule 1 of the Climate Change (Scotland) Act 2009 Audit Scotland is required to report on adaptation. Adaptation is the adjustments we make in response to actual or anticipated climate change.
34. Future climate change projections indicate that Scotland will experience:
 - higher temperatures;

- increased, and more intense, rainfall; and
 - more frequent flooding and landslides.
35. We have reviewed and assessed the risks that a greater frequency of adverse weather events could have on our activities. We have determined that we require no additional specific actions to reduce the potential impact of climate change-related weather events. Audit Scotland has an adverse weather condition policy and well-established and high capacity business continuity planning arrangements. In the event of any major incidents, all staff are able to access their business information and work from home or alternative sites. A recent survey of staff showed 89 per cent can work from home or another location for more than two days and 56 percent for more than a month.
36. We will review the scale of the climate change risks facing Audit Scotland and its activities during 2018 (half-way through the lifespan of our new Climate Change plan) and determine whether further mitigating actions need to be introduced and whether changes need to be made to our management arrangements in this area.

Understanding climate change

37. In September 2014, Audit Scotland assessed itself using Resource Efficient Scotland's Climate Change Assessment Tool (CCAT). This is a self evaluation tool to evaluate our performance under the public sector duties of the Climate Change (Scotland) Act 2009.
38. The focus of our carbon work to date has been on reducing our carbon emissions and this meant we scored higher for governance (55 per cent) and mitigation (60 per cent). However, scores for adaptation (five per cent) and behaviour change (10 per cent) were lower.
39. The CCAT scores identified adaptation and behaviour change as an area that Audit Scotland needs to develop. This has also been recognised by our staff as part of our annual staff survey where they have identified improving our environmental performance as an area where they think we could do more. One element of our programme of organisational development is *Building a Better Organisation*. As part of this, we will review our lease car scheme and examine ways in which we can improve the sustainability of our travel.

Procurement

40. The nature of our business is such that it would be disproportionate for us to apply the Flexible Assessment Tool that the UK Sustainable Procurement Task Force developed to enable organisations to chart their progress towards achieving sustainable procurement. Instead, we have focused on embedding sustainability into the procurement of private sector audit firms that provide audit services to the Auditor General and the Accounts Commission for Scotland.
41. As part of the procurement and contracting exercise for the next round of five-year audit appointments (that will cover the period 2016/17 to 2020/21) we have incorporated a requirement that the firms provide Audit Scotland with data that meets the performance reporting requirements of the Climate Change (Scotland) Act 2009 on an annual basis. This will allow us to gather more comprehensive data on the overall carbon footprint of public audit

in Scotland. This will mean that in future we can consider the merit of extending the boundary of our Climate Change Plan to include 'the firms' as our understanding of their carbon footprint matures.

Validation

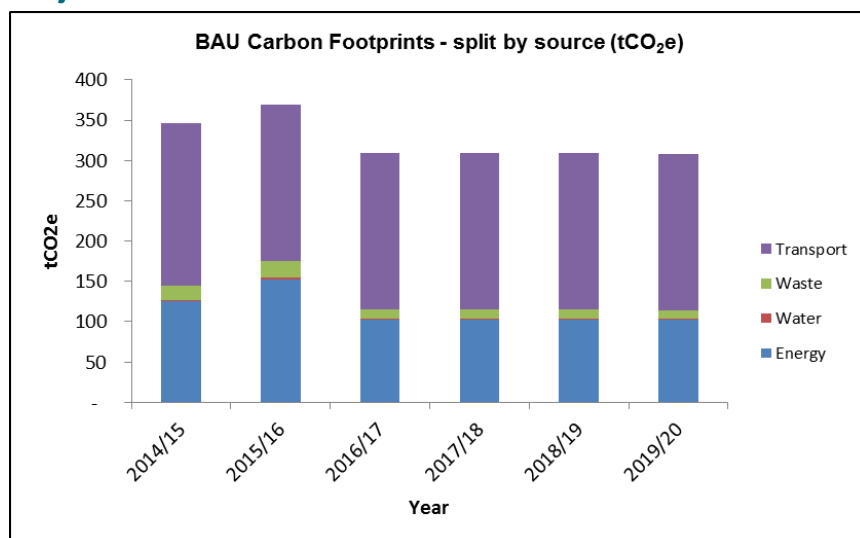
- 42. The data contained within our report has been reviewed by Audit Scotland's Corporate Performance Officer. It has not been subject to peer review or external validation.

Future plans

- 43. We will use our 2014/15 performance figures as the base line for target setting and monitoring progress in the new Audit Scotland Climate Change Plan (2015/16 - 2019/20). This annual report is our summary of performance against that initial plan.
- 44. Working with Resource Efficient Scotland, we estimated that by 2019/20, Audit Scotland will reduce its annual carbon emissions by 15 per cent against its 2014/15 baseline. This equates to annual carbon emissions of 292 (tCO₂e) as shown in exhibit 5.

Exhibit 5

Projected Audit Scotland business-as-usual carbon emissions, 2014/15 - 2019/20



Source: Audit Scotland

- 45. Our Climate Change Plan will focus on changes to our working practices and behaviours to deliver further and sustained improvements in our environmental performance and climate change adaptation activity.
- 46. We will continue to work with Resource Efficient Scotland to ensure that the actions contained on our new Climate Change Plan are evidence-based and well-targeted. We will draw on their advice and guidance in relation to our approach to climate change mitigation activity. It was on their advice that the key areas of the new plan focuses on include travel, energy use (buildings and ICT), waste reduction, staff behavioural change, and mainstreaming environmental performance management.

Appendix A

The roles of the various governance (leadership, oversight and delivery) linked to the Climate Change Plan

Board

47. *Membership:* The members of Audit Scotland Board are the Auditor General, the Chair of the Accounts Commission and three other members appointed by the Scottish Commission for Public Audit (SCPA). The SCPA also appoints one of the members of Audit Scotland which it has appointed to preside at the meetings of the Board.
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. One of the actions that remains reserved to the Board under the Scheme of Delegation is approval of strategic policies relating to the governance of Audit Scotland. Audit Scotland's Climate Change Plan is one of these documents. The Board therefore formally approves Audit Scotland's Climate Change Plan. It also receives annual updates on performance against the targets and objectives set out in the plan, thereby holding Audit Scotland staff to account for their performance in relation to this important strategic area.

Management team

50. *Membership:* The members of Audit Scotland's Management Team are: the Auditor General for Scotland, Audit Scotland's Chief Operating Officer (COO), the Assistant Auditor General for Scotland/Director of Audit Strategy, the Director of Audit Services, and the Controller of Audit/Director of Performance Audit and Best Value. The Chief Operating Officer is secretary to the Audit Scotland Board and chairs the Management Team. She is also the project sponsor for Audit Scotland's Climate Change Plan. She is a member of the Public Sector Climate Leaders Forum (PSCLF) an important strategic leadership group with responsibility for supporting climate change adaptation and improvements in environmental performance across the public sector. This has helped Audit Scotland engage strategically with key public sector partners on this issue and has helped embed climate change leadership as an important element of the way in which Audit Scotland manages its business.
51. *Role:* Audit Scotland's Management Team is responsible for strategic direction setting for Carbon Management (including project sponsorship), resource allocation and oversight and scrutiny of implementation of Audit Scotland's Climate Change Plan.

Carbon scrutiny board

52. *Membership:* This group is chaired by an Assistant Director with corporate responsibility for leading and driving improved carbon management in Audit Scotland, and is made up of nine representatives, covering each of Audit Scotland's business groups.
53. *Role:* This group is the key forum for the operational planning and delivery of climate change activity and improving environmental performance within Audit Scotland. Its role includes oversight of delivery of carbon management projects, data collection and management (including benchmarking and the identification of best practice); 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 Group, Performance Audit and Best Value, Audit Strategy, Corporate Services Group)

54. Audit Scotland's four main business groups are key to 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 in this area. For that reason, this Climate Change Plan has a much stronger emphasis on business group environmental monitoring and performance management, and staff behaviour change alongside our corporate improvement projects.

Appendix B

The carbon saving projects 2015/16 - 2019/20

Project	Anticipated saving By 2019/20 (tCO ₂ e)
Energy	
<ul style="list-style-type: none"> Property rationalisation Energy reductions through ICT projects* 	12
Transport	
<ul style="list-style-type: none"> Domestic flights reduced by 5% Business car travel Grey fleet review** 	15 16
Waste	
<ul style="list-style-type: none"> Improved levels of recycling Paper use 	6.5 1.5
Total	51

*Savings included in the property rationalisation project.

** Once the review is complete we will calculate the anticipated savings.

Appendix C

Individual consumptions and costs for each element of the 2015/16 carbon footprint

Category	Carbon Footprint (tCO ₂ e)	Cost (£)
Grid Electricity	71	13,897
Natural Gas	89	14,041
Water - Supply	1	492
Water - Treatment	1	1,090
Refuse Municipal to Landfill	5	2,155
Waste ₂	13	12,935
Flights - domestic	65	55,583
Flights - short haul	2	2,307
Flights - long haul	10	11,692
Rail	13	50,248
Car - diesel	59	35,682
Car - petrol	17	11,166
Car - hybrid	0	147
Bus	1	4,498
Taxi	2	11,255
Average Car	19	45,062
Total	370 (tCO₂e)	£ 272,250

² Includes recycling of paper& board, glass, plastics, metal cans and batteries and paper manufacture

AUDIT SCOTLAND BOARD

2 JUNE 2016

REPORT BY THE CHIEF OPERATING OFFICER

**2015/16 GOVERNANCE STATEMENT ON INTERNAL CONTROL AND CERTIFICATE
OF ASSURANCE**

1. Purpose of Report

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.

2. Recommendation

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.

CERTIFICATE OF ASSURANCE

To Audit Scotland's Accountable Officer

ANNUAL ACCOUNTS 2015/16: ASSURANCE FOR THE GOVERNANCE STATEMENT ON INTERNAL CONTROL

1. I am aware that, as **Chief Operating Officer**, you are required to sign a Governance Statement on internal control for the annual accounts for 2015/16.

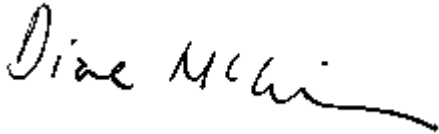
To assist you in that process, I can confirm that I have received and reviewed the required assurances from Audit Scotland's business group directors.

2. Based on that review, and my own knowledge of internal control matters in **Audit Scotland** I can confirm that these controls have been, and are, working well. There are, in my opinion, no significant matters arising which would require to be raised specifically in the Governance Statement.

Name: Diane McGiffen

Title: Chief Operating Officer

Signature:



Date: 05.05.16

AUDIT SCOTLAND BOARD

2 JUNE 2016

REPORT BY THE CHAIR OF THE AUDIT COMMITTEE

2015/16 ANNUAL REPORT FROM THE CHAIR OF THE AUDIT COMMITTEE TO THE BOARD

1. Introduction and Background

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 2015/16.

During the year the membership of the Audit Committee changed. Ian Leitch stepped down from the Committee on 30 September 2015 after being appointed Chair of the Audit Scotland Board. Russel Griggs joined the Committee after his appointment as a Board member on 1 October 2015.

The Audit Committee approved and participated in the competitive procurement and selection process for the appointment of new internal auditors. BDO was appointed by the Board on recommendation from the Audit Committee to supply internal audit and advisory services to Audit Scotland for the years 2015/16 to 2017/18.

2. Programme of Work

The Audit Committee considered the annual report from the External Auditors, Alexander Sloan Chartered Accountants, relating to the certification of Audit Scotland's 2014/15 accounts. The audit of the 2015/16 accounts has concluded and will be reported to the Audit Committee on 2 June 2016.

The Audit Committee approved the timetable to facilitate the completion of the Statutory Accounts for the Year ended 31 March 2015.

BDO conducted seven internal audits and one follow-up review in 2015/16. The Audit Committee considered four internal audit reports, two annual audit plans (2015/16 & 2016/17) and two audit progress reports from BDO prior to 31 March 2016.

The final three 2015/16 internal audit reports, the follow-up report and the 2015/16 annual internal audit report were presented to the Audit Committee at the 3 May 2016 meeting. There were no significant audit findings.

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.

The Members' Code of Conduct was reviewed, updated in line with an amendment in the new model code published by the Scottish Government and published on the Audit

Scotland website along with the annual declaration of Members' interests.

The Audit Committee approved version ten of Audit Scotland's business continuity plan and arrangements.

The Audit Committee considered annual assurance reports on Health and Safety, Information Governance and Security, Transparency and Quality, Correspondence Handling, Risk Management, Hospitality and Gifts, Whistleblowing and Bribery and Fraud.

The review of the Corporate Risk Management Policy & Strategy was undertaken approved by the Audit Committee in November 2014 and approved by the Board in January 2015. This was reviewed again in 2016 and is now titled the Risk Management Framework. It was presented to the Audit Committee on 3 May 2016 and recommended to the Board for re-approval at their meeting on 3 May 2016.

The corporate risk register was considered by the Audit Committee on five 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 2015/16.

The Audit Committee considered reports on data incidents and noted the corrective actions proposed by Audit Scotland to reduce further incidents.

At its meeting in February 2016 the Audit Committee considered a report from the internal and external auditors on their joint working.

The members of the Audit Committee carried out the annual review of effectiveness basing it on the National Audit Office's Audit Committee self-assessment checklist but amending it to better reflect the nature of Audit Scotland's composition. A report on the outcome and actions was presented to the meeting of the Audit Committee on 3 May 2016.

3. Overview of External Audit

Alexander Sloan, Chartered Accountants, who are appointed by the SCPA, completed the audit of Audit Scotland's 2014/15 accounts and provided a report to the June 2015 Audit Committee. The external auditor advised the Audit Committee that they would be issuing an unqualified audit opinion.

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.

There were no recommendations in the external auditor's management letter.

The audit of the 2015/16 accounts will be reported to the Audit Committee at its meeting on 2 June 2016.

4. Overview of Internal Audit

BDO carried out seven internal audits and one follow-up review during 2015/16; 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.

Audits and overall assurance assessments were:

- Corporate governance (substantial assurance)
- Key financial controls (substantial assurance)
- Cost of audit/fees and funding (reasonable assurance)
- Procurement of audit firms (substantial assurance)
- IT Strategy (substantial assurance)
- Communications and stakeholder engagement (reasonable assurance)
- PABV programme development (substantial assurance)
- Follow-up review (significant progress).

There were 15 recommendations from the seven internal audits. Three recommendations were classed as medium and 12 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.

The internal audit service and scrutiny provided by BDO offer sufficient assurances for the 2015/16 annual internal audit report.

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.

The cost of the internal audit work from TIAA and BDO, completed by 31 March 2016, was £21,824.08. The number of internal audit days used by BDO was in line with the 2015/16 plan.

5. Governance Statement

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.

Internal auditors provided Audit Scotland with reasonable assurance that, there are no major weaknesses in the internal control system for the areas reviewed in 2015/16. External auditors reported that they would issue an unqualified audit opinion.

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.

6. Conclusion

On the basis of the work reviewed and progress made during 2015/16, the Audit Committee can advise the Board that, in its opinion, the internal control systems in Audit Scotland are adequate.

The Board is invited to note this annual report from the Audit Committee for 2015/16.

AUDIT SCOTLAND BOARD

2 JUNE 2016

REPORT BY THE ASSISTANT AUDITOR GENERAL

FINAL AUDIT APPOINTMENTS 2016/17 – 2020/21

1. Purpose

This paper provides the Board with the final update on the recent audit procurement exercise including the final audit appointments.

2. Background

The audit procurement exercise was carried out over the winter in accordance with the agreed strategy resulting in the six firms being successful in one or more sectors.

In March 2016 provisional appointments were agreed by the Auditor General and Accounts Commission. These provisional appointments were subject to consultation with the firms and then with the audited bodies to ensure that there were no reasons why the appointments should not be finalised.

The final appointments were then approved by the Auditor General and the Accounts Commission in May 2016 and have been published alongside the revised Code of Audit Practice.

3. Consultation process

We expect the consultation to result in a small number of issues arising such as from conflicts emerging which have only occurred since the tender submissions were made.

This time there were more issues arising than in any previous exercise since Audit Scotland was created. There are a number of reasons for this including the identity of the successful firms, the portfolio of audits earmarked for firms, the increasing importance of the joining up of health and local government audits and stronger ethical standards for auditors.

In local government the main issues arising came from an internal audit appointment held by Scott Moncrieff at NHS Lothian and a number of tax and other consultancy assignments held by KPMG at a large number of councils. The issue with NHS Lothian was resolved by mutual agreement allowing Scott Moncrieff to be appointed as auditor to the City of Edinburgh Council and NHS Lothian.

The KPMG issues were more complicated and resulted in the original offer of Renfrewshire Council being replaced with Perth & Kinross council as the conflicts arising could not be addressed satisfactorily. Audit Services Group will now retain the audit of Renfrewshire Council.

In other sectors the main issues arose from the consultation with audited bodies revealing linkages with other bodies such as shared services that we had not been aware of. This resulted in the auditor of OSCR changing from Scott Moncrieff to Grant

Thornton and the auditor of the Southwest Community Justice Authority moving from Grant Thornton to Deloitte. The Housing regulator audit moved from Grant Thornton to Scott Moncrieff in order to rebalance the relative portfolio sizes.

Several regulators asked whether it was appropriate for their external audit to be a firm that they also regulate. This is a widespread point affecting both firms and Audit Services Group and in some cases eg OSCR all potential auditors are also subject to some regulation/oversight by the audited body. Final audit appointments have not changed as a result and all the regulators that raised the issue have all been contacted and assured that if they have any specific concern about their auditor as a result of their role as regulator we will be happy to discuss it with them.

The final list of audit appointments is attached at Annex 1 for information.

Work now moves on to ensuring that there is effective handover between outgoing and incoming auditors and that all incoming auditors fully understand the expectations on them.

4. Recommendation

The Board are invited to note the outcome of the procurement exercise and final audit appointments.

Annex 1 - Final audit appointments 2016/17 – 2020/21

	Local government	Health
Deloitte	East Ayrshire Council East Ayrshire IJB North Ayrshire Council North Ayrshire IJB South Ayrshire Council South Ayrshire IJB Ayrshire VJB Shetland Islands Council Shetland Islands Pension Fund Shetland Islands IJB Orkney and Shetland VJB ZetTrans	Ayrshire and Arran HB Shetland HB NHS Healthcare Improvement Scotland NHS Health Scotland
Grant Thornton	Highland Council Highland Pension Fund Highland and Western Isles VJB HITRANS Dumfries and Galloway Council Dumfries & Galloway Pension Fund Dumfries and Galloway IJB South West RTP	Highland HB Dumfries & Galloway HB Scottish Ambulance Service NHS Education for Scotland
Scott-Moncrieff	City of Edinburgh Council Lothian Pension Fund Edinburgh IJB Lothian VJB SESTRAN Strathclyde Concessionary Travel Scheme JC Strathclyde Partnership for Transport	Lothian HB Mental Welfare Commission for Scotland NHS 24 NHS National Waiting Times Centre Board The State Hospital
KPMG	Aberdeen City Council Aberdeen City IJB East of Scotland European Consortium Perth and Kinross Council Perth and Kinross IJB TACTRAN	
EY	Falkirk Council Falkirk Pension Fund Falkirk IJB West Lothian Council West Lothian IJB Midlothian Council Midlothian IJB	

	Local Government	Health
Audit Services Group	<p>Aberdeenshire Council Angus Council Argyll and Bute Council Clackmannanshire Council Comhairle nan Eilean Siar Dundee City Council East Dunbartonshire Council East Lothian Council East Renfrewshire Council Fife Council Glasgow City Council Inverclyde Council Moray Council North Lanarkshire Council Orkney Islands Council Renfrewshire Council Scottish Borders Council South Lanarkshire Council Stirling Council West Dunbartonshire Council Scottish Borders Pension Fund Fife Pension Fund North East Scotland Pension Fund Strathclyde Pension Funds Tayside Pension Fund Orkney Pension Fund Aberdeen City and Shire SDPA Aberdeenshire IJB Angus IJB Argyll and Bute IJB Central Scotland VJB Clyde Muirshiel Park Authority JC Clyde Valley Learning and Development JC Dams to Darnley Country Park JC Dunbartonshire and Argyll and Bute VJB Dundee City IJB East Dunbartonshire IJB East Lothian IJB East Renfrewshire IJB Edinburgh and SE Scotland SDPA Fife IJB Glasgow and Clyde Valley Cabinet Joint Committee Glasgow and Clyde Valley SDPA Glasgow City IJB Grampian VJB Inverclyde IJB Lanarkshire VJB Moray IJB Mugdock Country Park JC NESTRANS North Lanarkshire IJB Orkney Islands IJB Renfrewshire IJB Renfrewshire VJB Scotland Excel Scottish Borders IJB South Lanarkshire IJB Stirling & Clackmannanshire IJB Tay Road Bridge JB Tayside Contracts JC Tayside SDPA Tayside VJB West Dunbartonshire IJB West of Scotland Archaeology Service JC West of Scotland European Forum Western Isles IJB</p>	<p>Borders HB Fife HB Forth Valley HB Grampian HB Greater Glasgow and Clyde HB Lanarkshire HB Tayside HB Orkney HB Western Isles HB NHS National Services Scotland</p>

	Central Government	Further Education
Audit Services Group	Architecture + Design Scotland Children's Hearings Scotland Creative Scotland Creative Scotland Lottery Fund Crown Office Food Standards Scotland Education Scotland Fife and Forth Valley CJA Forest Enterprise (Scotland) Forestry Commission (Scotland) Glasgow CJA Highlands and Islands Enterprise Lanarkshire CJA National Galleries of Scotland National Library of Scotland National Museums of Scotland National Records of Scotland NHS Superannuation Scheme (Scotland) Non-Domestic Rates Account North Strathclyde CJA Northern CJA QLTR Quality Meat Scotland Registers of Scotland Revenue Scotland Risk Management Authority Royal Botanic Gardens Edinburgh Scottish Children's Reporter Administration Scottish Consolidated Fund Scottish Criminal Cases Review Commission Scottish Enterprise Scottish Funding Council Scottish Government Scottish Legal Aid Board Scottish Natural Heritage Scottish Parliamentary Corporate Body Scottish Police Authority Scottish Public Pensions Agency Scottish Qualifications Authority Scottish Teachers' Superannuation Scheme Skills Development Scotland sportscotland sportscotland Lottery Fund Standards Commission for Scotland Tayside CJA Transport Scotland VisitScotland Water Industry Commission for Scotland	Dundee & Angus College Edinburgh College

	Central government	Further education
Deloitte	<p>Bord na Gaidhlig Commissioner for Children and Young People in Scotland Commissioner for Ethical Standards Crotting Commission Historic Environment Scotland Scottish Fire Authority Scottish Human Rights Commission Scottish Information Commissioner Scottish Legal Complaints Commission Scottish Public Services Ombudsman South West Scotland CJA</p>	
Grant Thornton	<p>Cairngorms National Park Authority Care Inspectorate Loch Lomond & the Trossachs NPA Office of the Accountant in Bankruptcy Office of the Scottish Charity Regulator Scottish Canals Scottish Environment Protection Agency Scottish Social Services Council Student Awards Agency for Scotland</p>	
Scott-Moncrieff	<p>Disclosure Scotland Lothian and Borders CJA Police investigation and review commissioner Scottish Courts Service Scottish Housing Regulator Scottish Prison Service Scottish Road Works Commissioner</p>	<p>Borders College City of Glasgow College Dumfries and Galloway College Glasgow Clyde College Glasgow Kelvin College Glasgow Regional Board</p>
KPMG	<p>Scottish Water</p>	
EY		<p>Fife College Forth Valley College Inverness College Levens Castle College Moray College North East Scotland College North Highland College Perth College</p>
Mazars		<p>Ayrshire college New College Lanarkshire South Lanarkshire College West College Scotland West Lothian College</p>

AUDIT SCOTLAND BOARD

2 JUNE 2016

REPORT BY THE SECRETARY TO THE ACCOUNTS COMMISSION

ACCOUNTS COMMISSION STRATEGY 2016-21 AND ENGAGEMENT STRATEGY 2016/17

1. Purpose

This paper presents to the Board for its information the Accounts Commission's Strategy 2016-21 and Engagement Strategy 2016/17.

2. Background

At its meeting on 12 May, the Accounts Commission approved the following documents:

- Annual Report 2016/17
- Annual action plan 2016/17: progress report
- Engagement Strategy 2016/17: progress report
- Strategy 2016-21
- Engagement Strategy 2016/17

These were published on 25 May and sent to over 4,500 stakeholders, including councils (members and senior officers), Scottish Government, MSPs, scrutiny partners, and other public sector bodies.

The first three of these – reporting progress over the past year - are available on the [Commission's website](#).

The Strategy and Engagement Strategy – looking forward to next year and beyond - are attached herewith for the Board's interest.

3. Strategy and Engagement Strategy

The Commission has a five-year rolling Strategy, setting out its priorities and including an annual action plan which sets out how these priorities will be taken forward over the next year. The Commission reports progress against this plan annually in public. This Strategy is used by Audit Scotland in planning and shaping its audit activity.

The Commission is also keen in setting out its varied stakeholders, its interest in engaging with these stakeholders, and how it will engage with them. This is set out in its Engagement Strategy. This incorporates a more detailed engagement plan, setting out the Commission's intended engagement activities over the next year. Again, the Commission reports progress against this plan annually in public.

4. Recommendation

The Board is invited to note the Commission Strategy 2016-21 and Engagement Strategy 2016/17.

Strategy and annual action plan

2016-21




Who we are

The Accounts Commission is the public spending watchdog for local government. We hold councils in Scotland to account and help them improve. We operate impartially and independently of councils and of the Scottish Government, and we meet and report in public.

We expect councils to achieve the highest standards of governance, financial stewardship and value for money in how they use their resources and provide their services.

Our work includes:

- securing and acting upon the external audit of Scotland's councils and various joint boards and committees
- assessing the performance of councils in relation to Best Value and community planning
- carrying out national performance audits to help councils improve their services
- requiring councils to publish information to help the public assess their performance.

You can find out more about our role, powers and meetings on the Accounts Commission [web pages](#) .

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Context



We continuously ensure that our work is responsive to the environment in which councils operate, which sees:

- reduced resources – public spending will decline in real terms for the foreseeable future
- demographic change – Scotland’s population is ageing which puts more pressure on services and resources
- increasing flexibility in how our local public services are delivered
- ever-increasing public expectations about the content, quality and delivery of public services, and how the public is involved in designing those services
- increasing empowerment of citizens and communities in their relationship with councils
- enhanced devolution and increased financial powers to the Scottish Parliament.

Our over-riding aim in holding councils to account is to promote an increased pace of improvement, with councils demonstrating good governance.

This context helps us set our expectations of councils over the next five years as we help provide assurance to the public on the performance of each Scottish council. Our expectations reflect councils’ responsibilities to deliver high-quality services for service users and better outcomes and reduced inequalities for communities. In doing so, they will show how – through rigorous self-evaluation – they are making best use of their resources and continuously improving in order to meet their statutory duty of Best Value.

Challenges for councils

In setting out our context, we have identified the issues faced by councils. Our *Overview of local government 2016* reports on how councils have responded to these issues, and what we believe councils need to do:

- Have clear priorities and better long-term planning.
- Recognise that incremental savings are not enough, and therefore evaluate options for more significant changes in how they deliver services.
- Ensure their people – members and officers – have the right knowledge, skills and time to design, develop and deliver effective services in the future.
- Involve citizens more in making decisions about local services and empowering local communities to identify and help deliver services they need.

Through all of our work, we will monitor and report how councils are progressing against these areas.



An overview of
local government
in Scotland 2016

March 2016

Our strategic priorities

We will shape our work around the following priorities:



Working with our newly appointed auditors and through our new Code of Audit Practice to ensuring our approach to the **financial audit and auditing Best Value** clearly sets out the Best Value expectations of councils and reports on councils' improvement and their use of public money.



Continuing to **encourage councils to report performance** in ways that allow their citizens to gauge their improvement, including comparatively against other councils.



Better reflecting the interests of the citizen, service user and communities in our work, including Best Value auditing, in performance audits and in our joint work with our scrutiny partners.




Working with our scrutiny partners as appropriate to continuing to develop how we **oversee the changing public service landscape**, including:

- Auditing and reporting upon progress of the **new joint health and social care boards**.
- Retaining our interest in the progress of **community planning**.
- Ensuring that our five-year **programme of national performance audit work** appropriately covers the key areas of public policy and is encouraging improvement in those areas.
- In conjunction with our scrutiny partners, continuing to **improve the effectiveness of scrutiny, audit and inspection** in Scotland.



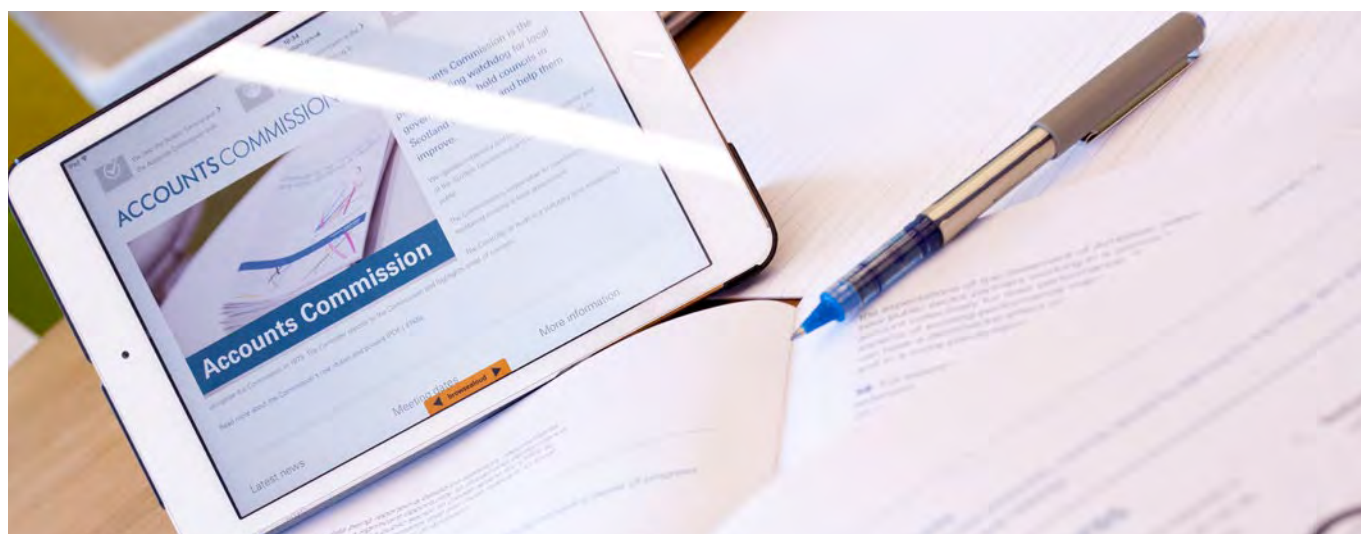
Promoting good practice and innovation by making more effective use of data, benchmarking, and information and analysis contained in our reports, working with other stakeholders as appropriate, such as the Improvement Service and the Local Government Benchmarking Framework.

In taking forward these priorities, we will engage effectively and regularly on issues of mutual interest with our stakeholders including the Scottish Government, councils, professional associations, trade unions and organisations representing the user, service and local government interests. Our [Engagement strategy 2016/17](#)  sets out how we will do this.

We will also ensure that we continuously improve our own work by reviewing our working practices and the quality of our reports. We will test and report on our performance and impact by liaising regularly with our stakeholders.



Annual action plan



This action plan sets out what we will do over the next 12 months in taking forward our priorities. We will report progress at the end of that period. We will:



Develop the audit by:



- ensuring that our annual overview report, to be published in early 2017, provides effective reporting of the performance of councils in relation to those challenges that we identified in our current overview report
- implementing, and continuing to develop, our new approach to auditing Best Value which is better integrated with other audit work and will provide more regular assurance about the performance of all councils
- as part of this, contributing to a review and update of the characteristics of Best Value being led by the Scottish Government and councils, including ensuring that it reflects our expectations.

Encourage effective reporting of performance by:



- working with councils to help further enhance the scope and use of the Local Government Benchmarking Framework
 - developing effective assessment of public performance reporting by councils, through our auditing of Best Value.
-

Reflect the interests of the citizen, service user and communities by:



- reviewing how guidance in relation to the Community Empowerment Act affects our work
- working with stakeholders to ensure these interests are reflected effectively in supporting material in relation to Best Value
- ensuring that all of our audit work reflects this perspective and helps councils improve in how they involve citizens, service users and communities.
- exploring with our scrutiny partners opportunities for joint working to this end.

Scrutinise the changing public service landscape by:



- monitoring the implications for councils of any further devolution of powers, such as welfare provisions
- ensuring audit activity reflects and holds councils to account in how they use alternative service delivery vehicles in following the public pound
- further developing our approach to the audit of joint health and social care integration boards in relation to Best Value, governance and finance
- undertaking performance audits, on:
 - Roads maintenance
 - Social work
 - Early learning and childcare
 - Equal pay
 - Self-directed support
- reporting on the impact of our previous performance audit on borrowing and treasury management in councils
- continuing to work with our strategic scrutiny partners in coordinating and refining our approaches to scrutiny, audit and inspection.

Promote good practice and innovation by:



- publishing a *How councils work* report on roles and responsibilities in councils
 - ensuring that every performance audit:
 - contains practical advice for elected members and officers
 - makes background data available for use by councils and citizens
 - ensuring we better identify, promote and share good practice from across our audit work.
-

Background

The Accounts Commission was established in 1975 'to secure the audit of all councils in Scotland and to undertake and promote comparative studies to improve the economy, efficiency and effectiveness in how councils provide services'.


We act independently of the Scottish Government and of local government. We consist of 12 members and use our powers to hold local government to account and assure the public about the performance of their council. We also ensure that councils provide the right information for the citizens to enable them to assess their council's performance both over time and in comparison with similar councils.

Since our establishment, our remit has been extended by the Scottish Government:

- In 2003, we were given the responsibility to audit councils' duty of Best Value and community planning.
- In 2008, we were asked to take on a coordinating role to support the delivery – in conjunction with our scrutiny partners – of better aligned and more proportionate and risk-based scrutiny of local government.
- In 2012, we were asked to develop an audit framework designed to strengthen the accountability of Community Planning Partnerships and support their improved performance.
- In 2013, we were given the responsibility to audit the new health and social care integration joint boards (including the duty of Best Value).

The Controller of Audit reports to the Commission on the audit of local government. The post is independent and is established by statute.

The Commission delivers public audit in Scotland along with the Auditor General who audits the remainder of the public sector in Scotland. Audit Scotland was created in 2000 to provide services to the Commission and to the Auditor General.

We have jointly published with the Auditor General and Audit Scotland [*Public audit in Scotland*](#) , which sets out the principles and themes of public audit and how it fits with and responds to the public policy environment in Scotland in which we operate.

Strategy and annual action plan

2016-21

This report is available in PDF and RTF formats,
along with a podcast summary at:

www.audit-scotland.gov.uk 

If you require this publication in an alternative
format and/or language, please contact us to
discuss your needs: 0131 625 1500

or info@audit-scotland.gov.uk 

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Engagement strategy

and engagement plan 2016/17




Who we are

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- assessing the performance of councils in relation to Best Value and community planning
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- requiring councils to publish information to help the public assess their performance.

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Introduction




The Accounts Commission and its partners

1. The Accounts Commission is the public spending watchdog for local government. We are an independent public body appointed by ministers to hold local government to account. Audit Scotland provides services to the Commission by delivering our programme of audits and reports. Some of the engagement activity around specific aspects of our work, for example financial audit or the shared risk assessment, is carried out by Audit Scotland on our behalf.

2. Along with our principal partners, the Auditor General for Scotland and Audit Scotland, we deliver public audit in Scotland. The paper [Public audit in Scotland](#)  describes our relationship with our partners and our role in public audit. In developing our plans we work closely with these principal partners.

The purpose and scope of this engagement strategy

3. The Commission's [Strategy 2016-21](#)  sets out that 'in taking forward (our) priorities, we will engage effectively and regularly on issues of mutual interest with our stakeholders'.

4. This engagement strategy and annual engagement plan complements the Commission's Strategy. It identifies our stakeholders, the reasons why we engage with them and the methods or channels we will use to engage with them. We will report annually on how we have done this.

Our stakeholders

Who are our stakeholders?

5. We engage with a wide range of stakeholders ([page 7](#))

6. We have a close relationship with our principal partners, the Auditor General and Audit Scotland. As well as Audit Scotland, we commission some private sector firms to undertake audit work, so we maintain a relationship with them.

7. Citizens, and the public in general, are our principal stakeholder. In our role as an independent source of assurance for the public, it is important to us that our messages are clear and relevant to people and we are as accessible as possible. In recognition of this we hold our meetings and report in public.

8. We hold councils in Scotland to account and help them improve. In this role we engage regularly with elected members and officers, as well as representatives of local government as a whole, including the Convention of Scottish Local Authorities (COSLA), the Scottish Local Government Partnership (SLGP), and the Society of Local Government Chief Executives Scotland (SOLACE).

9. Although we are appointed by ministers we are independent of them. We can, however, make recommendations to ministers. Equally, ministers can give the Commission directions of a general nature. It is important therefore that we engage fully with ministers and the Scottish Government. We therefore have regular meetings and discussions with Scottish ministers.

10. In the Scottish Parliament, we assist Parliamentary committees through our reports, briefings and providing evidence as appropriate. We also share our work with all MSPs.

11. We engage directly with scrutiny partners, who are a range of regulatory or inspection bodies with a role to scrutinise local government. We formally engage with such partners in the Local Government Strategic Scrutiny Group. This group, which is convened by the Chair of the Commission, was established in 2008 to coordinate the scrutiny of local government. It consists of:

- Audit Scotland
- Care Inspectorate
- Education Scotland
- Healthcare Improvement Scotland
- HM Fire Services Inspectorate

- HM Inspectorate of Constabulary for Scotland
- HM Inspectorate of Prisons
- Inspectorate of Prosecution in Scotland (IPS)
- Scottish Housing Regulator.

COSLA and the Scottish Government also attend meetings of the Group.

12. To help us communicate our messages and work to the public, we liaise with the press and broadcasting media.

13. We also engage with a wide range of other organisations and bodies representing professionals such as public finance accountants and directors of education, social work and administration. We also maintain a relationship with other UK audit bodies to ensure that we keep an updated perspective of audit approaches elsewhere in the UK. On our behalf, Audit Scotland works with the Equalities and Human Rights Commission and equalities groups, as appropriate, to ensure that consideration of equalities issues is embedded in the audit process.

14. With councils and their community planning partners collaborating in increasingly frequent and complex ways to deliver local services, it is important that our work reaches these partners. Notably, the third sector is becoming an increasingly important stakeholder for councils and their community planning partners in helping to deliver local services, and so we want to ensure we engage with this sector, which has varied and complex interests. The community empowerment agenda will also ensure that local communities play a more central role in the planning and delivery of services, so it is important that our work is visible, relevant and helpful to them.

15. Our list of stakeholders is continuously under review to react to changes in the public sector environment. For example, we are currently building our relationship with the new integrated joint health and social care boards. Also, we are considering the implications for us and for councils of further devolution of financial powers from the UK to the Scottish Parliament.

We engage with a wide range of stakeholders



Our messages

16. In engaging with our wide range of stakeholders, we want to be clear about why we are engaging with them and the messages that we need to convey to them. Most importantly, we want to ensure that our stakeholders are clear on why we exist, our purpose and activities, and what this means for them. Beyond our overall message of underling our independence and impartiality, we have messages that are relevant to each stakeholder.

Our messages

Auditor General



We work with our principal partners, the Auditor General and Audit Scotland, to deliver public audit in Scotland. Public audit provides independent assurance that public money is spent properly and provides value for money. To do this, we engage with the Auditor General to ensure a mutual understanding of each other's priorities, to agree work that we can do jointly, and to ensure that our respective priorities are delivered by Audit Scotland. In doing so, Audit Scotland helps fulfil an important role in complementing our engagement with our stakeholders.



Audit Scotland and private sector audit firms

We commission Audit Scotland and private firms to undertake audit work on our behalf. It is therefore important to them that we are clear what our priorities are and what we expect to get from audit work.



Citizens / Press and broadcast media

We want to present the messages in our work to **service users, citizens and communities** to help them form a view about the performance of their council, and how that council can improve. Such messages need also to be shared with councils' **community planning partners** to help them work with councils to improve their localities.

It is therefore important that we engage with the press and broadcasting media to ensure that they understand our role and thus help us deliver our messages in effective ways.



Local government

We are the public's independent watchdog for councils. So we want to engage with councils to make clear to them our role in assurance and improvement, to help promote messages from our individual pieces of audit work, and to ensure that we have an up-to-date perspective of the issues facing them.



Scottish Government

While we are independent, we are appointed by ministers. We therefore want to engage with the Scottish Government to assure it of our activities and to ensure a mutual understanding of the Scottish Government's agenda for public service reform and how this may affect councils and, thus, our work.



Scottish Parliament

The Scottish Parliament sets legislation that can affect councils and indeed councils' partners in the wider public sector, and also, through its committees, holds the Government to account. We want members of the Parliament to be aware of our work in helping them fulfil their responsibilities.



Scrutiny partners

Parliament and Government expect us, along with our scrutiny partners, to work together to provide an independent assurance that public money is being used properly and that services are well managed, safe and fit for purpose. Such external scrutiny also helps bodies improve. We work closely with our scrutiny partners to ensure that our activity is coordinated, risk-based and proportionate. To do this, we need to understand our different roles, how we can work together, and what we want to achieve together.

Our engagement activities

We will use appropriate methods to engage with stakeholders depending on the message and the audience



What do we engage about?

17. As well as our messages for each stakeholder, we engage with different stakeholder groups for varying reasons.

18. We may want to inform them about our values, strategies, plans and performance including our annual report.

19. Sometimes our key aim is to promote our work or to make recommendations, such as auditing Best Value or our *How councils work* series of reports. Our annual statutory performance information direction, which we publish on a three-yearly basis, sets out our requirements for councils in what performance information they need to publish. For our national performance audits, we approve a promotion and engagement strategy for each audit.

20. We tailor our engagement plans to maximise the impact of each of our reports. This may be through robustly promoting or encouraging local authorities to build on our recommendations or working with scrutiny partners or other appropriate bodies such as COSLA, SLGP or SOLACE. We also work with the press and media to boost awareness of our work among stakeholders including the public.

21. We consult on, or seek feedback about, particular aspects of our work. For example, we consult annually with a wide range of stakeholders upon our work programme, which sets out our work over the next five years.

22. Finally, sometimes bodies have a specific reason they wish to engage with us such as updating the Commission on a policy issue or service reform.

23. This year, the Commission Strategy commits us to engaging with stakeholders in relation to some significant strategic objectives, including five national performance audits, a report in our *How councils work series* on roles and responsibilities in councils, and our annual overview report.

How we will engage

24. We see our engagement as having three purposes:

- **Informing**, ie giving information.
- **Consulting**, ie giving information and seeking views.
- **Collaborating**, ie giving information, seeking views and actively working together.

25. There are many channels or tools which we can use in our engagement. Some lend themselves better to particular types of activity or certain stakeholder groups.

26. Our engagement may be a regular process, such as maintaining, through regular meetings, our relationship with local government stakeholders such as COSLA, SLGP or SOLACE. It may also, however, be a specific one-off activity, for example centred on the promotion of one of our published reports. Depending on the nature of such reports, we may engage closely with one council, or across local government as a whole.

27. We are always looking for scope to be innovative so we will actively consider new ways of engagement such as using web-based technology and social media.

Our annual engagement plan

28. Our annual engagement plan sets out in more detail what we are engaging upon in the next year (ie, to the end of March 2017), and also sets out when this engagement activity is taking place. We will report our progress against this plan at the end of the year.

What we will engage about	Who we will engage with	How we will engage		When we will engage
Our strategy and planning				
We will meet regularly with principal stakeholders to discuss our strategy and issues of mutual interest.	COSLA, SLGP, SOLACE, Scottish Government	Collaborate	We will meet regularly with COSLA, SLGP, SOLACE and the Scottish Government.	Throughout the year
We will publish our annual report and promote it among stakeholders.	All stakeholders	Inform	We will write to or email council leaders, chief executives and other stakeholders as appropriate. We will provide a web-based video presentation of our annual report. We will provide an interactive version of our report on our website.	May 2016
We will publish our annually revised strategy and annual action plan and promote it among stakeholders.	All stakeholders	Inform	We will write to council leaders, chief executives and other stakeholders as appropriate. We will consider a web-based video presentation of our strategy.	May 2016
We will publish our engagement strategy and promote it among stakeholders.	All stakeholders	Inform	We will write to or email council leaders, chief executives and other stakeholders as appropriate.	May 2016
We will advise stakeholders on our proposals for auditing Best Value.	Local Government	Inform and consult	We will meet with councils, COSLA, SLGP and SOLACE to discuss our proposals.	Summer 2016
	Scottish Government	Inform and consult	We will meet with the Scottish Government to discuss the impact of our proposals on existing Best Value statutory guidance.	Summer 2016
Cont.				

What we will engage about	Who we will engage with	How we will engage	When we will engage	
Our audit work				
We will consult stakeholders on our draft work programme.	Local government	Inform and consult	We will write to council leaders, chief executives and chairs of audit and scrutiny committees seeking their views on the draft programme.	January 2017
			We will meet with COSLA, SLGP and SOLACE to seek their views on our proposals.	Late 2016
	Local government trades unions	Inform and consult	We will write to local government trades unions seeking their views on the draft programme.	
	All stakeholders	Inform	We will share our performance audit programme by publishing it on our website.	From Spring 2017
We will explore with stakeholders how to develop our audit work to ensure that we are effectively reflecting the policy environment	All stakeholders	Collaborate	We will use innovative ways of discussing issues with stakeholders, such as policy 'round table' events. We will meet council officers and professional bodies to learn more about the issues facing them in fulfilling their responsibilities.	Ongoing
We will review with those carrying out audit work how they are developing and improving the work	Audit Scotland and private firms	Collaborate	We will, through our Financial Audit and Assurance Committee, discuss with Audit Scotland and private firms issues arising from their audit work.	Ongoing
We will publish our overview reports, performance audit reports and action plans and promote their key messages and themes (publication dates to be confirmed):	Citizens	Inform	We will publish our reports and podcasts on our website. We will encourage the press and media to raise awareness of our reports through press releases and other social media.	Ongoing

Cont.

What we will engage about	Who we will engage with	How we will engage	When we will engage
<ul style="list-style-type: none"> Local government overview report (Autumn 2016 and early 2017) Roads maintenance (August 2016) Social work services (September 2016) Equal pay (late 2016) Early learning and childcare (early 2017) Self-directed support (early 2017). 	Local government (including the new joint health and social care boards for appropriate audits)	Inform and consult	<p>We will write to council leaders and chief executives (and chairs of audit and scrutiny committees as appropriate) promoting key messages and themes.</p> <p>We will hold learning events and promote learning materials as appropriate.</p> <p>We will offer for audit teams to visit councils to promote our reports at meetings as appropriate, particularly, for example, where a report includes checklists for members or officers.</p>
	Scrutiny partners	Inform, consult and collaborate	<p>We will write to or email our partners to promote key messages and themes and to discuss implications of our reports on strategic scrutiny.</p> <p>We will discuss with scrutiny partners developing learning materials as appropriate.</p>
	Professional bodies as appropriate	Inform and consult	We will share our reports with appropriate professional bodies and discuss their implications.
	Press and media	Inform	We will produce press releases and respond to press enquiries on our reports.
	Scottish Government	Inform	We will write as appropriate to ministers with any recommendations in our reports.
	Scottish Parliament	Inform	<p>We will share our reports with Parliamentary committees and brief them, particularly the Local Government and Regeneration Committee and the Public Audit Committee.</p> <p>We will issue our reports to all MSPs.</p>

Cont.

What we will engage about	Who we will engage with	How we will engage		When we will engage
We will publish reports from our auditing of Best Value: <ul style="list-style-type: none"> • South Ayrshire Council (follow-up report) (June 2016) • Angus Council (September 2016) • Falkirk Council (follow-up report) (December 2016) • East Dunbartonshire Council (follow-up report) (December 2016) • Other reports to be confirmed. 	Citizens	Inform	We will discuss our reports in public, publish our reports and podcasts on our website and encourage the press and media to raise awareness of our reports.	Ongoing
	Local government including the new joint health and social care boards (for appropriate audits)	Inform and consult	We will write to the relevant council leader and chief executive setting out the Commission's findings in relation to the report. We will seek a meeting with the relevant council leaders to discuss the report.	
	Scrutiny partners	Inform, consult and collaborate	We will share our reports with scrutiny partners.	
	Professional bodies as appropriate	Inform and consult	We will share our reports with professional bodies.	
	Press and media	Inform	We produce press releases and podcasts and take part in interviews.	
We will publish a report in our <i>How councils work</i> series on roles and responsibilities in councils (June 2016).	Local government	Inform, consult and collaborate	We will write to or email council leaders and chief executives promoting the key messages and themes. We will develop learning events and promote learning materials as appropriate. We will promote our reports at council and other meetings as appropriate. We will write to COSLA, SLGP and SOLACE promoting the key messages and themes.	From June 2016

Cont.

What we will engage about	Who we will engage with	How we will engage		When we will engage
We will engage councils' audit chairs about improving scrutiny by elected members, supported by the <i>How councils work</i> report on roles and relationships.	Local government	Inform	We will email and hold meeting(s) with audit committee chairs.	Late 2016
We will engage with stakeholders on our Shared Risk Assessment process.	Scrutiny partners	Inform, consult and collaborate	We will review the process with our scrutiny partners through meetings of the Strategic Scrutiny Group.	Autumn 2016
Other activities				
We will increase the accessibility of our meetings.	All stakeholders	Inform	We will investigate webcasting meetings from our new premises. We will use social media to make our meetings more accessible	By end of 2016

When we will engage


	2016	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Beyond
Our strategy and planning														
Regular meetings with stakeholders	→													
Annual report			---	→										
Strategy update and action plan			---	→										
Engagement strategy and action plan			---	→										
Proposals for Best Value auditing and reporting					---	→								
Best Value guidance revision					---	→								
Our audit work														
Local government overview												---	→	
Performance audit reports:														
• Roads maintenance follow-up											---	→		
• Social work											---	→		
• Early learning and childcare											---	→		
• Equal pay											---	→		
• Self-directed support												---	→	
Best Value reports:														
• South Ayrshire Council (follow-up report)				---	→									
• Angus Council						---	→							
• Falkirk Council (follow-up report)								---	→					
• East Dunbartonshire Council (follow-up report)									---	→				
• Other reports to be confirmed										---	→			
How councils work: roles and responsibilities in councils												---	→	
Review of shared risk assessment						---	→							
Other activities														
Increase accessibility of meetings	→													

→ Regular engagement activity

--- Variable or diminishing intensity of activity

Engagement strategy and engagement plan 2016/17

This report is available in PDF and RTF formats,
along with a podcast summary at:
www.audit-scotland.gov.uk 

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discuss your needs: 0131 625 1500
or info@audit-scotland.gov.uk 

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AUDIT SCOTLAND BOARD

2 JUNE 2016

REPORT BY THE CHAIR OF THE CARBON SCRUTINY BOARD

CLIMATE CHANGE PLAN 2015/16 TO 2019/20

1. Purpose of Report

To seek approval of the draft Climate Change Plan for Audit Scotland for the period 2015/16 – 2019/20.

2. Background

The Board considered the Carbon Scrutiny Board's annual report for 2015/16 earlier in the agenda. The draft climate change plan presented here for the period 2015/16 – 2019/20 provides an overview of our planned emissions reductions for the next five years. We plan to reduce emissions by 15 per cent by 2019/20 against a 2014/15 baseline.

The ambition of the plan reflects the scale of the opportunities available to Audit Scotland given the progress made in reducing emissions to date. We will review the plan annual to ensure that any new opportunities to reduce emissions can be exploited.

In contrast to the previous Carbon Management Plan, this plan acknowledges the need to adapt to future climate change as well as to take steps to reduce emissions. We think our existing business continuity arrangements are sufficient.

3. Recommendation

The Board is invited to approve the draft Climate Change Plan 2015/16 – 2019/20.

Climate Change Plan 2015/16 - 2019/20



June 2016

Executive summary

- **Audit Scotland reduced its carbon emissions by more than a third (36 per cent) between 2008/09 and 2014/15 from 533 tonnes carbon dioxide equivalent (tCO₂e) to 343 (tCO₂e). We achieved most of this reduction by rationalising our estate.**
- **In 2014/15, ninety-five per cent of our carbon emissions came from energy use in our offices and our business-related travel.**
- **By 2019/20, Audit Scotland will reduce its carbon emissions by 15 per cent against its 2014/15 baseline. This equates to a figure of 292 (tCO₂e).**
- **In adapting to climate change, we have reviewed the potential impact of an increase in the frequency of severe weather on our business and have decided that our existing business continuity arrangements are sufficient.**

Key facts

- **343 (tCO₂e)** - emissions during 2014/15
- **15 per cent** - planned reduction in carbon emissions by 2019/20 against 2014/15 baseline
- **58 per cent** - proportion of all emissions from business-related travel in 2014/15
- **278** domestic flights during 2014/15

About us

1. The Auditor General for Scotland, the Accounts Commission for Scotland and Audit Scotland work together to deliver public audit in Scotland:
 - The **Auditor General for Scotland** is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government and health bodies and report to Parliament on their financial health and performance.
 - The **Accounts Commission for Scotland** is an independent public body appointed by ministers to hold local government to account. The Controller of Audit post is independent, established by statute and whose functions involve reporting to the Commission on the audit of local government.
 - **Audit Scotland** provides services to the Accounts Commission and the Auditor General. It 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 who are appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.
2. Our vision is to be a world-class audit organisation that improves the use of public money. Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value.
3. Audit Scotland employs 273, whole time equivalent, people and in 2015/16, we spent £24.5 million. Our local audit teams work at the offices of the public bodies we audit or in our dedicated offices in Edinburgh, Glasgow and Inverness.

Our greenhouse gas emissions

Past performance

We reduced our annual emissions by 36 per cent between 2008/09 and 2014/15 from 533 to 343 (tCO₂e).

- There have been two key factors in achieving this reduction. We moved from three separate offices in Edinburgh to two offices and relocated from East Kilbride to a more accessible and energy efficient office in central Glasgow. We reduced our car mileage by 25 per cent and improved the CO₂ performance of our lease car fleet.

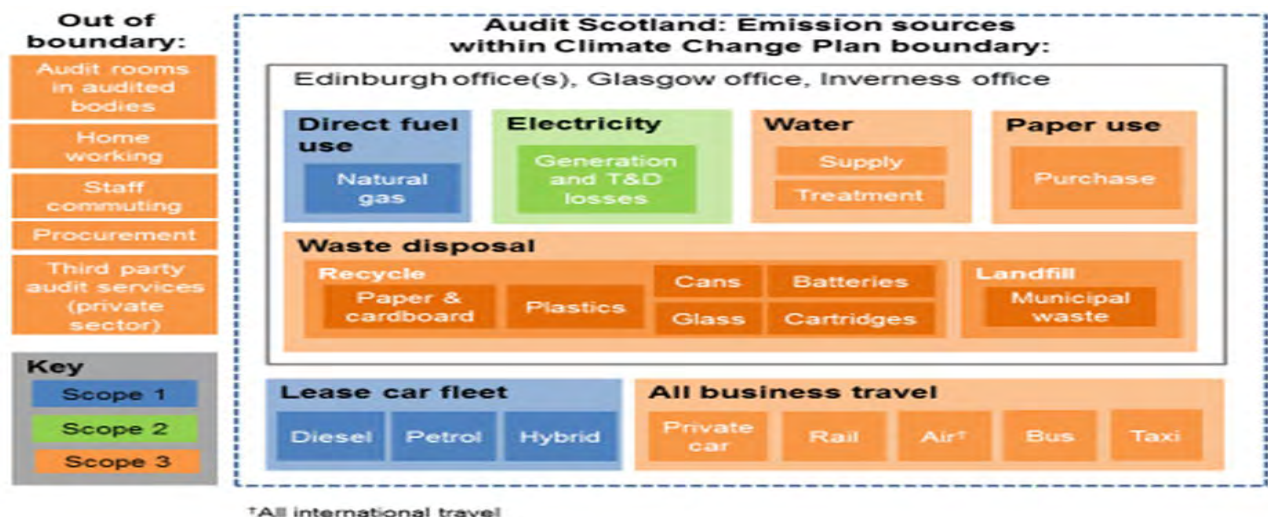
Reducing our emissions

Our scope

- Audit Scotland has defined the scope of its carbon emissions on the basis of the extent of the estate, goods and services over which we have control and the availability of good quality data ([Exhibit 1](#)).

Exhibit 1

Audit Scotland's carbon emissions



Source: Audit Scotland

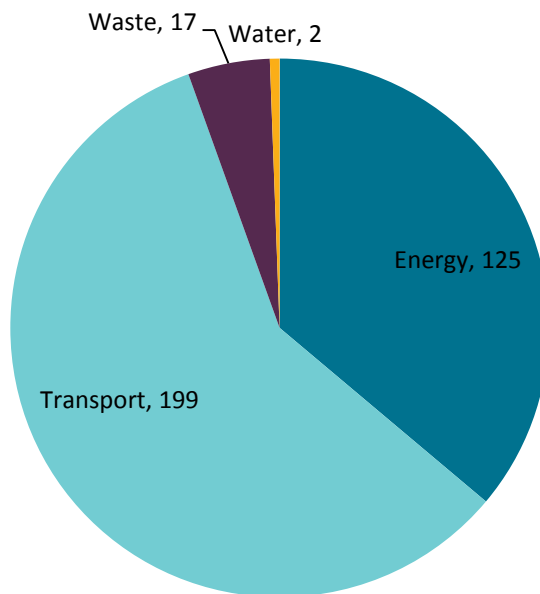
Our baseline

- For the next five years of this plan, we are taking 2014/15 as our baseline for setting our targets to 2019/20 ([Exhibit 2](#)). During 2014/15, our activities resulted in 343 ((tCO₂e)) of

emissions. Transport (58 per cent) and energy (37 per cent) dominate our carbon emissions. Transport accounts for 87 per cent of expenditure associated with these carbon emissions.

Exhibit 2

Composition of Audit Scotland's carbon emissions (343 (tCO₂e)), 2014/15

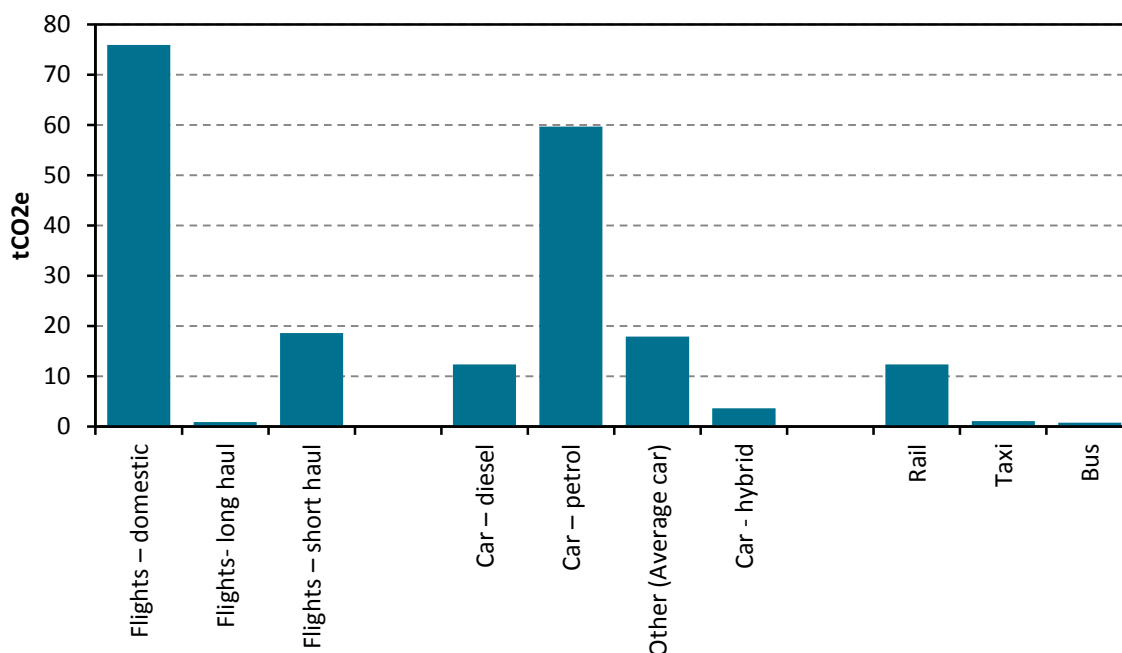


Source: Audit Scotland

7. Meeting audited bodies and stakeholders is an important element of our work and therefore travel is an integral part of our business. Domestic flights and car travel are the most significant transport-related contributors to our carbon emissions ([Exhibit 3, overleaf](#)). During 2014/15, we took 278 domestic flights. Over three-quarters (78 per cent) of these flights were to the Scottish islands and 12 per cent to London. In the same year, our total business-related car travel was 304,941 miles or 1,117 miles for every employee. Our employees travelled 24,183 miles by rail in 2014/15 or 89 miles for every employee.

Exhibit 3

Audit Scotland's transport-related carbon emissions (199 (tCO₂e)), 2014/15



Note: Seventy-eight per cent of domestic flights were to and from island locations, 12 per cent were to and from London and ten per cent were to and from other cities in the UK.

Source: Audit Scotland

8. During the life of this plan we will have completed our office rationalisation programme and will have reduced our estate down to three offices in Edinburgh, Glasgow and Inverness. It is not anticipated there will be significant future energy savings to be made but we continue to consider and develop projects to reduce our energy consumption during the life of this plan.

Our plans

9. Our energy-related emissions increased during 2015/16 due to operating two old offices and one new office in Edinburgh during that year ([Exhibit 4](#)). We anticipate that this will fall in 2016/17 and thereafter reflecting our move to a single office in Edinburgh in November 2015. Our business-as-usual projections demonstrate that if we take no further action to reduce our carbon emissions, our carbon emissions would decrease by 11 per cent to 305 ((tCO₂e)) between 2014/15 and 2019/20. This contrasts with our 35 per cent reduction in carbon emissions between 2009/10 and 2014/15.

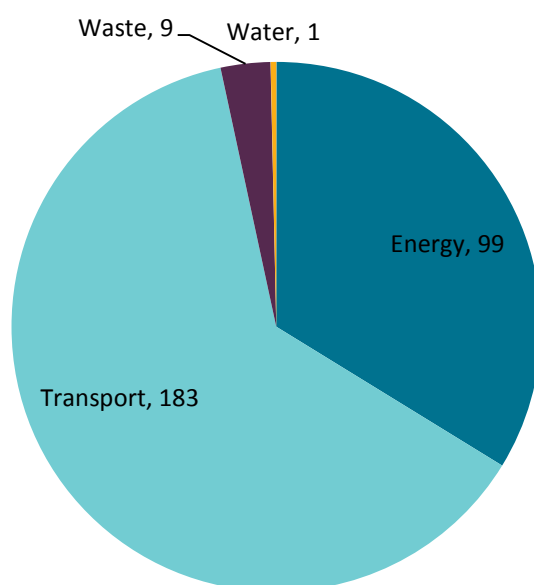
Our 2019/20 target

By 2019/20, Audit Scotland will reduce its annual carbon emissions by 15 per cent against its 2014/15 baseline. This equates to annual carbon emissions of 292 (tCO₂e) in 2019/20 - a 45 per cent fall over a decade.

-
10. We plan to achieve this reduction by reducing emissions from **energy** 12 ((tCO₂e)), **transport** 31 ((tCO₂e)) and **waste** 8 ((tCO₂e)) (Exhibit 4).

Exhibit 4

Projected composition of Audit Scotland's carbon emissions (292 (tCO₂e)), 2019/20



Source: Audit Scotland

-
11. We plan to achieve many of our planned reductions in carbon emissions early in the lifespan of this plan and therefore we will review it annually to assess whether there are any new opportunities to reduce our carbon emissions. This annual review may include:
- resetting targets;
 - identifying changes to projects; and/or
 - identifying new projects as technologies develop.
12. We do not have dedicated funding for projects to reduce carbon emissions as this is integral to our overall organisational performance and ambitions. If, as part of our annual reviews of this plan, we identify specific projects that require additional funding then we consider these as part of our annual budget setting exercise.

Energy - 12 (tCO₂e) target reduction by 2019/20

13. We completed our programme of estate rationalisation during 2015/16 with the move from the two old Edinburgh offices to a single modern office. This reduced our office footprint in Edinburgh from 1,868 m² to 1,412 m² (24 per cent). Combined with a more energy efficient building and improvements in our ICT systems (see below), this is predicted to yield an annual reduction of 12 (tCO₂e) (3.5 per cent) in our energy-related carbon emissions relative to our 2014/15 baseline.
14. During 2015/16 we established a system to ensure that all future ICT developments include an assessment of how they will reduce our carbon emissions. The savings for these projects will be included in the energy savings. The projects include:
 - upgrading our remote access gateway to allow more users to work from different locations reducing the need for travel
 - investing in a more unified communications infrastructure to allow wider use of audio and video conferencing from mobile devices meaning that staff do not always need to travel to meetings
 - trialling mobile devices such as tablets to allow staff to reduce the amount of required printing and paper
 - reducing the number of printers in Edinburgh from 18 to 4, together with much clearer reporting on what printing is being done
 - continuing to reduce server numbers as we move to more virtual servers.

Transport - 31 (tCO₂e) target reduction by 2019/20

15. We aim to reduce the number of domestic flights taken by five per cent every year throughout the lifespan of this plan. This equates to three ((tCO₂e)) fewer emissions each year. This is a cautious target given the need to balance sustainable transport choices with the efficiency of our business and the well-being of our staff. We will continue to reduce the amount of business-related car travel through increased use of car sharing, teleconferencing and more extensive use of public transport. We aim to continue to reduce carbon emissions from business-related car travel by five per cent each year. This will be challenging during 2016/17 which is the first year of the new five-year cycle of audit appointments. This would equate to four (tCO₂e) every year from 2016/17.
16. During 2016/17, we will work with the Energy Savings Trust to undertake a review of our grey car fleet and develop an improvement plan that we will integrate into the next revision of this plan. That plan is likely to lead to specific improvement targets being set for each business group in Audit Scotland that reflects the different roles they have and the different travel requirements that those roles create.

Waste - 8 (tCO₂e) target reduction by 2019/20

17. We have made progress in improving levels of recycling across the organisation but we continue to send the equivalent of nearly seven (tCO₂e) each year to landfill. Our target is a

five per cent reduction each year that will generate an annual carbon reduction of 1.6 (tCO₂e) or 6.5 (tCO₂e) over the life of the plan

18. In 2014/15, the emissions associated with the manufacture of the paper we use equates to 10 (tCO₂e). We aim to reduce this by three per cent, equivalent to 64,000 sheets of paper, every year for the duration of this plan. This will generate an annual carbon reduction of 0.3 (tCO₂e) or 1.5 (tCO₂e) over the life of the plan.

Procurement

19. In addition to the areas detailed above, during 2015/16, we incorporated a requirement that firms who Audit Scotland contract to provide audit services provide data on their carbon management performance every year. This will allow us to gather more comprehensive data on the overall carbon footprint of public audit in Scotland.
20. During the course of the lifespan of this plan, we will also review Audit Scotland's terms and conditions for contracts to identify any opportunities for further embedding sustainability in our procurement practices.

Adapting to climate change

21. Future climate change projections indicate that Scotland will experience:
 - higher temperatures;
 - increased, and more intense, rainfall; and
 - more frequent flooding and landslides.
22. We have reviewed and assessed the risks that a greater frequency of adverse weather events could have on our activities. We have determined that we require no additional specific actions to reduce the potential impact of climate change-related weather events. Audit Scotland has an adverse weather condition policy and well-established and high capacity business continuity planning arrangements. In the event of any major incidents, all staff are able to access their business information and work from home or alternative sites. A recent survey of staff showed 89 per cent can work from home or another location for more than two days and 56 percent for more than a month.
23. We will review the scale of the climate change risks facing Audit Scotland and its activities during 2018 (half-way through the lifespan of this plan) and determine whether further mitigating actions need to be introduced and whether changes need to be made to our management arrangements in this area.

Understanding climate change

24. In September 2014, Audit Scotland assessed itself using Resource Efficient Scotland's Climate Change Assessment Tool (CCAT). Our previous work on reducing our carbon emissions led to higher scores for governance (55 per cent) and mitigation (60 per cent) than adaptation (five per cent) or behaviour change (10 per cent).

-
25. The CCAT scores identified behaviour change as an area that Audit Scotland needs to develop. This has been recognised by our staff as part of our annual staff survey where they have identified improving our environmental performance as an area where they think we could do more. One element of our programme of organisational development is *Building a Better Organisation*. As part of this, we will review our lease car scheme and examine ways in which we can improve the sustainability of our travel.

Reporting and governance

26. Since November 2015, Audit Scotland has been a "major player" under the Climate Change (Duties of Public Bodies: Reporting Requirements) (Scotland) Order 2015. This means that Audit Scotland must report on how it is meeting its climate change duties under the Climate Change (Scotland) Act 2009 by the end of November each year. We must report against six areas:
- Organisational profile
 - Governance and management
 - Corporate emissions
 - Adaptation
 - Procurement
 - Validation

By reporting progress against this plan publicly every year alongside our annual report and accounts, we will discharge this duty.

27. During 2016/17, we will introduce a suite of corporate key performance indicators for carbon emissions. We will monitor and report against these on a quarterly basis as part of our main corporate performance "dashboard". This will cover carbon emissions linked to energy use (electricity, gas and other fuels), travel, waste and water. Our Carbon Scrutiny Board will monitor progress on individual projects.

AUDIT SCOTLAND BOARD

2 JUNE 2016

REPORT BY DIRECTOR OF PERFORMANCE AUDIT AND BEST VALUE

PUBLICATION SCHEDULE AND FORWARD PROGRAMME

1. Purpose of report

This paper updates the Board on the reports that we plan to publish in the period May 2016 to March 2017. It also provides a summary of our longer-term forward work programme (2016/17 to 2020/21).

The Board is invited to note the publication schedule and our forward programme.

2. Publication schedule to March 2017

Audit Scotland plans to publish at least 20 outputs between May 2016 and March 2017 on behalf of the Auditor General and the Accounts Commission. These are listed in the table overleaf along with indicative publication dates. The list does not include any corporate publications; or statutory reports (Section 22 reports or Section 102 reports) which may arise from the annual audits of public bodies.

To increase the impact of our work, we continue to develop the range of alternative outputs from our audits, such as an online illustration of a local model of health and social care to accompany *Changing models of health and social care*; and the recent interactive exhibit on councils' finances which accompanies *An overview of local government in Scotland 2016*.

We are publishing more outputs than usual in July and August because of the impact of the publication moratoriums for the Scottish Parliament elections in May and the EU referendum in June. These have also affected the scheduling of reports to the Parliamentary Public Audit Committee from September onwards, and dates for briefings from the AGS will be confirmed when the new committee is in place. The moratorium for the 2017 council elections (23 March to 4 May) will also affect the scheduling of next year's publications.

Publication	AGS/AC/Joint AGS&AC/AS	Indicative publication date
Common Agricultural Policy Futures Programme: An update	AGS	19 May
Housing benefit annual report; and good practice guide	AC	June tbc
Best Value: South Ayrshire Council	AC	28 June
National Fraud Initiative in Scotland	AS	30 June
Higher education in Scottish universities	AGS	7 July
Supporting Scotland's economic growth: the role of enterprise agencies	AGS	14 July
Roads maintenance: Follow up	AGS&AC	4 August
Scotland's colleges 2016	AGS	25 August
Broadband update	AGS	August tbc
How councils work: Roles and responsibilities – summary of roundtable discussions	AC	August tbc
Social work	AC	1 September
Best Value: Angus Council	AC	8 September
NHS in Scotland 2016	AGS	27 October
Financial overview of local government 2015/16	AC	November
Best Value: Falkirk Council	AC	Nov/Dec
Best Value: East Dunbartonshire Council	AC	December
Equal pay	AC	Jan/Feb
Ferries tendering	AGS	March
An overview of local government in Scotland 2017	AC	March
Managing fiscal autonomy	AGS	March

3. Forward programme

As part of our vision to be a world class audit organisation, we are making good progress with our new approach to programme development. Our approach aims to ensure that the audit work we deliver on behalf of the Auditor General and the Accounts Commission is highly relevant, timely, makes best use of our resources and ensures that we continue to be an influential voice in improving public services in Scotland.

We have a five year programme of audits¹ that covers all of the work we carry out on behalf of the Accounts Commission and the Auditor General, with the exception of the local annual audit work. Flexibility has been built into the programme to allow us to undertake investigatory work and respond quickly to news and emerging audit risks, working across Audit Scotland and with the firms.

Our programme for 2016/17 – 2020/21 is set out in the appendix. Arrangements are in place for regular engagement with the Auditor General and the Accounts Commission to review the programme.

¹ This includes performance audits, Best Value audits, the How Councils Work series, overview reporting, follow-up work, statutory reporting, correspondence and the shared risk assessment (SRA).

4. Recommendation

The Board is invited to note the publication schedule to March 2017 and our longer-term work programme.

Appendix: Audit programme 2016/17 to 2020/21

Shaded boxes indicate work that is already committed to.

	2016/17	2017/18	2018/19	2019/20	2020/21
Best Value audit (BV)	Best value reports (AC) We anticipate publishing up to 5 BV audits during 2016/17	Best value reports (AC) We anticipate publishing 6-7 BV audits during 2017/18	Best value reports (AC) We anticipate publishing 6-7 BV audits during 2018/19	Best value reports (AC) We anticipate publishing 6-7 BV audits during 2019/20	Best value reports (AC) We anticipate publishing 6-7 BV audits during 2020/21
BV Follow-up (BV)	2 BV follow-up audits (AC): <ul style="list-style-type: none"> East Dunbartonshire Council South Ayrshire Council 				
Overview reporting (OV)	Scotland colleges (AGS) Aug 2016 NHS in Scotland (AGS) Oct 2016 Local Government (AC) March 2017	Scotland colleges (AGS) Aug 2017 tbc NHS in Scotland (AGS) Oct 2017 tbc Local Government (AC) March 2018 tbc	Scotland colleges (AGS) Aug 2018 tbc NHS in Scotland (AGS) Oct 2018 tbc Local Government (AC) March 2019 tbc	Scotland colleges (AGS) Aug 2019 tbc NHS in Scotland (AGS) Oct 2019 tbc Local Government (AC) March 2020 tbc	Scotland colleges (AGS) Aug 2020 tbc NHS in Scotland (AGS) Oct 2020 tbc Local Government (AC) Mar 2021 tbc
Performance audit (PA)	9 PAs 9 committed – 6 AGS; 2 AC; 1 Joint CAP Futures Programme (AGS) Higher Education (AGS) Supporting Scotland's economic growth: the role of enterprise agencies (AGS) Social work (AC)	8 PAs 2 committed – 1 AGS; 1 Joint 6 proposed – 4 AGS; 2 Joint Managing fiscal autonomy series (AGS) Innovative Financing - City Deals (Joint) Forth replacement crossing (AGS) Climate change and resilience	10 PAs 1 committed – 1 Joint 9 proposed – 3 AGS; 2 AC; 4 Joint Managing fiscal autonomy series (AGS) Supporting economic growth - Skills & employability (AGS) Housing series (Joint) Waste management (AC)	6 PAs 0 committed 6 proposed – 2 AGS; 4 Joint Managing fiscal autonomy series (AGS) Housing series (Joint) Youth Offending (Joint) Mental health series (Joint) Higher Education series (AGS)	5 PAs 0 committed 5 proposed – 3 AGS; 2 Joint Managing fiscal autonomy (AGS) Housing series (Joint) Mental health series (Joint) Higher education series

	2016/17	2017/18	2018/19	2019/20	2020/21
	Managing fiscal autonomy (AGS) Equal Pay (AC) Ferries tendering (AGS) Early learning and childcare (Joint) NHS workforce (AGS)	planning/Renewable energy (AGS) Health and Social Care Integration: Part 2 (Joint) Scottish fire and rescue services (AGS) Children’s mental health (Joint) Digital in health (AGS)	Health and social care integration: Part 3 (Joint) Community Justice (Joint) Welfare reform (Joint) Mental health series (Joint) Digital services (AGS) Community empowerment (AC)	Digital services (Joint or AC)	(AGS) Digital services (AGS)
Performance Audit Follow Up	2 committed – 1 AC; 1 Joint 0 proposed Roads Maintenance FU (Joint) Self Directed Support FU (AC tbc)	1 committed – 1 AGS 2 proposed – 3 AGS CAP Futures Programme FU (AGS) Broadband FU (AGS) Higher education FU (AGS)	1 proposed – 1 AC School attainment (AC)	1 proposed - 1 AGS Broadband FU (AGS)	0 proposed
How Councils work (HCW)* (2016/17 topic confirmed – to be discussed and agreed for future years)	Roles and responsibilities (AC)	ALEOs (and new models of service delivery)	1 HCW	1 HCW	1 HCW
Impact reports	Efficiency of Sheriff Courts (AGS) Borrowing and Treasury Management in Councils (AC) Impact briefing on Modern Apprenticeships as part of a wider briefing on employability (AGS)	Supporting Scotland’s economic growth: the role of enterprise agencies (AGS) Social Work (AC)	Impact reports as appropriate	Impact reports as appropriate	Impact reports as appropriate
Investigatory activity	Resources have been earmarked within the programme to allow us to				

	2016/17	2017/18	2018/19	2019/20	2020/21
	undertake investigatory audit activity during 2016/17 in relation to potential issues of public concern				
Statutory reporting (SR)	Statutory Reporting (all sectors, tbc) We anticipate publishing 5-7 statutory reports during 2016/17	Statutory Reporting (all sectors, tbc). We anticipate publishing 5-7 statutory reports during 2017/18	Statutory Reporting (all sectors, tbc). We anticipate publishing 5-7 statutory reports during 2018/19	Statutory Reporting (all sectors, tbc). We anticipate publishing 5-7 statutory reports during 2019/20	Statutory Reporting (all sectors, tbc). We anticipate publishing 5-7 statutory reports during 2020/21
SRA process	Annual outputs: 32 local scrutiny plans (LSPs) and National Scrutiny Plan (NSP)	Annual outputs: 32 local scrutiny plans (LSPs) and National Scrutiny Plan (NSP)	Annual outputs: 32 local scrutiny plans (LSPs) and National Scrutiny Plan (NSP)	Annual outputs: 32 local scrutiny plans (LSPs) and National Scrutiny Plan (NSP)	Annual outputs: 32 local scrutiny plans (LSPs) and National Scrutiny Plan (NSP)
Correspondence	Correspondence *	Correspondence	Correspondence	Correspondence	Correspondence

*We anticipate dealing with at least 200 pieces correspondence from members of the public, over half of which relates to local authorities, around 15 per cent of which comes from elected representatives.

AUDIT SCOTLAND BOARD ON 18 AUGUST 2016 AT THE CONCLUSION OF THE AUDIT COMMITTEE MEETING HELD IN THE OFFICES OF AUDIT SCOTLAND, 102 WEST PORT, EDINBURGH

A G E N D A

1.	Apologies
2.	Declarations of interest
3.	Chair's Report – Verbal update
4.	Accountable Officer's Report – Verbal update
5.	Accounts Commission Chair's Report – Verbal update
6.	Minutes of the meeting dated 2 June 2016
7.	Minutes of the Audit Committee meeting dated 2 June 2016
8.	Minutes of the Remuneration and Human Resources Committee meeting dated 2 June 2016
9.	Review of Actions Tracker
Performance Information	
10.	Q1 Corporate Performance Report 2016/17 – Report by the Assistant Director, Corporate Performance and Risk
11.	Q1 Becoming World Class Improvement Programme Update 2016/17 – Report by the Assistant Director, Corporate Performance and Risk
12.	Q1 Financial Performance Report 2016/17 – Report by the Corporate Finance Manager
Items for Information, Discussion and Approval	
13.	Potential Implications of the EU Referendum Results – Report by the Assistant Director, Audit Services Group
14.	Becoming World Class: <ul style="list-style-type: none"> (a) Securing World Class Audit: Review of Funding and Fees – Consultation Responses – Report by the Assistant Auditor General (b) Securing World Class Audit: 2017/18 Budget and Financial Strategy – Initial Proposals – Report by the Chief Operating Officer and Assistant Auditor General (c) Securing World Class Audit: Review of Audit Quality – Report by the Assistant Auditor General (d) Building a Better Organisation: Property Post Implementation Review – Report by the Chief Operating Officer (e) Making a Difference: Corporate Communications and Engagement Strategy 2016-18 – Report by the Communications Manager
15.	Corporate Governance Policies and Code of Conduct Review – Report by the Corporate Governance Manager
16.	Proposed Board Meeting Dates 2017 – update by the Chief Operating Officer
17.	Publication of reports
18.	AOB
19.	Date of next meeting <ul style="list-style-type: none"> • 15 September 2016 at the conclusion of the Remuneration and Human Resources meeting in the offices of Audit Scotland, 102 West Port, Edinburgh. <p><i>Please submit your apologies to Joy Webber</i></p>

Minutes of Meeting of **Audit Scotland** held on 18 August 2016 in the offices of Audit Scotland at 102 West Port, Edinburgh

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

APOLOGIES: None

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

OBSERVER: Judith Strange, Develop Global

<u>Item No</u>	<u>Subject</u>
1.	Apologies
2.	Declarations of Interest
3.	Chair's Report
4.	Accountable Officer's Report
5.	Accounts Commission Chair's Report
6.	Minutes of the meeting dated 2 June 2016
7.	Minutes of the Audit Committee meeting dated 2 June 2016
8.	Minutes of the Remuneration and Human Resources Committee meeting dated 2 June 2016
9.	Review of the Actions Tracker
10.	Q1 Corporate Performance Report
11.	Q1 Becoming World Class Improvement Programme
12.	Q1 Financial Performance Report
13.	Potential Implications of the EU Referendum Results
14.	Becoming World Class (a) Securing World Class Audit: Review of Funding and Fees – Consultation Responses (b) Securing World Class Audit: 2017/18 Budget and Financial Strategy – Initial Proposals (c) Securing World Class Audit: Review of Audit Quality (d) Building a Better Organisation: Property Post Implementation Review (e) Making a Difference: Corporate Communications and Engagement Strategy 2016-18
15.	Corporate Governance Policies and Code of Conduct Review
16.	Proposed Board Meeting Dates 2017
17.	Publication of Board Papers
18.	AOB
19.	Date of next meeting

1. Apologies

There were no apologies.

2. Declarations of Interest

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

3. Chair's Report

Ian Leitch advised that, since the previous meeting of the Board, he had held regular meetings with Caroline Gardner, Auditor General for Scotland and Diane McGiffen, Chief Operating Officer, and that he had met prior to this morning's meeting with David Hanlon, to discuss papers scheduled for discussion at item 14(b).

The Chair advised that, in preparation for the Board development event on 30 August 2016, Judith Strange would be observing the meeting and would provide an update on the programme for the event under Any Other Business.

4. Accountable Officer's Report

Caroline Gardner provided an update on her activity since the previous board meeting. She advised that the Board would hear later in the agenda about current assessments of the implications of the EU referendum result, which had been the focus of much discussion. She advised that work continued to develop increased support for the Scottish Parliament, and that she had recently met with the new Convenor of the Public Audit Committee and had meetings scheduled with new Cabinet Secretaries and Ministers.

Caroline advised that since the previous board meeting reports had been published on Higher Education, Economic Interventions and Broadband with a joint report with the Accounts Commission on Roads Maintenance..

Caroline advised on communication with new cabinet secretaries following the appointment of the new Scottish Cabinet.

She also advised that Audit Scotland had provided written evidence to the Edinburgh Trams Inquiry covering factual information on the original reports prepared for the previous Auditor General for Scotland.

5. Accounts Commission Chair's Report

Douglas Sinclair provided an update on the work of the Accounts Commission since the previous meeting of the Board. He advised that Ministers had agreed to re-appoint Christine May and Graham Sharp for a further year, to help manage succession planning of Accounts Commission members. He also reported on the recent meeting with South Ayrshire council to discuss the findings of the Best Value report published in June 2016 and that this meeting helped to demonstrate the value of having an ongoing process of examining best value in councils.

He advised that, along with the Deputy Chair, the Secretary to the Accounts Commission and the Controller of Audit, he had met with Kevin Stewart, the new Minister for Local Government and had welcomed the opportunity to have an early meeting with the new Government team.

6. Minutes of the meeting dated 2 June 2016

The Board considered the note of the meeting of the Board on 2 June 2016, which had been previously circulated, and confirmed the note was an accurate record of the meeting, subject to a minor amendment to page 5, line 11, to insert after public sector:

“given that firms may be vulnerable to external risks”.

7. Minutes of the Audit Committee meeting dated 2 June 2016

The Board considered the note of the meeting of the Audit Committee on 2 June 2016 and adopted the minute as an accurate record of the meeting.

8. Minutes of the Remuneration and Human Resources Committee meeting dated 2 June 2016

The Board considered the note of the meeting of the Remuneration and Human Resources on 2 June 2016 and adopted the minute as an accurate record of the meeting.

9. Review of the Actions Tracker

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

10. Q1 Corporate Performance Report

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the Q1 Corporate Performance report, a copy of which had been previously circulated.

The Board discussed various elements of performance, including follow up of recovery for the National Fraud Initiative. It was agreed that Russell Frith would prepare a report for a future Board meeting on the levels of reporting and roles on fraud.

The Board congratulated trainees on their recent exam success.

Following further discussion, members noted the Q1 Corporate Performance report.

Action(s):

- **The Assistant Auditor General, to prepare a report for a future Board meeting on the levels of reporting and roles on fraud. (TBC 2016)**

11. Q1 Becoming World Class Improvement Programme

Martin Walker, Assistant Director, Corporate Performance Risk, introduced the Q4 Becoming World Class Improvement Programme report, which had been previously circulated.

Martin invited members to note continued progress against a number of significant milestones during Q1. The Board discussed the development of the Best Value framework for the Accounts Commission and the recent work with Young Scot to hear young people's views on public services.

The Board noted the report and thanked Martin for the update.

12. Q1 Financial Performance Report

David Hanlon, Corporate Finance Manager, joined the meeting.

The Board noted the Q1 Financial Performance Report which had been previously circulated and discussed at the earlier meeting of the Audit Committee.

David Hanlon, Corporate Finance Manager, left the meeting.

13. Potential Implications of the EU Referendum Results

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

Mark Taylor, Assistant Director, Audit Services Group, introduced the report on Potential Implications of the EU Referendum Results, which had been previously circulated.

Mark invited the Board to note the early assessment of the possible implications on the Scottish public finances and bodies. He provided a verbal update on the timetable for the Scottish budget. Following discussion, the Board noted the early assessment of implications of the EU referendum and that Mark would be presenting a similar report focusing on an early assessment of the implications for local government to the Accounts Commission. The Board acknowledged the need to maintain focus on the unfolding implications of the EU referendum and invited reports from Mark and his team as appropriate.

The Board thanked Mark for the report.

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

14. Becoming World Class

(a) **Securing World Class Audit: Review of Funding and Fees – Consultation Responses**

Russell Frith, Assistant Auditor General, introduced the report on Review of Funding and Fees – Consultation Responses, a copy of which had been previously circulated.

Russell invited the Board to consider the summary of responses received and that a revised fee strategy and fee proposals for 2016/17 audits will be brought forward as part of the overall budget setting arrangements. He reported on meetings that he had held with the local authorities' directors of finance and with the NHS Director of Finance.

The Board noted the report on the consultation on fees and funding, welcomed the overall support for the changes proposed in the consultation and noted the other areas of feedback. The Board also noted that the Assistant Auditor General will prepare a revised fee strategy and fee proposals for 2016/17 audits alongside the overall budget proposals in September.

Action(s):

- **The Assistant Auditor General to prepare a revised fee strategy and fee proposals for the 2016/17 audits to the September 2016 Board meeting. (September 2016)**

(b) Securing World Class Audit: 2017/18 Budget and Financial Strategy – Initial Proposals

David Hanlon, Finance Manager, joined the meeting.

Russell Frith, Assistant Auditor General, introduced the report setting out the initial proposals for the 2017/18 Budget and Financial Strategy, building on fee discussions at the May and June Board meetings. David Hanlon, Finance Manager, detailed the work that had been undertaken since June reviewing the budget and preparing projections. He tabled a further page of analysis for the Board which summarised costs and fees by sector and the potential for real terms price reductions. He discussed the budget assumptions set out in the report and their implications. David advised that following agreement on the assumptions, further detailed analysis would be undertaken by sector and individual audit.

Caroline Gardner commented that it was important that the Board struck the right balance between efficiency and investment in support to Parliament and quality, given the challenges for Audit Scotland outlined in earlier discussions.

The Board agreed the budget assumptions set out in the report in order to inform the final budget proposal to be approved by the Board in September 2016.

Action(s):

- **The Assistant Auditor General to prepare a budget proposal for the September 2016 Board meeting. (September 2016)**

(c) Securing World Class Audit: Review of Audit Quality

Russell Frith, Assistant Auditor General, introduced the Review of Audit Quality Report, a copy of which had been previously circulated and which set out a timetable for developing a revised quality framework.

Following discussion, the Board noted the work underway to review audit quality arrangements.

(d) Building a Better Organisation: Property Post Implement Review

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

Fraser McKinlay, Director of Performance Audit and Best Value introduced the Property Post Implementation Review report, which had been previously circulated and which covered the move to 102 West Port.

Following discussion, the Board welcomed the report and subject to minor amendment, approved it as the basis for future external reporting.

(e) Making a Difference: Corporate Communications and Engagement Strategy 2016-18

James Gillies, Communications Manager, joined the meeting.

James Gillies, Communications Manager, introduced the Corporate Communications and Engagement Strategy 2016-18 report, a copy of which had been previously circulated.

Heather Logan advised that she would provide comments on the draft directly to James after the meeting.

Notwithstanding amendments following those comments, the Board approved the draft Corporate Communications and External Engagement and agreed to review the strategy in 2018.

James Gillies, Communications Manager, and Fraser McKinlay, Director of Performance Audit and Best Value, left the meeting.

15. Corporate Governance Policies and Code of Conduct Review

The Board noted the review of governance policies and approved the Financial Regulations, Scheme of Delegation and staff Code of Conduct for a further year.

Action(s):

- **The Corporate Governance Manager to review the Financial Regulations, Scheme of Delegation and staff Code of Conduct annually and report to the Board. (August 2017)**

16. Proposed Board Meeting Dates 2017

Diane McGiffen, Chief Operating Officer, advised of work underway in relation to planning the schedule of meetings for 2017 which would take account of the outcomes from the Parliament Audit Committee business planning day in September 2016. Proposed dates would be shared and discussed by members at the Board Meeting on 15 September 2016.

Action(s):

- **The Chief Operating Officer to provide proposed dates for discussion by members. (September 2016)**

17. Publication of Board Papers

The Board approved all reports for publication with the following exceptions:

- Item 8 - Minutes of Remuneration Committee (statutory/security/legal - personal information).
- Item 14(b) – 2017/18 Budget and Financial Strategy – Initial Proposals (effective conduct of business - free and frank provision of advice/exchange of views for the purposes of deliberation/conduct of public affairs).

Action(s):

- **The Assistant Director, Corporate Performance and Risk to arrange to publish the reports on the Audit Scotland website alongside the approved minute. (August 2016)**

22. AOB

The Chair invited Judith Strange of Develop Global to share the proposed agenda for the Board Development Event on 30 August 2016.

Judith Strange thanked the Chair and members for their time to date and provided an outline for the meeting.

There was no further business.

23. Date of Next Meeting

It was noted that the next Audit Scotland Board meeting had been scheduled for **15 September 2016** in the offices of Audit Scotland, 102 West Port, Edinburgh.

Russel Griggs confirmed his apologies for the September meeting, which had been previously notified.

Minutes of meeting of the **Audit Committee** of
Audit Scotland held in the offices of
Audit Scotland, at 102 West Port, Edinburgh on
2 June 2016 at 10:00hrs.

PRESENT: H Logan (Chair)
D Sinclair
R Griggs

APOLOGIES: None

IN ATTENDANCE: I Leitch, Chair of Audit Scotland Board
C Gardner, Auditor General for Scotland/Accountable Officer
D McGiffen, Chief Operating Officer
R Frith, Assistant Auditor General
F McKinlay, Director of PABV and Controller of Audit
A Canning, Assistant Director of PABV
M Walker, Assistant Director, Corporate Performance and Risk
D Hanlon, Corporate Finance Manager
D Blattman, HR & OD Manager
J Gillies, Corporate Communications Manager
A Devlin, Corporate Governance Manager
C Robertson, BDO LLP Internal Auditors
S Cunningham, Alexander Sloan External Auditors
D Jeffcoat, Alexander Sloan External Auditors

<u>Item No</u>	<u>Subject</u>
1.	Private meeting of Audit Committee, BDO and Alexander Sloan
2.	Welcome and apologies
3.	Declarations of interest
4.	Minutes
5.	Review of actions tracker
6.	Audit Committee terms of reference
7.	Internal audit progress report 2016/17
8.	Internal audit report – Risk management
9.	Internal audit recommendations - update
10.	Corporate risk register
11.	2015/16 annual report on transparency and quality
12.	2015/16 annual report on health and safety
13.	2015/16 annual report on correspondence
14.	2015/16 governance statement on internal control and certificate of assurance
15.	Q4 financial performance report
16.	Audit management letter
17.	Draft annual report and accounts
18.	Data incident/loss
19.	2015/16 annual report from the Chair of the Audit Committee to the Board
20.	AOB
21.	Date of next meeting

1. Private meeting of the Audit Committee BDO and Alexander Sloan

The Chair advised that private meetings between the Audit Committee and the internal and external auditors were held prior to the start of the meeting and that no issues had arisen. The Chair thanked those in attendance for their efforts during the year.

2. Welcome and apologies

There were no apologies.

3. Declarations of Interest

Heather Logan advised that she is a member of the Scottish Public Services Ombudsman Audit and Advisory Committee and that she will demit that role when her current term ends.

4. Minutes

The Audit Committee members reviewed the minutes of the meeting of 3 May 2016, which had been previously circulated.

The members were informed that the meeting date in section four of the minutes should read 26 February 2016. This mistake had been noticed and amended prior to the meeting and updated copies of the minutes were available for the members, if required.

The Chair noted that the text of the minute, at section 11, included a reference to an action relating to gross risk scores but that this had not been highlighted as an action at the end of that section. The Assistant Director – Corporate Performance and Risk advised that the action would be incorporated into the action tracker.

The updated minutes were approved as an accurate record subject to the above.

5. Review of Actions Tracker

The Audit Committee reviewed progress made on outstanding actions and the dates for implementation of the actions.

The Audit Committee members noted progress on outstanding actions.

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 report advised that no changes to the Audit Committee's Terms of Reference were required.

The members noted the report.

7. Internal Audit Progress Report 2016/17

Claire Robertson, BDO introduced the internal audit progress report for 2016/17, which had been previously circulated.

Claire advised the members that one audit had been completed, one was in progress and the terms of reference (TOR) for the next one had been agreed all in line with the 2016/17 audit plan.

The Chair asked how long before an audit commenced was the TOR available; she was informed approximately four weeks. Russel Griggs commented that it was normal practice with other Audit Committees that they receive and comment on TOR's before the audit field work commenced. After discussion the Audit Committee requested that audit TOR's be distributed to members for comment as part of the TOR agreement process.

The Audit Committee welcomed the assurance that the 2016/17 audit plan was on schedule and noted the report.

Action(s):

- **The Assistant Director, Corporate Performance and Risk to distribute and seek feedback from Audit Committee members on future internal audit TOR's. (August 2016)**

8. Internal Audit Report – Risk Management

Claire Robertson, BDO introduced the risk management internal audit report, which had been previously circulated.

Claire advised the members that it had been two years since this area had been last audited and that there was strong evidence that Audit Scotland's risk management arrangements had been strengthened and were now embedded in the organisation and that this resulted in an overall categorisation of 'enabled'. Claire also advised that substantial assurance had been achieved and that there were a few relatively minor recommendations for further improvement.

The Chair invited comments and questions from the members in relation to the risk management audit report.

The Chair of the Accounts Commission sought clarification on the recommendations around categorising risks and controls and the practicalities of implementing these. The Assistant Director – Corporate Performance and Risk advised that the Performance and Risk Group were comfortable with the recommendations and would monitor how they worked in practice following implementation.

The Audit Committee noted the report

9. Internal Audit Recommendations - Update

The Corporate Governance Manager submitted a report on the implementation of internal audit recommendations, which had been previously circulated.

The Corporate Finance Manager was invited to and provided an update to the members on the timescale and actions for implementing a system for coding general expenses to client audit codes. The Chair asked if this work was being treated as a formal project with the associated project management and documentation. She was advised that the approach was proportionate to the size of the project and that the project is being coordinated and delivered by him and the Corporate Accountant. The Chair of the Accounts Commission asked if there was logic to the implementation date of 1 April 2017 and if this was to align it with the new financial year. He was advised that the implementation date was informed by accounting timescales, dependencies on external system suppliers and the timescales for the time recording system project.

On the communications audit recommendations Russel Griggs asked if putting social media high-level objectives in the communications strategy was sufficient to fully address the recommendation. The Assistant Director, Corporate Performance and Risk

advised that this formed part of the broader communications and engagement strategy which would be considered by the Board at its meeting in August.

The members also sought further information on the additional work required to create a fully integrated approach to cluster planning for the next five years. The members were informed that the plan and underpinning process was now well defined but further work was required for it to span the full five years. The Auditor General advised the members that she had asked that cluster planning became a normal part of business rather than a cyclical event.

The Audit Committee noted the report.

10. Corporate 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 Committee were informed that this was a holding report in accordance with the Committee's terms of reference. The members were informed that there was no change to the report provided to the Committee on 3 May 2016.

The Chair asked for an update on the work to address system performance issues with MKI; she was informed that the system was performing better and that final testing should be completed in June. It was hoped that this risk would be removed from the risk register after the final testing.

Russel Griggs asked for clarification behind the increase in the risk score for risk 6 – failure of quality. The member was informed that this was due to the risks associated with the audit rotation and the appointment of the firms and that, after evaluation of the 2016/17 audit work, it was hoped that this score would come back down.

The Audit Committee noted the report.

11. 2015/16 Annual Report on Transparency and Quality

The Assistant Auditor General submitted the 2015/16 annual report on Transparency and quality, which had been previously circulated.

The Assistant Auditor General informed the members that feedback had been provided to him outwith the meeting and that feedback on consistency of style/tone/language and the sequencing of the positive messages earlier in the report would be addressed prior to publication.

The Chair, in referring to content of paragraph 77 of the report, noted the areas for improvement and asked if there was a systemic problem that would undermine the quality of the audits. The Assistant Auditor General informed the members that the quality of audits was high overall but some issues were identified in some audits. He advised that this degree of disclosure was consistent with that now provided publicly by the FRC from their reviews of private firms. He also advised that ICAS had provided positive assurance on many aspects of our auditing as identified in paragraph 79 and that this had a balancing affect on paragraph 77. He thought that this was therefore more of a presentational issue and agreed to revisit paragraphs 77 and 79 prior to publication.

The Chair noted the quality assessments on the firms in the report and asked for clarification on quality assessment arrangements for the next appointment period. The Assistant Auditor General informed the Chair that Audit Scotland received the firm's own reviews and that we are considering including the firms in the independent checks on the audits that Audit Scotland has in place.

The Chair also asked if quality was driven by the vision or by regulatory practice. She was informed that the focus on quality was much wider than regulatory compliance and that is a core part of our vision.

The Chair of the Accounts Commission asked if the report should have a section on what we could do better, and regarding paragraph 94 the arrangements for Audit Scotland to review, with the Accounts Commission and the Auditor General, quality of the audits/reports; the Assistant Auditor General agreed to look at this.

The Chair of the Audit Committee asked about the quality assurance arrangements for the housing benefit work. The Assistant Auditor General informed the Chair that this was done through a combination of internal review and audited body involvement in commenting on draft reports.

The Audit Committee noted the report.

Action(s):

- **The Assistant Auditor General to amend the report prior to publication with regard to feedback and the above points. (Prior to publication of the T&Q report June 2016)**

12. 2015/16 Annual Report on Health and Safety

David Blattman, HR & OD Manager, joined the meeting.

The Chief Operating Officer submitted the 2015/16 annual report on health and safety, which had been previously circulated.

The Chief Operating Officer informed the members that Audit Scotland was benefiting from the wider role of the Health & Safety Committee by including Wellbeing into its responsibilities. The Chief Operating Officer gave examples of wellbeing initiatives such as the availability of fresh fruit in the offices and lunchtime walking and running events.

The Chair invited comments from the members on the report.

Russel Griggs noted that absence rates had increased in general as had instances of stress related absence and enquired whether this was work or home life related. The HR & OD Manager informed the members that management are aware of the circumstances behind each stress related absence. For some it related to a combination of events occurring outside of work and others were related to work issues, including the working practices and coping strategies deployed by the individuals. The Chair of the Accounts Commission asked if the move to the new open plan office in Edinburgh had an impact on stress related instances. He was advised by the HR & OD Manager that the new environment represented a significant change, much of which was welcomed and positive. As is normally the case with change, some colleagues had found certain aspects of the new office environment a little challenging. The members were informed that the absence data was not a cause for concern. The Chief Operating Officer confirmed that the recent results of the occupancy survey of our new office had been very positive.

The Chair of the Audit Committee noted that the report still showed that some staff were not taking all their leave entitlement and this could be an issue for their wellbeing as well as having financial implications for the organisation. The HR & OD Manager informed the members that his team were working with local management to try and reduce the surpluses which in some cases had built up over a number of years. The Chair also asked what the actual figure was for the staff that had carried over 21+ day's holiday; the

HR&OD manager advised that he did not have that information to hand and agreed to provide it outwith the meeting.

The Chair of the Accounts Commission asked if we could compare the excessive carryover of leave and associated policies with other public bodies; the HR & OD manager agreed to do this and report back.

The Audit Committee noted the report.

David Blattman, HR & OD Manager left the meeting.

Action(s):

- **The HR & OD Manager to compare the carry over of leave against other public bodies. (August 2016)**
- **Provide the actual numbers for the staff in excess of 21+ days of leave carried over at the end of the leave year. (August 2016)**

13. 2015/16 Annual Report on Correspondence

Fraser McKinlay, Director of PABV and Controller of Audit and Angela Canning, Assistant Director of PABV joined the meeting.

The Director of Performance Audit and Best Value and Controller of Audit submitted the 2015/16 annual report on correspondence, which had been previously circulated.

The Chair invited comments and questions from the members in relation to the report.

The Chair of the Accounts Commission referred to Exhibit 3 in the report and enquired if there were any trends regarding local government. The Chair was informed that trend analysis was something that the correspondence team were working on to draw out themes for future reports.

The Chair of the Audit Committee asked if the report included complaints; she was informed it included complaints and whistleblowing disclosures about other public bodies and that complaints about Audit Scotland were reported separately to the Board.

The Chair asked if Audit Scotland passed information on to other bodies or regulators who were better placed to help. She was advised that our new website contained more information to guide the public to the correct organisation, and that we pass on concerns (with their permission) to another public body where appropriate, or provide them with their details in order that they contact other organisations themselves. She was also advised that 'whistleblowing' cases about audited bodies were handled very carefully and in keeping with the relevant legislation and guidance..

The Audit Committee commended the positive progress that had been made in this area and noted the report.

Fraser McKinlay, Director of PABV and Controller of Audit and Angela Canning, Assistant Director of PABV left the meeting.

14. 2015/16 Governance Statement on Internal Control and Certificate of Assurance

The Chief Operating Officer submitted Audit Scotland's 2015/16 governance statement on internal control and certificate of assurance, which had been previously circulated.

The Chair of the Audit Committee commented that the inclusion of the checklist which supports the signing of the certificate of assurance was helpful for information. She enquired whether there were any issues that should be brought to the Committee's attention; she was informed that there were none.

The Audit Committee noted the certificate of assurance.

15. Q4 Financial Performance Report

There was submitted a report by the Corporate Finance Manager, on Q4 financial performance, which had been previously circulated.

The Corporate Finance Manager drew the members' attention to appendix 1 which showed a number of adjustments that have been made to the statutory accounts since preparing the management accounts.

The Chair invited comments and questions from the members in relation to the report.

The Chair of the Board commented that the business group summary for Audit Services Group may be misinterpreted and that consideration should be given to re-articulating parts of the report to improve clarity. The Corporate Finance Manager informed the Chair of the Board and the members that the net operating surplus figure represented a contribution to corporate overheads and did not indicate a profit on audit activity. The Corporate Finance Manager agreed to revise this section to avoid any misinterpretation.

The Audit Committee noted the report.

Action(s):

- **The Corporate Finance Manager to review paragraph 6.1 on page seven of the Q4 report to remove any risk of misinterpretation of the figures. (August 2016)**

16. Audit Management Letter

Steven Cunningham, Alexander Sloan submitted the draft external audit Management Letter for the year ended 31 March 2016, which had been previously circulated.

The Chair invited comments and questions from the members in relation to the report.

As there were no comments; the Audit Committee noted the report.

17. Draft Annual Report and Accounts

James Gillies, Corporate Communications Manager joined the meeting.

The Corporate Finance Manager, introduced the draft Audit Scotland annual report and accounts for 2015/16, which had been previously circulated.

The Chair invited comments and questions from the members in relation to the report.

The Chair of the Board requested that his welcome text to the annual report include a reference to the Accounts Commission in relation to the new approach to auditing Best Value in local government; the Chair of the Accounts Commission supported this change.

There were no further comments or questions on the report and it was approved for submission to the Board.

The members and attendees thanked the team for their efforts in preparing the accounts and annual report.

James Gillies, Corporate Communications Manager, left the meeting.

18. Data incident/loss

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

There were no comments or questions on the report and it was duly noted.

19. 2015/16 Annual Report from the Chair of the Audit Committee to the Board

The Chair of the Audit Committee introduced the 2015/16 Audit Committee annual report to the Board, which had been previously circulated.

The Chair invited comments and questions from the members in relation to the report.

There were no comments or questions and the report was approved for submission to the Board.

20. Any Other Business

The Chair of the Audit Committee invited members to comment on the standard of the papers submitted to them. There were no issues raised.

There was no other business and the meeting was closed at 11.10.

21. Date of Next Meeting

The next meeting will be held at 10.00am on **18 August 2016** in the offices of Audit Scotland, 102 West Port, Edinburgh.

No.

FORUM	Agenda Item No	Item Title	Action Description	Meeting Date	Due Date	Responsible	Assigned to	Complete/Ongoing	Reported Yes/No	Progress Notes
Board	7	Review of Actions Tracker	The Action tracker to be revised to include a deadline of May 2016 for the approval of the Corporate Plan.	26/02/2016	03/05/2016	Diane McGiffen	Martin Walker	Complete	Yes	The report at item 13 of the Board agenda was considered on 03/05/2016.
Board	10	Q3 Corporate Performance	Russell Frith, Assistant Auditor General, to consider whether performance reports could include more information on audit quality	26/02/2016	03/05/2016	Russell Frith	Russell Frith	Ongoing		An update is scheduled for discussion at the Board meeting on 18 August 2016.
Board	12(b)	Funding and Fees – 2016 Issues and Work Plan	The Assistant Auditor General to report on the 2015/16 accounts for Board approval	26/02/2016	02/06/2016	Russell Frith	Russell Frith	Complete	Yes	This is scheduled for discussion at the Board meeting on 2 June 2016 at item 16 a
Board	12(b)	Funding and Fees – 2016 Issues and Work Plan	The Assistant Auditor General to report on the final proposed fee strategy	26/02/2016	18/08/2016	Russell Frith	Russell Frith	Complete	No	The report at item 14(b) on the Board agenda will be considered 18/08/2016.
Board	12(b)	Funding and Fees – 2016 Issues and Work Plan	The Assistant Auditor General to report on 2017/18 budget assumptions	26/02/2016	18/08/2016	Russell Frith	Russell Frith	Complete	No	The report at item 14(b) on the Board agenda will be considered 18/08/2016.
Board	12(b)	Funding and Fees – 2016 Issues and Work Plan	Board approval of 2017/18 budget and 2016/17 audit fees	26/02/2016	15/09/2016	Russell Frith	Russell Frith	Ongoing		This is scheduled for discussion at the Board meeting on 15 September 2016.
Board	11	Audit Scotland Report and Accounts	The Communications Manager will report on Audit Scotland Annual Report and Accounts.	24/03/2016	02/06/2016	James Gillies	James Gillies	Complete	Yes	This item was discussed at the Board meeting on 02/06/2016 at item 15.
Board	12(a)	Funding and Fees - Fee Setting Policies	The Assistant Auditor General to report on the impact of the proposed policies and bring a draft consultation paper to the next meeting of the Board.	24/03/2016	03/05/2016	Russell Frith	Russell Frith	Complete	Yes	The report at item 12 of the Board agenda was considered on 03/05/2016.
Board	12(b)	New Financial Powers Update	The Assistant Director, Audit Services Group will provide an update on the New Financial Powers.	24/03/2016	15/09/2016	Mark Taylor	Mark Taylor	Ongoing		This is scheduled for discussion at the Board meeting on 15 September 2016.
Board	13	Openness and Transparency: Publication of Board Papers	The Assistant Director, Corporate Performance and Risk to issue the operating	24/03/2016	31/03/2016	Martin Walker	Martin Walker	Complete	Yes	The guidance was issued to staff on 28/03/2016.
Board	13	Openness and Transparency: Publication of Board Papers	The Chief Operating Officer to schedule a future agenda item to review the arrangements.	24/03/2016	01/12/2016	Diane McGiffen	Diane McGiffen	Ongoing		This is scheduled for discussion at the Board meeting on 1 December 2016.
Board	14	Evaluation of Board Effectiveness	The Chief Operating Officer to identify potential dates and develop options for a facilitated session.	24/03/2016	03/05/2016	Diane McGiffen	Diane McGiffen	Complete	Yes	Progressing and a verbal update will be provided at the meeting on 03/05/2016 and a further update will be provided at the 02/06/2016 meeting.
Board	15	Discussion on Standing Orders	The Chief Operating Officer to schedule a future agenda item to further discuss.	24/03/2016	03/05/2016	Diane McGiffen	Diane McGiffen	Complete	Yes	This item will be covered as part of item 3, Chair's report on 03/05/2016.
ASB1	3	Chair's Report	The date for the Board development event to be finalised and the Chief Operating Officer would schedule the SCPA legacy paper for discussion together with quorum options at the event.	03/05/2016	02/06/2016	Diane McGiffen	Diane McGiffen	Ongoing		A verbal update will be provided at the meeting of the Board on 18/08/2016.
ASB2	12	Funding and Fees – Draft Consultation	Russell Frith to prepare a report on fee setting options, including Audit Scotland's efficiency plans.	03/05/2016	02/06/2016	Russell Frith	Russell Frith	Ongoing		This item will be covered as part of item 19 a 02/06/2016.

ASB3	Board	12	Funding and Fees – Draft Consultation	Russell Frith to prepare a summary of all decisions taken on procurement.	03/05/2016	02/06/2016	Russell Frith	Russell Frith	Complete	No	This item was covered as part of item 16 a 02/06/2016.
ASB4	Board	12	Funding and Fees – Draft Consultation	Russell Frith to prepare a draft consultation on fees and transparency.	03/05/2016	02/06/2016	Russell Frith	Russell Frith	Complete	No	This item was covered as part of item 19 a 02/06/2016.
ASB5	Board	12	Funding and Fees – Draft Consultation	Russell Frith proposals for developing the work on demonstrating best value in the delivery of audit and the added value provided by the public audit model to be progressed.	03/05/2016	15/09/2016	Russell Frith	Russell Frith	Ongoing		This is scheduled for the Board meeting on 15/09/2016.
ASB6	Board	13	Corporate Plan 2016-17	The Assistant Director, Corporate Performance and Risk to arrange for publication of the draft Corporate plan following final discussion and amendment.	03/05/2016	02/06/2016	Martin Walker	Martin Walker	Complete	Yes	The Corporate Plan was amended and published on 27/05/16.
ASB7	Board	14	Review of Risk Management Framework	The Assistant Director, Corporate Performance and Risk to publish the Review of Risk Management Framework	03/05/2016	30/05/2016	Martin Walker	Martin Walker	Complete	Yes	The Risk Management Framework was published on 23/05/16
ASB8	Board	15	Draft Information Security Management Policy	The Assistant Director, Corporate Performance and Risk to publish the Information Security Management Policy	03/05/2016	30/05/2016	Martin Walker	Martin Walker	Complete	Yes	The Information Security Management Policy was published on 23/05/16.
ASB9	Board	16	Publication of Board Papers	The Assistant Director, Corporate Performance and Risk to arrange to publish the reports on the Audit Scotland website alongside the approved minute.	03/05/2016	30/06/2016	Martin Walker	Martin Walker	Complete	No	The reports and minutes have been published following the meeting of the Board on 02/06/2016.

AUDIT SCOTLAND BOARD

18 AUGUST 2016

REPORT BY THE ASSISTANT DIRECTOR, CORPORATE PERFORMANCE AND RISK

Q1 BECOMING WORLD CLASS IMPROVEMENT PROGRAMME UPDATE 2016/17

1. Purpose of Report

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

2. Background

During 2014, we carried out an extensive review of the expectations people have of public audit. This, along with consultation with colleagues and an analysis of our operating environment, informed the principles and themes in Public Audit in Scotland, our Corporate Plan 2015-18, and our BWC strategic improvement programme.

The last BWC update report was considered by the the Board on 2 June 2016.

3. Progress on the BWC improvement programme

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

- *Securing World Class Audit – where we have:*
 - published the new Code of Audit Practice
 - published the audit appointments
 - made good progress on the preparations for the new audit appointments (including detailed allocations, resourcing, information and intelligence transfer, IT resources, accommodation and stakeholder engagement)
 - consulted on fees and funding
 - started the process of scoping and resourcing a review of quality appraisal.
- *Building a Better Organisation (BaBO) – where we have:*
 - consulted extensively on job design and role profiles
 - appointed external consultants to support the reward workstream
 - completed the post project review on the move to 102 West Port and progressed the Inverness office relocation project.
- *Making a Difference – where:*
 - the Accounts Commission agreed the framework for the new BV approach at its meeting on 9 June and has established a working group of commission members

- we have developed a new Communications and Engagement Strategy and a strategic approach to Parliamentary engagement
- the first phase of the Audit Intelligence project has been completed.


In addition we have recruited a project manager to provide dedicated support on project and programme management. The initial focus is on the Building a Better Organisation and BV audit workstreams.

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

4. Recommendation

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

Appendix


	<p>Our objective is to ensure that public audit in Scotland: • applies the highest professional and ethical standards • is efficient, proportionate and risk based • is informed by an excellent understanding of the strategic and operational context • responds effectively to changing circumstances and emerging issues • reports clearly and authoritatively • follows the public pound wherever it is spent • promotes transparency, accountability and Best Value.</p>	
Project/ initiative/ product	Status update	Next steps
Code of Audit Practice (COAP)	<p>The revised code was considered by the Accounts Commission and Auditor General in March. It was formally approved on 12 May and published 26 May 2016.</p>	<p>Development of supplementary planning guidance to support the Code in advance of the all sector planning meeting in the Autumn</p>
Fees and funding	<p>The Internal Audit report on the costs of audit/ fees and funding provided reasonable assurance and was considered by the Audit Committee on 03 May 2016.</p> <p>The Board considered a report on fees and funding and a medium term financial strategy at its meeting on 2 June.</p> <p>Fees and funding consultation started on 4 July 2016 and closed on 8 August.</p>	<p>The key milestones are:</p> <ul style="list-style-type: none"> • 18 August - Board discussion of 2017/18 budget, 2016/17 fees and results of consultation. • 15 September - Board approval of 2017/18 budget & 2016/17 fees. • 20 September budget submission to SCPA. • Oct – SCPA evidence session. • Nov – fees notified to audited bodies.
Procurement and appointments	<p>The Auditor General and the Accounts Commission approved the provisional recommendations in March. In April and May we consulted on the provisional appointments and the final confirmation was made on 12 May and published on 26 May 2016.</p> <p>We have progressed the preparations for the new audit appointments including detailed allocations, resourcing, information and intelligence transfer, IT, accommodation and stakeholder engagement.</p>	<p>The key milestones are:</p> <ul style="list-style-type: none"> • Aug - complete handover of intelligence documents and rotation forms. • Aug/ Sept – hand-over meetings. • Oct – new appointment takes effect, audit rooms operational, reporting template for audit plans to be issued.
Review of Audit Quality (New)	<p>Project objectives have been developed and an internal recruitment process is under way to appoint temporary dedicated resource to lead the project.</p>	<p>The Board will consider report on the review at its meeting on 18 August 2016.</p> <p>Interviews for the project leader will take place on 24 August 2016.</p>



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
<p>How we work together</p> <p>Job Design Reward & Recognition Performance Appraisal</p>	<p>Extensive consultation has continued on this workstream. This has included the work on the role profiles and policies and procedures around time, place and travel.</p> <p>A workshop on 15 June considered practical steps in helping us be more effective, client-focused, innovative and people orientated. The 22 participants agreed an over all approach and a sub group of 10 people have formed to progress this work.</p> <p>Following a procurement process the Institute of Employment Studies have been appointed as the external reward consultants.</p>	<p>The target dates are:</p> <ul style="list-style-type: none"> • Job design – in place by Oct 2016. • Reward and recognition – in place by Apr 2017. • New approach to personal development – in place by Apr 2017.
<p>How we learn and develop</p> <p>Planning careers Developing skills Professional training schemes Becoming better managers and leaders</p>	<p>We have continued to deliver a wide range of L&D throughout the year, including training on core audit and personal effectiveness skills. L&D also supported through: ilearn, mentoring, individual coaching, hot Shoes / secondments, building specialist skills groups, TSU Technical Updates and quarterly trainee meetings.</p> <p>The PDG group are in the process of combining the L&D plan with the L&D Strategy for 2016-17.</p>	<p>Target dates include:</p> <ul style="list-style-type: none"> • Publication of combined L&D strategy and plan – August 2016. • Client relationship ‘first impressions’ development for our Audit colleagues due to be delivered in October 2016 as part of the implementation of the new audit appointments.
<p>Wellbeing</p>	<p>The Healthy Working Lives sub group continues to build on the wellness checks through relevant information campaigns, encouraging holistic therapies, increasing mental health awareness, health & safety training and by supporting manager wellbeing through the World Class Leaders and World Class Managers development programme.</p>	<p>We are currently working to achieve our Silver Healthy Working Lives award. Specific work has also begun on becoming ‘Carers Positive’ accredited; this involves supporting colleagues who combine their working lives with caring responsibilities.</p>

Project/ initiative/ product	Status update	Next steps
Resourcing	Joint resourcing work is ongoing in a range of areas including the audit of the Scottish Government, the new financial powers groups and meetings of Assistant Director resource leads in ASG and PABV and resourcing groups within each business group.	Ongoing implementation of cross organisational working and joint working. The Best Companies survey scheduled to take place in October/ November 2016 will offer data on colleague's perspectives on a range of issues including resourcing.
Office accommodation	The West Port post project review report was considered by the Property Steering group on 30 May and the Management Team on 26 July. Projects are under way to consider reconfiguration of the Glasgow office to make more effective use of the space and to secure new office accommodation in Inverness.	Edinburgh - the Board will consider a report on the West Port move at its meeting on 18 August 2016. Glasgow – consultation on proposals for, and prioritisation of, improvements developed in conjunction with haa design. An implementation plan will be developed following the consultation. Inverness – conclude legals in August 2016 and complete the move by October 2016.

	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.
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Project/ initiative/ product	Status update	Next steps
Auditing Best Value	The Board considered an update report at its meeting on 02 June 2016. This included: engagement with stakeholders re BV statutory guidance, engagement with COSLA, Scottish Local Government Partnership, SOLACE, Improvement Service, Education Scotland, national chief internal auditors group and colleagues across business groups and progress on the development of the new BV framework. At its meeting on 9 June the Accounts Commission agreed the framework for the new approach and established a Commission working group.	The key milestones are: <ul style="list-style-type: none"> • Aug 2016 - detailed Audit Management Framework, revised toolkits and detailed guidance finalised. • Autumn 2016 – Accounts Commission engagement seminars with stakeholders. • Oct 2016 - commencement of Year 1 programme. • From Apr 2017 – first new BV public reports. • September 2017 – first annual audit reports including integrated BV/ wider scope elements. • Winter 2017 – Controller of Audit Annual Assurance and Risk Report.

Project/ initiative/ product	Status update	Next steps
World Class Programme Development	<p>New programme development process in place and five year rolling programme published.</p> <p>We have commissioned Young Scot to seek the views of young people aged 15 – 20 on public services, to help us think about where we can add most value through future audit work.</p>	<p>Programme delivery from 2016/17 onwards and ongoing programme development by policy portfolio cluster groups.</p> <p>The priorities for 2016/17 focus on continuing to improve our approach to programme development including:</p> <ul style="list-style-type: none"> • continuing to improve how the cluster approach is working, by thinking longer term and involving others from across the business • external communication about the programme • improving how we engage with the public • doing more to consider equalities issues as part of our work • embedding impact in our programme of work.
Communications and engagement strategy	<p>Management Team approved the Communications and Engagement Strategy at its meeting on 7 June 2016. The strategy will help support our vision of being a world-class audit organisation and provides the principles for effective communication in a fast changing environment and is designed to support a culture of innovation.</p>	<p>The Board will consider the Communications and Engagement Strategy at its meeting on 18 August 2016.</p>
Strategic approach to Parliamentary Engagement	<p>We are implementing a more strategic approach to communication and engagement with the Scottish Parliament. The new approach has a particular focus on building better relationships with all of the main subject committees of the Parliament to ensure that all of our audit work, and the broader intelligence that we have about Scotland's public finances and public sector service performance, is used to best effect to support effective parliamentary scrutiny.</p> <p>The first phase of this activity is now concluded. It has involved:</p> <ul style="list-style-type: none"> • Audit Scotland staff establishing formal relationships with the clerking teams of all of the main subject committees to: <ul style="list-style-type: none"> ○ raise awareness of the role of Audit Scotland, the Auditor General and the Accounts Commission 	<p>The next phase of our activity will involve:</p> <ul style="list-style-type: none"> • Offering support and advice to committees as they begin to develop their work programmes, including: <ul style="list-style-type: none"> ○ planned attendance at business planning days (e.g. Public Audit Committee, Finance Committee, Health and Sport Committee) ○ attendance at stakeholder round table events (e.g. Equal Opportunities Committee) ○ other forms of less formal engagement (e.g. Justice Committee, and Europe and External Relations Committee). • Participation in the Finance Committee's tri-partite review of the Scottish Parliament's budget process. • Briefing key committees on Audit Scotland's approach to auditing the new financial powers that will be transferring to Scotland under the Scotland Act 2016 and accompanying fiscal framework. • Ensuring that establishment of formal relationships with

Project/ initiative/ product	Status update	Next steps
	<ul style="list-style-type: none"> ○ highlight recent and planned audit work that may be of interest to each committee ○ establish contacts and relationships that will be further developed throughout Session 5 of the Parliament. • The Auditor General for Scotland, Chair of the Accounts Commission, and senior Audit Scotland staff scheduling meeting with key Committee Convenors, Ministers and Committee members to establish relationships and contact that will be built on during the Parliamentary session. • Piloting of briefings for Parliamentary staff (Committee Clerks and SPICe staff) on significant audit reports at the time of their publication (Supporting Scotland's economic growth: the role of the Scottish Government and its economic development agencies, and Social Work in Scotland). 	<p>clerking teams leads to more consistent use of our audit reports by subject committees.</p> <ul style="list-style-type: none"> • Further engagement with key Committee Convenors, Ministers and Committee members. <p>The third phase of our activity, during Autumn and early Winter, will involve taking stock of the proposed content of committee work programmes. We will need to identify any implications for the Auditor General for Scotland and Accounts Commission rolling five-year work programmes which will be refreshed at the end of 2016.</p>
Audit Intelligence	On 12 April 2016 Management Team considered a review and status update report on the Audit Intelligence projects. Management Team also approved the priority areas for the second phase of the data warehouse and tool development.	<p>The key milestones are:</p> <ul style="list-style-type: none"> • From July 2016 – demonstrations on the data warehouse/ data analytics tools. • Summer – Winter 2016 – phase II development work including outcome and financial data to support risk assessments, programme development and BV audits.
New website	New website launched November 2015.	Ongoing content development and development of 'Supporting Improvement' part of the site including case studies, checklists and exhibits.
Social media	<p>In June the Management Team agreed the overall communications and engagement strategy for Audit Scotland.</p> <p>Ongoing use of blogs and tweets around pending and published reports and parliamentary consideration of reports.</p>	Ongoing content development, particularly on blogging, and social media monitoring.

Project/ initiative/ product	Status update	Next steps
Building impact into the whole audit cycle	<p>Work ongoing to review and refine the PABV Audit Management Framework to integrate the 'Making a Difference cycle'.</p> <p>ASG have introduced a log to capture examples of impact. This will be used alongside the existing sector impact summary reports.</p>	<p>Ongoing integration of the cycle into PABV audit manual</p> <p>ASG reviewing opportunities to integrate impact (including team risk assessments, annual audit plan template, impact log and business planning).</p>
Correspondence review	<p>Review completed, including new policy and investigations process, website content, training, appointment of correspondence manager and performance reporting.</p> <p>Annual Correspondence Report considered by the Audit Committee on 2 June 2016.</p>	<p>Introduction of revised time recording/ cost monitoring arrangements.</p>

AUDIT SCOTLAND BOARD

18 AUGUST 2016

REPORT BY THE CORPORATE FINANCE MANAGER

Q1 FINANCIAL PERFORMANCE REPORT 2016/17

1. Purpose

This report presents the financial results for the three months to June 2016.

The report was considered by the Audit Committee at its meeting immediately prior to the Board meeting on 18 August 2016. These results support the quarter one performance report being presented to today's Board meeting.

2. Background

The finance report for the three months to June 2016 were discussed by Management Team on Tuesday 9 August 2016.

3. Discussion

In the three months to June 2016, Audit Scotland's Net Operating costs were £986k which was £281k less than budget.

In-house fee income which was £234k higher than budget was the main contributor to the favourable position at June 2016. Cumulatively WIP levels for chargeable 2015/16 in-house audits are now close to budget (+0.40%) reflecting an acceleration in audit progress since March 2016 when WIP levels were on average 1.90% less than budget. As a result, in-house WIP completion percentages in the three months to June 2016 were 2.3% higher than assumed in the budget and contributed £186k to the favourable variance. The agreement of fees at levels above the indicative levels included in the budget added a further £39k of income with an additional £9k being earned in respect of additional fees agreed for 2014/15 Local Government charity audits.

Fee income earned for audits carried by external firms net of fees and expenses paid to the firms was £36k more than budget. Although income was £510k higher than budget, this was partly offset by fees and expenses payable to the external firms which were £474k higher than budget. This recognises the additional audit work carried out by the firms to generate the higher income earned.

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

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

4. Virement

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

5. Recommendation

The Board is invited to note the financial results for the three months to June 2016.

AUDIT SCOTLAND BOARD

18 AUGUST 2016

REPORT BY THE ASSISTANT DIRECTOR, AUDIT SERVICES GROUP

POTENTIAL IMPLICATIONS OF THE EU REFERENDUM RESULTS

1. Purpose of Report

This paper provides an early assessment of the potential implications of the referendum vote for the UK to leave the EU for Audit Scotland's work. It briefly outlines the political background, sets out some of the potential implications for the Scottish public finances and then explores what this might mean for Audit Scotland.

2. Background

On 23 July 2016 the UK electorate voted by 52% to 48% to leave the European Union. In Scotland the electorate voted by 62% to 38% to remain in the EU, with a majority in favour of remain in all Scottish council areas.

There is significant uncertainty about how events will proceed from here, the timetable and terms for any exit. The UK Government changed significantly following the referendum, with the new Prime Minister stating her intention to pursue UK exit from the EU but that exit processes would not be triggered until the UK had established clear negotiating principles. She has also committed to involving the Scottish Government fully in the negotiation process.

Until the UK Government opts to trigger Article 50 (the official notification of the intention to withdraw and the point at which the clock starts on a two year negotiating period) nothing changes formally, with the UK retaining the full rights and obligations of a member of the EU. However, the result has immediately created significant uncertainty.

The Scottish Government has made clear its wish for Scotland to remain within the EU. The First Minister has said she will explore all available options to protect Scotland's place in Europe. She has also made it clear that in her view Scottish independence (supported by a second referendum) has to be one of the potential options. The Scottish Government has established an expert panel to advise it.

The referendum result raises the prospect of further change to the constitutional arrangements in Scotland and associated implications for the Scottish public finances. This is in addition to the new financial powers arising from the 2012 and 2016 Scotland Acts. The Scottish Parliament's Finance Committee announced a review of Holyrood's Budget process in view of the increasing volatility accompanying the new powers, recognising that this uncertainty may now be exacerbated. The Scottish Parliament's European and External Relations Committee has also been working during the summer recess this year to examine the implications on Scotland, and its inquiry is continuing.

Within Audit Scotland arrangements have been established to consider the implications of new financial powers for Audit Scotland's work, being led by the New Financial Powers Steering Group. The scope of this work is being extended to

incorporate issues associated with the referendum result. The Board receives regular updates on the progress of this work.

3. Fiscal effects

Notwithstanding the devolution of tax powers, the Scottish Government's aggregate budget will continue to be significantly affected by UK public spending decisions linked to the UK's overall fiscal position. Key aspects of this will include:

- Changes to the UK's economic and fiscal outlook as a result of the referendum result and how events proceed. It is apparent that there will be a prolonged period of uncertainty. The Institute of Fiscal Studies has estimated¹ that the UK deficit will be £20 – 40 billion higher than it would otherwise have been following the referendum.
- The UK Government's fiscal policy response and what the impact of this is on UK public spending levels – and the Scottish block grant in turn. The Prime Minister has announced that the existing target of fiscal surplus by 2019/20 will no longer be pursued. Essentially the UK government may choose to borrow more not spend less, but detailed decisions on this remain to be made.
- The level of UK inflation. This may increase as a result of inflationary pressures brought about by the falling pound. This would reduce the Scottish Government's spending power.

Devolved taxes and Scottish Income Tax revenues are linked to the housing market and earned income in Scotland. These may be affected adversely by the prevailing economic conditions. The revenue borrowing powers available to the Scottish Government are limited to amounts set out in the fiscal framework, meaning that it may not be able to mitigate the full fiscal effects in the short term through its own borrowing. Greater provision is available in the event of a Scottish-only economic shock – where the Scottish economy was affected disproportionately to the UK as a whole.

The initial fiscal position, and the funding consequences for the Scottish Budget, will not become clearer until the UK Government's Autumn Statement. The Scottish Government has proposed a delay to the Scottish budget until this information is available and that it will not publish a three year spending review at this point given the prevailing uncertainties. The specific timing of announcements is uncertain, but the draft Scottish budget for 2017/18 is unlikely to be available until early 2017.

In time, the extent to which UK Government contributions to the EU are able to be applied instead to other areas of UK spending would be reflected in the block grant through the operation of the Barnett formula.

4. Funding effects

Our initial estimate is that around £620 million (2.2% of fiscal DEL) of the Scottish budget for 2016/17 is directly supported by EU funding. This is concentrated in specific policy areas, where the impact is likely to be significant. The main components include:

- Support payments to farmers and other rural businesses through the Common Agricultural Policy (CAP) - £488 million per year.

¹ <http://www.ifs.org.uk/uploads/publications/comms/r116.pdf>

- Support payments to the Forestry Commission (also CAP) - £20 million per year.
- Financial support to projects that encourage economic growth , improve skills and tackle poverty through the European Structural Funds (ESF) - £100 million per year.
- Financial support to the fishing industry through the European Maritime and Fisheries Fund - £10 million per year.

These amounts are broad estimates of the annual impact, because many European funding programmes are multi-year programmes covering 2014 to 2020. They are also generally stated in euros, and are affected by currency fluctuations. A fall in the value of the pound against the euro will increase the value of these programmes while they remain in place. More details of the main programmes (CAP and ESF) are provided in annex A, including the main policy areas and public bodies affected.

In addition to amounts affecting the Scottish budget, the EU provides some direct funding to Scottish institutions. A key aspect of this is research funding to universities. A study² carried out for Universities UK in May 2016 assessed that £94 million of EU research funding was received by Scottish universities in 2014/15.

There is significant uncertainty about the period for which these EU funding streams will continue, the extent to which they might ultimately be replaced by national funding and what the funding arrangements between the UK and Scottish Governments for this will be. The latter are not explicitly provided for within the current fiscal framework for Scotland. The current Scottish share of UK funding for farming (18%) and fishing (44%) is markedly different from its relative population (9-10%). This is likely to need further negotiation and revision of the fiscal framework in time. The two Governments previously agreed to review the framework by the end of 2021/22.

A significant amount of EU funded projects are 'co-financed' by the Scottish Government or other public bodies. This means that the aggregate value of public funding associated with EU programmes is significantly greater than EU funding received (we estimate this is currently worth a further £270 million per year). Ultimately the cessation of EU funding programmes will provide a greater range of policy options to the Scottish Government in devolved areas (which include agriculture, growth & employability, and fisheries). It may also provide more options about the manner in which taxation could be devolved, most notably enabling differential VAT rates to be applied in different parts of the UK.

5. Demand effects

The Scottish Government's economic strategy sets out its priorities and overall approach to support sustainable economic growth. Any significant economic downturn as a result of the referendum result is likely to increase the need to support economic development and may lead to calls for economic intervention in specific businesses. The Scottish Government is reviewing the roles and responsibilities of its economic development and skills agencies. Some independent commentators³ have stated that a more fundamental review of economic strategy is now required.

The Scottish Government is developing its plans for social security in newly devolved areas. Any significant economic downturn as a result of the referendum result may

² <http://www.universitiesuk.ac.uk/news/Pages/economic-impact-on-the-UK-of-eu-research-funding-to-universities.aspx>

³ <https://fraserofallander.org/2016/07/08/brexit-what-next-for-scotlands-economic-strategy/>

increase demand-led spending in this area over time. More generally demand for public services that are linked to economic performance could be expected to rise in these circumstances, increasing pressure on the public bodies concerned.

It is likely that the capacity of the Scottish Government will be stretched as it tries to support Scottish ministers in the UK's negotiations with Europe and to pursue their wider policy ambitions, whilst implementing new financial powers and continuing with business as usual activities.

These potential pressures on public spending would require to be managed within the Scottish Government's overall budget, including new tax and borrowing powers.

6. Other impacts on public bodies

The other areas subject to EU regulation and policy direction that may be affected in time include procurement, state aids, migration, environmental rules and entitlement to public services (for example university fees) and social security payments. There is significant uncertainty about the extent and timing of any changes in these areas that will be likely to affect public bodies.

7. Audit work directly linked with EU membership

Our audit of the European Agricultural Funds Accounts (EAFA) covers CAP spending in Scotland. It is conducted in response to European Commission requirements, which have increased in recent years. It is funded on a full cost recovery basis by the UK Department for Food, Environment & Rural Affairs with annual income currently in the order of £770,000. Our current staffing establishment incorporates a provision of 10.76 FTE on this audit. Up to 20 individuals can expect to work on this audit in any year, with 6 people⁴ currently deployed full time – all of whom are based in Edinburgh. All staff deployed on the audit are part of the general professional audit workforce who can work flexibly across our audits. We anticipate being able to accommodate any staffing impact within our wider workforce plans.

In the event of UK (and Scotland) exiting the EU this work is unlikely to be required in its current form. There is significant uncertainty about the potential timing of this, any transitional arrangements that may be required for this multi-year EU funding programme and what alternative audit arrangements may be necessary in the event that the EU programmes are replaced by a national scheme.

We are exploring a number of scenarios as part of our ongoing financial and workforce planning activity, alongside other uncertainties that may impact on overall staffing requirements. This includes the potential impact of new financial powers and public service reform. Our initial assessment is that the current requirements are likely to continue until at least 2019/20 and may continue until 2021/22 following the end of the current CAP programme. Additional work from New Financial Powers, including the devolution of aspects of social security, is likely to arise during this period.

In the short-term we anticipate an increase in the resource required for this audit as a result of existing EU requirements. We expect this to be fully funded, but we will need to manage with the longer term implications in view. We also anticipate that the rigour of EU oversight of the Scottish Government's use of European funds and the associated audit process is unlikely to diminish in the period up to any UK exit – meaning that expectations about the quality and extent of this audit work are likely to remain high.

⁴ 1 x Senior Audit Manager, 4 x Senior Auditor, 1 x Auditor.

The Scottish Government's Internal Audit service undertake a similar role in relation to ESF funding programmes. We rely on this work for our audit of the Scottish Government. In the event that it no longer undertakes this (or similar) work following a UK exit, and assuming the introduction of a replacement national funding programme, this would be expected to increase the work required as part of the Scottish Government Audit.

8. Wider implications for audit work

The result of the EU referendum and subsequent events is likely to have significant implications for the Scottish public finances, and the audit risks we will need to address in the course of our work. Key issues that we will need to consider can be expected to include:

- the overall management of the Scottish public finances and budgets, reflecting UK-wide and Scottish fiscal issues in the context of changes being introduced to new financial powers, and the funding effects and demand effects described above
- potential challenges to financial sustainability for public bodies exposed significantly to the cessation of EU funding streams or as the result of overall pressures on the Scottish budget
- capacity of the Scottish Government to support the aims of Ministers alongside implementation of new financial powers and business as usual – and the robustness of business change arrangements
- the effectiveness of policy implementation in any areas that are transferred from EU to Scottish Government control and links to overall objectives, outcomes and performance
- the potential for further constitutional change, with associated implications for inter-Governmental relations, the focus of public and Parliamentary interest and confirming the regularity of public spending in relation to the boundary between reserved and devolved matters.

Overall we are likely to be operating in a very dynamic environment with a high degree of uncertainty over an extended period. It will be important that we continue to be effective in establishing and responding to emerging audit risks, and that we review and modify our forward work programme appropriately. This is likely to affect both the selection of audit topics and colour the issues we consider in the course of many individual audits.

9. Organisational implications

Organisational arrangements to support our New Financial Powers programme are well established. The scope of these is being extended to incorporate the issues associated with the EU referendum result – bringing together known and prospective constitutional changes affecting the public finances. The programme covers:

- **Policy:** considering the implications of further financial devolution and other prospective constitutional change on Audit Scotland's work and, in consultation with the AGS and the Commission, determining Audit Scotland's response.
- **Audit Coordination:** ensuring a joined-up approach to our audit work across Audit Scotland which supports the interests of the AGS and the Commission.

This includes work to develop audit approaches and our work with other audit agencies.

- **Communication and engagement:** maintaining awareness of developments, communicating relevant information internally and coordinating our engagement with stakeholders.
- **Resourcing/capacity building:** ensuring that our work is properly resourced, that we build capacity in this area and capitalise on opportunities for cross-organisation working.

We are currently considering how best this programme is taken forward to reflect the EU referendum result and to more closely integrate it with existing policy portfolio management arrangements. This will help widen involvement and provide further capacity, and resource implications will be kept under review.

Our immediate action following the result to understand its implications and engage with staff included: early consideration by management team; review of implications for investment values in relevant audits; internal communications from the Auditor General and Chief Operating Officer; analysis of spending and budget information; extending our media and parliamentary monitoring; and, setting up an [ishare site](#) to gather key materials and insight and to provide an internal discussion forum. We also engaged with teams most likely to be affected to understand and respond to their concerns.

The EU referendum result means that there is likely to be a high degree of uncertainty over an extended period about the implications for Scotland and its public sector. There is also likely to be significant changes ahead, on top of those already in train or anticipated. Our Building a Better Organisation (BaBO) programme will help ensure that we are best placed to operate successfully in this environment over the medium term.

The result and subsequent uncertainty has also been unsettling for some of our people unsure what the implications may be for the country and our work. We will build on the immediate internal communication and engagement about the result and its implications, to keep our people informed and involved as we work through the implications and to provide appropriate support to those most directly affected.

We will also need to work through the business planning implications as events proceed, decisions are taken by the UK and Scottish Governments and there is a clearer understanding of the likely way forward. We are developing our financial and workforce planning arrangements, to ensure that these consider the longer term and the implications of prospective scenarios - both in relation to exit from the EU and other areas of uncertainty such as the implementation of new financial powers, prospective public service reform and the wider financial context.

10. Conclusion

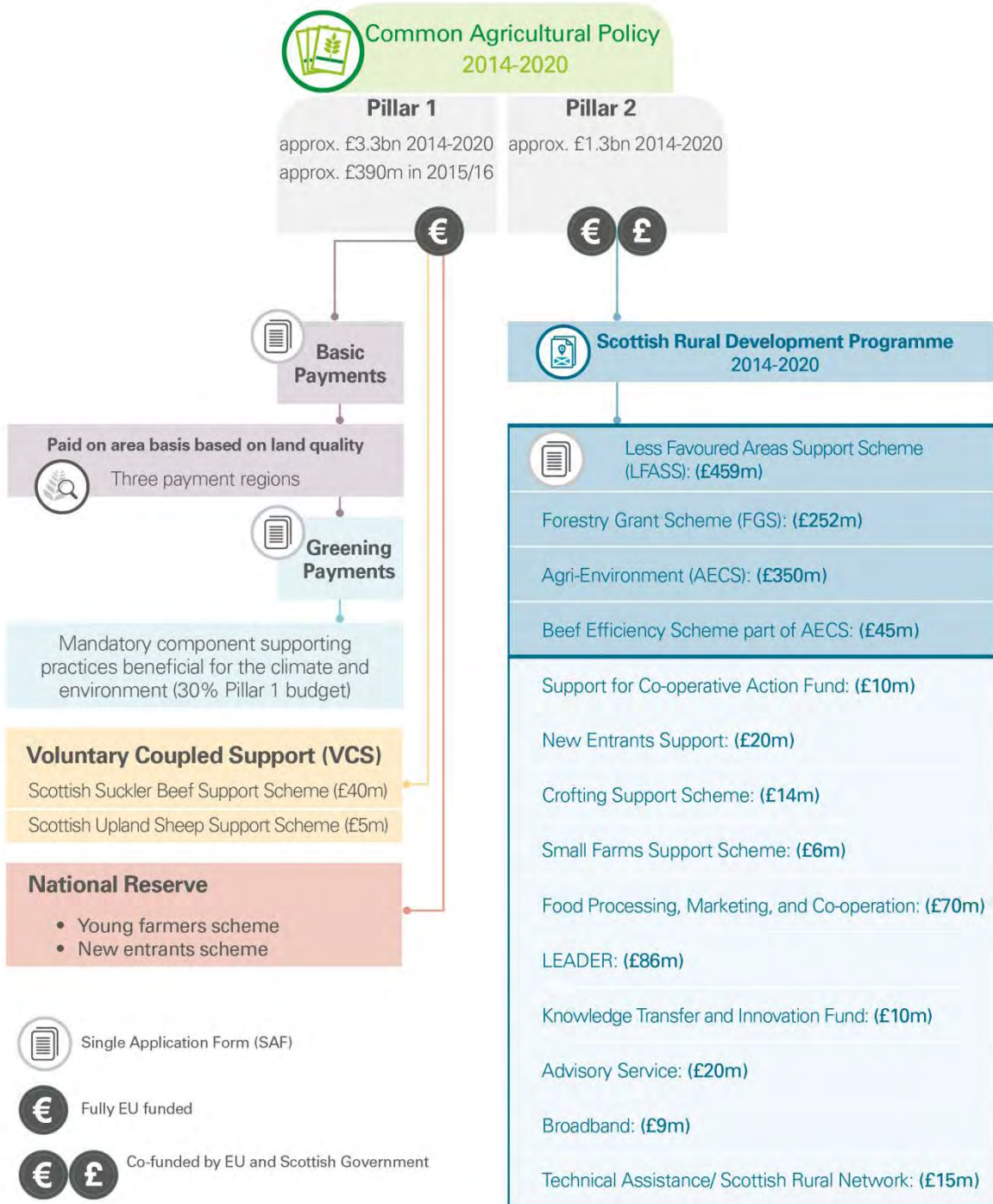
The vote to leave the EU creates significant uncertainties for our work that are likely to continue for an extended period of time. These include the immediate and longer term implications for the Scottish public finances, the affect on audits we undertake and what this means for our organisational arrangements. Existing programmes of work, including New Financial Powers and Building a Better Organisation, will help us to ensure we are well placed to respond in an increasingly dynamic environment. We will need to build on this early assessment to understand the implications better as things develop, and ensure that we respond effectively.

The Board is asked to note this report, and that it will subsequently be made available to all staff and inform our external engagement.

Annex A – Overview of key EU funding streams

Common Agricultural Policy

The Scottish Government distributes European Union CAP funding under two pillars.

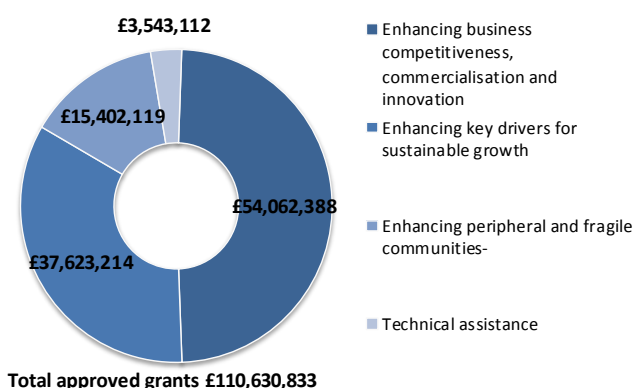


Source: Audit Scotland

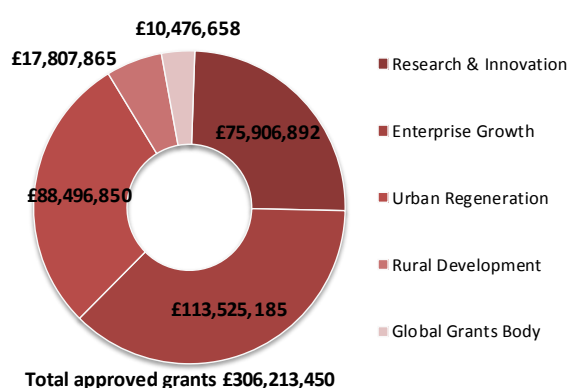
European Structural Funds – 2007-13 programmes

Allocation of structural funds by area and priority

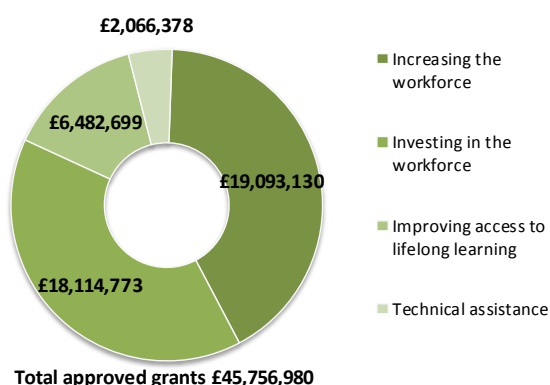
ERDF - Highlands & Islands



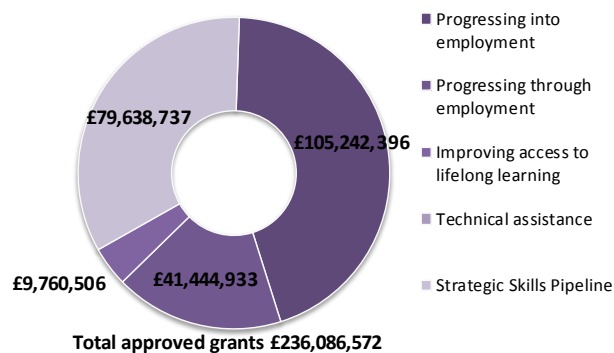
ERDF - Lowlands & Uplands



ESF - Highlands & Islands



ESF - Lowlands & Uplands



Top 15 recipients of European Structural Funds 2007 - 2013

Recipient	EU Grant (£)	EU grant as % of total EU grant funds	Total approved expenditure £	EU grant as % of total approved expenditure
Scottish Enterprise	109,098,080	16%	266,524,406	41%
Skills Development Scotland	36,489,052	5%	94,975,052	38%
The Scottish Government	28,085,075	4%	66,280,171	42%
University of the Highlands and Islands	27,184,633	4%	56,788,968	48%
Glasgow City Council	24,095,199	3%	58,141,195	41%
Scottish Further & Higher Education Funding Co	22,119,397	3%	58,389,470	38%
Highlands & Islands Enterprise	24,556,239	4%	59,252,900	41%
North Lanarkshire Council	19,262,007	3%	45,220,132	43%
University of Edinburgh	13,192,067	2%	50,999,235	26%
Clyde Gateway URC	12,809,014	2%	34,848,291	37%
South Lanarkshire Council	12,441,457	2%	28,633,432	43%
VISITSCOTLAND	12,256,522	2%	32,753,327	37%
Fife Council	12,163,575	2%	33,538,039	36%
University of Strathclyde	11,659,005	2%	60,965,442	19%
Comhairle nan Eilean Siar	10,353,511	1%	30,813,017	34%

Note: Programmes are usually funded by a mixture of EU funding and 'match funding' from the public body. The EU grant represents the funding from the EU, and the total approved expenditure is the total expenditure of the programme, i.e match funding and EU grant.

AUDIT SCOTLAND BOARD

18 AUGUST 2016

REPORT BY THE ASSISTANT AUDITOR GENERAL

FUNDING AND FEES - CONSULTATION RESPONSES

1. Purpose

This paper summarises the responses to the Consultation paper on Funding and Fees issued in June 2016.

2. Background

Audit Scotland has been reviewing its approach to funding its work and setting of audit fees. A key part of the process was to consult with audited bodies and other stakeholders on the arrangements for funding and fee setting.

Following Board discussions in June the Consultation paper was issued at the end of June to all audited bodies and to other stakeholders including professional bodies. In addition, Diane McGiffen and myself met with the new clerks to the SCPA ahead of issue of the consultation paper to brief them on it in the absence of the formation of a new SCPA following the Parliamentary election in May. We will brief the SCPA on the outcome of the consultation as part of the 2017/18 Budget and fee setting process.

The closing date for responses was 8 August.

A copy of the Consultation paper is attached at Appendix 1.

3. Consultation responses

We had received 21 written responses by 9 August. A list of respondents is at Annex 1.

During the consultation period I also met with the NHS Scotland Director of Finance and the Local Government Finance Directors Executive Group to discuss the consultation. The Local Government Finance Directors provided a collective response which is included as one of the Local Government response in Table 1.

The responses are analysed between sectors in Table 1.

Table 1

Sector	No. of responses
Local government	9
NHS	2
Central government	9
Further education	1
Other	0
Total	21

Overall the responses have been very positive and supportive of the approaches that we proposed.

Responses to each question are summarised in Table 2 overleaf and then discussed in the following paragraphs.

Table 2

Question	Agree	No view/no response	Disagree	Comments only
Q1 Do you have any comments on the overall approach to funding the work of Audit Scotland?	N/A	10	N/A	11
Q2 Do you have any views on the future funding of NHS performance audit work?	N/A	15	N/A	6
Q3 Do you agree that audit fees should be set with the objective of recovering the full cost of audit work in each sector? If not what alternative would you suggest?	21	0	0	N/A
Q4 Do you agree that an audited body should pay the same fee irrespective of whether the auditor is an Audit Scotland team or any of the appointed private firms? If not what alternative would you suggest?	21	0	0	N/A
Q5 Do you agree with the proposed move to an expected fee with a fee range to cover any additional audit work required? If not what alternative do you suggest?	18	0	0	3
Q6 Would you find the proposed breakdown of the total fee helpful? Do you have any comments on the individual components? Is there any other information you would find useful?	20	1	0	0
Q7 Do you agree that Audit Scotland should continue to pool costs as described above and apportion them among audited bodies on the basis of relative levels of auditor remuneration? If not what alternative do you suggest?	20	0	1	0

Question	Agree	No view/no response	Disagree	Comments only
Q8 Do you agree that councils should continue to contribute to the cost of best value audit work on the basis of their relative populations? If not what alternative do you suggest?	10	10	0	1
Q9 Do you agree with the approach to sharing the cost of local government performance audit work between significant bodies on the basis of relative levels of auditor remuneration? If not what alternative do you suggest? Do you have any comments on the approach to sharing the cost of NHS performance audit work if the current funding arrangement continues?	9	10	1	0
Q10 Do you have any other comments on Audit Scotland's approach to setting fees overall or at any specific audited body?	N/A	11	N/A	10

Q1 Do you have any comments on the overall approach to funding the work of Audit Scotland?

Most respondents had no strong views. 11 respondents offered some comment with one council explicitly supporting the principles of transparency and fairness and another expressing support for the existing arrangements. A central government body supports the proposals but said that audit fees should be proportionate to the size of the body and 2 bodies commented positively on the achievement of reductions since 2010.

Q2 Do you have any views on the future funding of NHS performance audit work?

Both NHS bodies who replied explicitly support the idea that the Scottish Consolidated Fund should pay for the full cost of performance audit in the NHS.

Several councils raised a concern that Integration Joint Boards which are local government bodies could end up paying for the cost of NHS performance audit. IJBs are separate local government bodies and the performance audit work that will be contributing to will in the near future cover governance arrangements, progress in taking on their full functions and whether they are having an impact. It was not intended that this level of contribution would pay for performance audit of functions carried out by NHS bodies but we will keep this point under review as IJBs develop.

Q3 Do you agree that audit fees should be set with the objective of recovering the full cost of audit work in each sector? If not what alternative would you suggest?

All respondents supported the principle although one central government body said that they expected capped fees and that therefore actual full cost recovery may not always be possible.

A large council made the following helpful comment.

“While the recovery of costs incurred in undertaking Audit Scotland’s work is implicit in the Public Finance and Accountability (Scotland) Act 2000, it is also important, however, that the level of fees set strikes an appropriate balance between incentivising efficiency and encouraging innovation on the one hand and thoroughness and instilling public confidence on the other”.

Q4 Do you agree that an audited body should pay the same fee irrespective of whether the auditor is an Audit Scotland team or any of the appointed private firms? If not what alternative would you suggest?

All respondents supported the proposal with those that commented citing the independent appointment of their auditor and that the same service level was expected from all auditors as reasons for agreeing.

Councils expressed a desire to have more involvement in or understanding of the design and scope of audit work. Councils also commented on differences of approach and resources employed between firms and Audit Scotland teams with one council commenting on the practice of having an ASG team based in their offices compared to the firms’ approach of block visits as a potential opportunity for further efficiency.

Q5 Do you agree with the proposed move to an expected fee with a fee range to cover any additional audit work required? If not what alternative do you suggest?

Most respondents agreed with the exceptions being ones that considered that a set fee should be agreed and then not changed. One body commented that additional fees should be agreed with the audited body (this is the current requirement and we can make sure that this is clear in future fee communications to audited bodies).

The consultation paper proposed that if an auditor and audited body agreed that a reduction in fees was appropriate then it would be applied from the start of the next audit. Two bodies commented that they thought agreed reductions should apply from the current year rather than only for future years. We will consider providing for this so long as auditor and audited body agree that it is a permanent reduction.

Those that disagreed did so for different reasons. One because they wanted to agree a fee for themselves (which they can do now) and one because they were concerned about how this might work with a firm (it works in the same way as for Audit Scotland teams) and because they consider reductions should be agreed from the current year.

Q6 Would you find the proposed breakdown of the total fee helpful? Do you have any comments on the individual components? Is there any other information you would find useful?

All respondents that offered a view agreed with the proposal.

Councils suggested that a breakdown of expected time by grade should be included (see also responses to question 10).

There were also some comments about demonstrating value for money and providing financial information about Audit Scotland. One response asked for more details about the savings derived from the procurement exercise.

Q7 Do you agree that Audit Scotland should continue to pool costs as described above and apportion them among audited bodies on the basis of relative levels of auditor remuneration? If not what alternative do you suggest?

Almost all respondents agreed with this proposal with comments agreeing with our reasoning.

Several respondents suggested that we provide a breakdown of the pooled costs.

One respondent disagreed saying that they would prefer to pay the costs directly related to their audit. As this respondent is treated as a separate sector they do in fact pay the costs directly related to their audit. We will make this clear in communicating their 2016/17 audit fees.

Q8 Do you agree that councils should continue to contribute to the cost of best value audit work on the basis of their relative populations? If not what alternative do you suggest?

10 respondents supported the proposed approach and 10 offered no view. The main comments made were:

- to explicitly support the smoothing of contributions across years so that there was no volatility between years when a significant BV exercise was carried out and those when it was not
- to suggest identifying a core cost which could be the same for each council and then dividing the rest by population.

With the development of a new approach to the auditing of best value in progress it would be difficult to identify this cost at present but will be borne in mind for any future review once the new approach has bedded in and would be subject to further consultation with councils as the consequence of identifying any core cost will be an increase in total fees for the smaller councils and a reduction for the larger ones.

An additional point made by councils in relation to IJBs was to say that if best value audit costs are eventually charged to IJBs this should be done within the same level of overall resource and/or corresponding council fees reduced.

Q9 Do you agree with the approach to sharing the cost of local government performance audit work between significant bodies on the basis of relative levels of auditor remuneration? If not what alternative do you suggest? Do you have any comments on the approach to sharing the cost of NHS performance audit work if the current funding arrangement continues?

In relation to local government nine local government responses agreed with the proposal as being a reasonable approach recognising that no approach will be absolutely fair to all bodies all of the time and the others did not express a view.

For the NHS question one health board said that they disagreed as they would want the status quo to prevail if funding of performance audit work did not transfer to the SCF. If the funding did not transfer then the status quo would provide an advantage to island boards compared to our proposal of apportionment between all boards relative to auditor remuneration levels.

Q10 Do you have any other comments on Audit Scotland's approach to setting fees overall or at any specific audited body?

Six respondents offered either general comments or comments about their own audit fee. The main points raised were:

- An observation about national performance audits – “In order to demonstrate value for money across all aspects of Audit Scotland’s work, it would be helpful for national performance reports to continue moves towards adopting a more action-focused approach. This would assist councils in carrying out the range of improvement actions necessary to reconcile pressures arising from increasing demand and heightened expectations with real-terms reductions in resources, rather than, as sometimes happened in the past, for the reports to focus more on describing these challenges”.
- Two concerns about the possible increase in fees for small colleges and other bodies in times of financial constraints. If we aim to achieve balance for each sector then it will be inevitable that some smaller bodies will see increases, particularly as we are trying to address the level of resources for smaller audits at the same time.
- A comment about the impact of the evolving role of IJBs and the prospect of NHS reorganisation. NHS reorganisation could possibly take place towards the end of the five year appointment term but we are clear that our fee strategy is based on like for like arrangements and does not try to anticipate what might happen in relation to any NHS reorganisation or other significant events such as Brexit and the new social security powers.
- Several respondents said that the cost of auditing Highways Network Assets, which will be by far the most material item on every council’s balance sheet from 31 March 2017 and total some £80billion, should be met from efficiencies particularly given the financial pressures that councils are under. In the past we have absorbed some changes in audit burdens but not in every case. For 2016/17 audits we are trying to separate the efficiencies that we are able to achieve through procurement and other savings from new burdens. For the larger councils the net effect will still be an overall reduction in fees but this will not be the case for the smaller councils as the cost of auditing this asset is not likely to vary significantly by size of council but will depend on other factors such as total length of roads, numbers of bridges and other structures and quality of council records. In communicating audit fees to councils we will be careful to make this distinction explicit.
- Some comments that further breakdowns of audit fees by number of days and grades should be provided by Audit Scotland. The current fee arrangements are explicitly designed around a fee for the audit and leaves the individual auditor to determine the appropriate number of days and grade mix appropriate to their assessment of audit risk and likely resource requirement. It is therefore not practical for Audit Scotland to provide the information requested in advance of the audit starting. We do however encourage auditors to respond to requests from audit committees/finance directors for a breakdown of their planned audit staffing. We will consider making this more explicit in the planning guidance for auditors and in the wording of the 2016/17 fee communication.

4. Conclusions

The purpose of the Consultation paper was to provide a means of demonstrating transparency to stakeholders in our proposed revised approaches to funding and fee setting and to seek their views on our proposed approaches before the revised arrangements are finalised.

The responses received show clear agreement for the proposed approach to fee setting in the consultation paper.

Comments made by respondents about efficiencies and Highways Network Assets will be taken into account in communicating 2016/17 audit fees as will the suggestion of a summarised overall Audit Scotland Budget.

Comments made about IJBs will be taken into account in communicating our final fee arrangements for 2016/17 and the points made about longer term fee arrangements will be borne in mind as IJBs develop.

The support provided by the consultation responses enables us to proceed to drafting a revised fee strategy and proposals for fee levels for 2016/17 audits in conjunction with the 2017/18 budget which is being discussed in another paper on this agenda.

5. Recommendation

The Board is invited to note the outcome of the consultation and that a revised fee strategy and fee proposals for 2016/17 audits will be brought forward as part of the overall budget setting arrangements.

List of respondents

Local government

CIPFA Directors of Finance Section
Argyll & Bute Council
City of Edinburgh Council
East Ayrshire Council
East Lothian Council
Inverclyde Council
North Ayrshire Council
South Lanarkshire Council
West Lothian Council

NHS

NHS Ayrshire & Arran
NHS Dumfries & Galloway

Central government

Ethical Standards Commissioner
Scottish Childrens Reporters' Administration
Scottish Environment Protection Agency
Scottish Housing Regulator
Scottish Information Commissioner
Scottish Natural Heritage
Scottish Water
Standards Commission for Scotland
Transport Scotland

Further education

Scottish Funding Council

CONSULTATION ON AUDIT SCOTLAND FEE SETTING ARRANGEMENTS

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

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Why are we issuing this consultation?

1. Audit Scotland audits over 200 public bodies on behalf of the Auditor General and the Accounts Commission. Our vision is to be a world class audit organisation that improves the use of public money.

In order to deliver our world class vision we have:



Consulted stakeholders about their Expectations of Audit



Published *Public Audit in Scotland* – a high level statement on the scope of Public audit by the Auditor General, the Accounts Commission and Audit Scotland



Revised the *Code of Audit Practice* to raise expectations of auditors in conducting wider scope public sector audits and increase the transparency of audit work



Carried out an audit procurement exercise to underpin new audit appointments by the Auditor General and the Accounts Commission for the period 2016/17 to 2020/21.

2. Each organisation within the public sector is audited annually and most are charged for the audit. The charging structure was constructed some years ago and adapted incrementally as changes to the public sector took place. However, the advent of more fundamental changes to the Scottish public sector and the manner in which services are provided has prompted Audit Scotland to consider the whole charging structure, question the funding requirements and assess the fairness by which organisations bear the cost of public audit.
3. New audit appointments will commence in autumn 2016 and Audit Scotland recently completed an exercise to procure the services of independent audit firms to complement the audit teams provided by Audit Scotland. The exercise, together with future Audit Scotland efficiency targets, will result in additional cost savings being achieved for the 5 year duration of the audit appointments.
4. Audit Scotland has now reviewed the funding and fee arrangements to assess whether they are fit for purpose, fair, transparent and understandable to audited bodies and other stakeholders.
5. This Consultation paper sets out our proposed revised approach to funding and fee-setting and seeks stakeholder views.

6. The resulting fee levels proposed will take account of changes now expected of the service provided by auditors as reflected in the new Code of Audit Practice, the results of our recent audit procurement exercise and our budget for 2017/18.

How to respond

7. Consultation questions are at the end of each section and are also listed in Annex 1. Please e-mail your response to feesresponse@audit-scotland.gov.uk by 8 August 2016.

Overview

Introduction

8. Audit Scotland carries out a range of independent external audits on behalf of the Auditor General and the Accounts Commission. These include annual audits of financial statements, performance audits, best value audits and housing benefit audits. We also support the Auditor General and Accounts Commission in reporting to Parliament and the public. In 2015/16 our work included auditing 323 annual accounts, 11 performance audits, 6 best value audits and 17 housing benefit audits. More information about Audit Scotland's activities is available in our [Corporate Plan](#) and our Annual Report.
9. Audit Scotland submits its annual budget to the Scottish Parliament. Our budget proposal is subject to scrutiny by the Scottish Commission for Public Audit (SCPA), a commission of the Scottish Parliament, and forms part of the annual Budget Act.
10. Our work is funded by a combination of fees charged to audited bodies and direct funding from the Scottish Consolidated Fund. We are committed to demonstrating that we are using our resources as efficiently and effectively as possible. We have reduced the cost of audit by over 24% in real terms since 2010/11 whilst improving audit quality and working towards our world class vision, resulting in significant fee reductions for many audited bodies.
11. In preparation for the new audit appointments we have reviewed all aspects of the approach to funding our work and setting fees. We believe that the revised arrangements proposed in this paper will be more transparent, sustainable and easier to understand.
12. The table below summarises the changes to the method of fee setting we are proposing to make:

Current method	Proposed method	Paragraphs
Overall approach to fee setting		
Annual review of fees taking account of incremental changes in audit scope resulting in differences between cost and income at sector level	Explicit principle that fees should be set with the objective of recovering the full cost of audit work in each sector	24-29
Audited bodies should pay the same fee irrespective of whether their auditor is an Audit Scotland team or any of the appointed private firms	No change	30
Fee ranges		
Audit Scotland sets a fee range,	Audit Scotland sets expected fee	31-34

Current method	Proposed method	Paragraphs
generally + or - 10%, around a mid-point; auditor and audited body agree final fee within that range	with scope for auditor and audited body to agree a higher fee to reflect local circumstances	
Communicating audit fees		
Single fee range notified to audited bodies	Fee broken down between auditor remuneration, pooled costs, performance audit & best value and Audit Scotland costs	35-37
Calculation of fees		
Costs of travel & subsistence, procurement savings, recoverable VAT and in-house team net surplus/cost pooled by sector	No change	45-52
Local government only - contribution to cost of best value audit shared between councils based on relative populations reviewed annually to reflect original funding through LG settlement	No change except relative population levels to be fixed for five years	53-55
Local government only - cost of performance audit shared between bodies based on historic audit fee levels	Cost of performance audit shared among significant bodies on basis of relative auditor remuneration	56-57

13. The outcome of this consultation will be used to inform the fees for the 2016/17 and subsequent audits together with the budget for the 2017/18 financial year and the savings achieved from the audit procurement exercise. At this stage we expect to be able to reduce overall fees in most sectors. The reductions will vary across sectors and between bodies within sectors. A small number of bodies are likely to see increases as audit fees are brought into line with the cost of carrying out the audit. The estimated impact for each sector is:

Local government - most councils will see modest decreases. A few councils and other bodies will see a small increase to reflect the actual cost of the audit and the simplified cost allocation approach.

IJBs have all become fully operational from 1 April 2016. The 2016/17 fees will be agreed with their appointed auditors taking into account the scope of the individual IJB's operations in that year. These bodies will also start to make a contribution to overall performance audit costs.

NHS - mainland territorial NHS boards will see decreases. Island Boards' existing fees however do not reflect the current cost of carrying out these audits and are likely to see increases.

Central government - overall fee levels will fall slightly although a number of bodies will see small increases to better reflect the cost of carrying out their audits.

Scottish Water - the fee for 2016/17 is expected to remain at around 2015/16 levels following the recent audit procurement exercise.

Further education - overall we expect the level of fees to increase slightly. This reflects the long term position of college audits being difficult to deliver within the available resources as the scope of audit work has consistently exceeded the original fee levels. Recently merged colleges will see small reductions whilst unmerged colleges will see increases to better reflect the actual cost of carrying out the work required to deliver the audits in this sector.

14. The estimated fee movements described are on the basis of the same volume of audit activity being undertaken at each body and overall. If there are changes in the volume of work required at particular bodies, new bodies are created or there is any reorganisation of the public sector there may be an impact on the level of fees described.
15. For councils, in line with other audit bodies in the UK, the additional audit cost relating to the changes to accounting for the Highways Network Asset from 2016/17 will be agreed with individual auditors based on the quality of the council's systems and records and the availability of central assurances. At this stage we expect that for a council with good records and systems in place and assuming the availability of central assurance over rates and common models the work will cost £5,000 - £10,000.

Funding our work

Introduction

16. Audit Scotland's work is funded from a combination of fees to the bodies that we audit and funding from the Scottish Parliament. For 2016/17 our budgeted income from fees is £18.1 million (74%) and our income from the Scottish Consolidated Fund is £6.4 million (26%). These have fallen from £21 million of fees and £7.3 million of Parliamentary funding in 2010/11 reflecting the achievement of significant efficiencies and cost savings over the period.
17. Under the Public Finance and Accountability (Scotland) Act 2000 we are able to make reasonable charges for those audits specified in the Act. The Act requires us to aim to broadly break even, taking one year with another, for that work.

What do we charge for?

18. At present, Parliamentary funding pays for all performance audit work in central government, further education and Scottish Water, and part of the cost of NHS performance audit work. It also pays for the costs of supporting Parliament and its committees, the annual audits of the central government audits that we cannot charge for, the national fraud initiative and the costs of the Auditor General, Accounts Commission and Audit Scotland Board.
19. Audit Scotland cannot charge for the audits of the Scottish Government, its executive agencies, non-ministerial departments and other bodies funded directly from the Scottish Consolidated Fund. The cost of this work is included in our Parliamentary funding.
20. Local government has its own democratic structure and the Accounts Commission appoints auditors and oversees performance and best value audit arrangements. Local government funding includes an amount for scrutiny costs such as audit and therefore local government bodies pay for all audit work across the sector.

21. Audit Scotland currently charges audited bodies for the following work:

	Local Government	NHS	Central Government	Further Education	Scottish Water
Annual audit	X	X	X	X	X
Performance audit (1)	X	X (part)			
Best value audit	X				
Housing benefit audit	X				

(1) Performance audit costs include value for money examinations, reports by the Auditor General to the Scottish Parliament, reports by the Controller of Audit to the Accounts Commission and costs of responding to correspondence from elected members and the public.

22. We considered alternative approaches to funding our work, including whether it would be appropriate to seek an extension to the work funded by parliament, or whether we should aim to charge for all possible work permitted by legislation. We concluded that with the exception of NHS performance audit work considered below, the current arrangements work well, are generally well understood, reflect the legislation and are consistent with other parts of the UK.
23. The cost of performance audit work for central government, further education and Scottish water is met by funding from the Scottish Consolidated Fund. The funding of this work for the NHS is a combination of contributions from audited bodies through fees and funding from the Scottish Consolidated Fund. We are considering options for funding this work in future and will seek to discuss these with the SCPA in due course including whether funding for all of the cost of this work should in future come from our Parliamentary funding. This would bring the funding for this work into line with that for all other parts of the Auditor General's remit and simplify charging arrangements. If such a change were to be made it would result in a reduction in overall fees to the NHS sector of around £300,000 per year and a corresponding increase in Parliamentary funding.

Questions on funding our work

Q1 - Do you have any comments on the overall approach to funding the work of Audit Scotland?

Q2 - Do you have any views on the future funding of NHS performance audit work?

Setting audit fees

Introduction

24. We review fee levels as part of the annual budget setting process and notify audited bodies of their fees after consideration of our budget by the SCPA each autumn. Budgets are set for financial years whereas audit fees are set for each audit year which runs broadly from November to October. Our budget for a financial year therefore includes estimates of fees and costs for parts of two audit years.
25. At present each year we notify bodies of a single fee range around a midpoint. That mid point is our assessment of the appropriate fee for a well run body of that size facing the normal risks for its part of the public sector. Auditors are then able to agree the exact fee with the audited body to reflect the particular circumstances of the body in that year.

Approach to fee setting

26. To support the revised Code of Audit Practice and new audit appointments and to reflect stakeholder interest in our business we have reviewed the way in which audit fees are set. The review has taken into account changes in the structure and operation of the public sector, the effect of the new powers being devolved to Scotland on our work, developments in auditing standards and methods and the more integrated way in which audit work is now delivered including
 - Changes to auditing standards which have increased the minimum amount of work required to conduct a fully standards compliant audit
 - Developments in technology in both accounting and auditing which have tended to reduce the amount of work required at the largest bodies
 - Increased expectations on auditors in auditing or reviewing governance statements, remuneration reports and strategic reports/management commentaries
 - Changes in the structure and organisation of the public sector such as the reform of police and fire services and the creation of Integration Joint Boards for the delivery of health and social care.
27. Our objectives for fee setting are to:
 - comply with statute
 - maintain the independence of auditors
 - reflect the way in which public services are organised and audited
 - be transparent and easy to understand
 - be simple to operate
 - sustainable
 - not volatile without reason

28. Audit Scotland is required to aim to broadly break even on audit work that is charged for taking one year with another either for each audit or for classes of audits. We have determined each sector as being a class of audits.
29. Audit Scotland considers that audit fees should be set with the objective of recovering the full cost of audit work in each sector. Within sectors there may be a degree of cross subsidisation, for example where the costs of travel and subsistence are pooled across a sector.
30. Audit appointments are made by the Auditor General or the Accounts Commission rather than by audited bodies themselves thereby enhancing the independence of external audit. The identity or location of the appointed auditor could therefore affect the total cost of undertaking the audit. We believe that an audited body should, as far as possible, pay the same audit fee irrespective of whether the audit is carried out by an Audit Scotland team or by any of the appointed private firms. We therefore pool some costs such as travel and subsistence and savings from the audit procurement exercise and apportion them between audited bodies within the same sector in proportion to the levels of auditor remuneration.

Questions on overall principles for fee setting

Q3 Do you agree that audit fees should be set with the objective of recovering the full cost of audit work in each sector? If not what alternative would you suggest?

Q4 Do you agree that an audited body should pay the same fee irrespective of whether the auditor is an Audit Scotland team or any of the appointed private firms? If not what alternative would you suggest?

Fee ranges

31. We have considered our approach to setting fee ranges. Currently the mid point of the range assumes that the audited body is well governed, has effective internal controls and prepares complete draft accounts to the agreed timetable. As auditing and ethical standards have developed and the nature and extent of internal audit work has evolved, the scope for fees to be agreed significantly below the mid point has diminished.
32. We therefore propose to set an expected fee for each audit, based on the current assumptions about good governance, effective internal control and quality of draft accounts and prior years' actual costs. Audited bodies and auditors would then be allowed to agree fees up to 10 per cent above the expected fee (20 per cent for bodies with auditor remuneration below £20,000); either where local circumstances mean that the implicit assumptions are not being met or where significant local issues require additional audit work. In exceptional circumstances fees could be agreed above the range with the prior agreement of Audit Scotland.
33. Audited bodies and auditors will no longer be able to agree fees below the expected level. However, fee levels are reviewed annually and if the auditor and audited body agree that a permanent reduction in fees is justified then, subject to Audit Scotland agreement, the

expected fee will be adjusted from the following year. In agreeing such a proposal Audit Scotland would consider any potential impact on audit quality.

34. If, exceptionally, the auditor and the body cannot agree a fee then, as now, Audit Scotland will impose a fee having considered the views of each party.

Question on fee ranges

Q5 - Do you agree with the proposed move to an expected fee with a fee range to cover any additional audit work required? If not what alternative do you suggest?

Communicating audit fees

35. For each audited body Audit Scotland currently sets a single fee range around a mid point, which combines all the elements that they pay for. Some bodies have suggested that they would like a breakdown of the total charge so that they can see separately the cost of the annual audit work undertaken by their appointed auditor and other items.
36. We agree that a breakdown of the overall fee would increase transparency and help understanding of the fee. This would allow audited bodies to see how their fee is made up and how each component moves over time. We therefore propose that future letters to audited bodies notifying them of their fees should contain the following breakdown:

£	Current year	Prior year
Auditor remuneration	XX,XXX	XX,XXX
Pooled costs	X,XXX	X,XXX
Performance audit & best value (where relevant)	X,XXX	X,XXX
Audit Scotland costs	X,XXX	X,XXX
Total Expected fee	XX,XXX	XX,XXX

37. Details on how each component is calculated is outlined below

Question on communication of fees

Q6 - Would you find the proposed breakdown of the total fee helpful? Do you have any comments on the individual components? Is there any other information you would find useful?

Calculating the audit fee

38. We have reviewed the way in which each component of the audit fee is calculated and allocated between bodies.

Auditor remuneration

39. The auditor remuneration element is based on our assessment of the audit input likely to be required for a body of that size facing the normal risks for its part of the public sector. The fee assumes that the body is well governed, has effective internal controls and prepares complete draft accounts in accordance with the agreed timetable.
40. Since we last reviewed the balance of fees between bodies in each sector there have been a number of changes affecting audits outlined at paragraph 26.
41. Changes in auditing standards mean that, whilst the size of a body is still important in determining the amount of audit work required, the complexity of the body's operations and the nature of the accounting and auditing issues specific to the body have become increasingly important factors. We have received feedback from auditors that, for smaller bodies the required audit work is challenging at the current mid point remuneration, while for some larger bodies the remuneration is more generous.
42. We have therefore reviewed the relative audit fee levels for smaller and larger public bodies in other parts of the UK, and our analysis confirms that current Scottish fees tend to be lower for small bodies and higher for large bodies.
43. We therefore propose to adjust auditor remuneration to better reflect actual experience of the costs of each audit. This is likely to mean reductions for some of the largest bodies and increases for some of the smaller bodies. In most cases we expect to be able to mitigate or eliminate the effect of any increases through cost savings.
44. In the further education sector our experience suggests that fee levels do not reflect the work needed to deliver an effective audit. Where colleges have merged auditors have been encouraged to agree new fees that reflect the full cost of the work required. Where colleges have not merged no adjustment to fees has occurred and we are now proposing to increase those fees to better reflect the work required.

Pooled costs

45. One of the principles underlying our approach to setting fees is that as far as possible an audited body should pay the same fee irrespective of whether the auditor is an Audit Scotland team or any of the appointed private firms. To achieve this aim we pool certain costs which would otherwise lead to different fees being charged depending on the identity or location of the appointed auditor. These pooled costs are currently apportioned across the audited bodies in each sector in proportion to the expected level of auditor remuneration.

Travel and subsistence

46. Auditor remuneration reflects the cost of the time estimated to be spent by the auditor in delivering the audit at a local level. It does not include the costs of travel and subsistence incurred by the auditor, which will depend on the location(s) of the audited body and the auditor.

47. External auditors are appointed by the Auditor General or the Accounts Commission and, whilst the location of the auditor's offices are taken into account in constructing portfolios of audit appointments, other factors such as rotation of auditors and conflicts of interest take priority. The 2016/17 budget for auditor travel costs is around £770,000.
48. The impact of pooling these costs is that smaller and more remote bodies bear less of the total cost of travel than if the actual cost was charged directly to each body. For example, an island council contributes around £8,000, whereas the actual costs might be around £27,000.
49. Given that external auditors are appointed by the Auditor General or the Accounts Commission rather than the bodies themselves we consider that the pooling approach is transparent, fair and understandable and propose that it should continue.

Procurement savings, recoverable VAT and in house team costs

50. In the audit procurement exercise auditors bid for work in each sector in the form of discounts against the existing remuneration levels quoted in the tender documents. Each firm can offer different discounts for each sector. After each procurement exercise the auditor remuneration element is reduced by the smallest discount offered in that sector so that this element more closely reflects the actual remuneration of auditors. Any savings above this level are pooled and shared between all audits in the sector in proportion to the level of auditor remuneration. A similar pooling approach is adopted for any difference, positive or negative, between the budgeted full cost of the Audit Scotland teams and the total auditor remuneration for their audits.
51. By taking this approach the financial benefit of the savings arising from the audit procurement exercise is shared between all bodies in a sector. A similar approach is taken to the input VAT recoverable on firms' fees for local government audit.
52. An alternative approach would be to pass the savings or costs directly to the bodies audited by each firm but we consider pooling to be fairest method given that the auditor is not appointed by the audited body and therefore propose to retain it.

Performance audit and best value costs (local government)

53. Local government bodies pay for the cost of all audit work carried out in the sector including national performance audits, best value audits and housing benefit audits. All councils carry out a similar range of services and therefore all can benefit from the recommendations for improvement and good practices identified in best value reports at other councils.
54. For best value audit and housing benefit audit the amount of money received by councils towards the cost of this work is apportioned between the 32 councils only on the basis of relative populations, being a proxy for the distribution of the funding through the local government settlement. We fully recognise that this approach to charging for best value does not reflect the actual costs incurred in relation to each council but believe that it is fair when considering the way in which councils were funded for it. To apportion the best value element on the basis of relative levels of auditor remuneration across all local government bodies

would reduce fees for the largest councils by up to £80,000 but correspondingly increase fees for smaller councils by up to £25,000. Joint Boards and other local government bodies would also see significant percentage increases. Relative populations are currently revised annually. We propose to fix the relative populations for five years at 2015 levels in order to avoid volatility in amounts charged.

55. We considered the impact of the creation of Integration Joint Boards (IJBs) on our approach to fees for best value audit. IJBs currently do not contribute to the cost of best value audit. Our work on health and social care integration has so far been at a national level looking at progress in preparations for integration. We will keep this area under review as IJBs take on their full functions.
56. For performance audit work, including the costs of responding to correspondence from elected representatives and members of the public about issues in local government bodies, the budgeted costs are apportioned between significant local government bodies (councils, IJBs and Strathclyde Passenger Transport) in proportion to the level of auditor remuneration.
57. We consider that these approaches remain fair and reasonable and that the proposed breakdown of audit fees will increase transparency.

Performance audit (central government, further education & Scottish Water)

58. The cost of performance audit work in these sectors is funded from the Scottish Consolidated Fund. We are not proposing any change to this arrangement and therefore fees for these sectors do not include any element relating to the cost of performance audit work.

Performance audit (NHS)

59. As described in the section on Funding we are considering options for the future funding of NHS performance audit work. The part of the current cost of NHS performance audit work recovered through fees is included in the overall fee in a way which results in mainland territorial boards bearing most of the cost with island and special boards bearing relatively little of the cost. If the current funding approach continues we propose to apportion the cost of performance audit work between all territorial NHS Boards relative to the levels of auditor remuneration.

Audit Scotland costs

60. Audit Scotland incurs costs in making audit appointments, providing assurance on audit quality, providing technical guidance and support to all appointed auditors and contributing to the development of auditing and accounting guidance within Scotland and across the UK. These costs are apportioned across all audits relative to the level of auditor remuneration.

Questions on the calculation of fees

Q7 - Do you agree that Audit Scotland should continue to pool costs as described above and apportion them among audited bodies on the basis of relative levels of auditor remuneration? If not what alternative do you suggest?

Q8 - Do you agree that councils should continue to contribute to the cost of best value audit work on the basis of their relative populations? If not what alternative do you suggest?

Q9 - Do you agree with the approach to sharing the cost of local government performance audit work between significant bodies on the basis of relative levels of auditor remuneration? If not what alternative do you suggest? Do you have any comments on the approach to sharing the cost of NHS performance audit work if the current funding arrangement continues?

Q10 - Do you have any other comments on Audit Scotland's approach to setting fees overall or at any specific audited body?

Next steps

61. This consultation forms an important part of the overall review process and we welcome your input to inform the final outcome. The next steps are:

Step	Date
Consultation responses received	August 2016
Preparation of 2017/18 financial year budget and final proposals for 2016/17 audit fees	July - September 2016
Submission of 2017/18 budget to Scottish Commission for Public Audit	September 2016
Evidence session with SCPA	October 2016
Issue 2016/17 fee letters to audited bodies	November 2016

Annex 1

List of consultation questions

Questions on funding our work

Q1 - Do you have any comments on the overall approach to funding the work of Audit Scotland?

Q2 - Do you have any views on the future funding of NHS performance audit work?

Questions on overall principles for fee setting

Q3 Do you agree that as far as practicable all audited bodies should pay for the full cost of the direct annual audit work required at each body? If not what alternative would you suggest?

Q4 Do you agree that as far as practicable an audited body should pay the same fee irrespective of whether the auditor is an Audit Scotland team or a private firm? If not what alternative would you suggest?

Questions on communication of fees

Q5 - Do you agree with the proposed move to an Expected fee with a fee range reflecting any additional audit work required? If not what alternative do you suggest?

Q6 - Would you find the proposed breakdown of the total fee helpful? Do you have any comments on the individual components? Is there any other information you would find useful?

Questions on the calculation of fees

Q7 - Do you agree that Audit Scotland should continue to pool costs as described above and apportion them between audited bodies on the basis of relative levels of auditor remuneration? If not what alternative do you suggest?

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Q9 - Do you agree with the approach to sharing the cost of local government performance audit work between significant bodies on the basis of relative levels of auditor remuneration? If not what alternative do you suggest? Do you have any comments on the approach to sharing the cost of NHS performance audit work if the current funding arrangement continues?

Q10 - Do you have any other comments on Audit Scotland's approach to setting fees overall or at any specific audited body?

AUDIT SCOTLAND BOARD

18 AUGUST 2016

REPORT BY THE ASSISTANT AUDITOR GENERAL

SECURING WORLD CLASS AUDIT – REVIEW OF AUDIT QUALITY

1. Purpose

This paper provides information to the Board about a review of Audit Quality arrangements across Audit Scotland.

2. Background

The Securing World Class Audit workstream of our Becoming World Class programme has so far:

- Revised the Code of Audit Practice including formalising our increasing expectations of auditors around the wider scope of public audit.
- Undertaken an audit procurement exercise leading to the appointment of auditors for the 2016/17 to 2020/21 audits of over 220 audited bodies.
- Undertaken a review of funding and fee setting arrangements that will underpin the calculation of audit fees for the 2016/17 and subsequent audits.

As set out in the Corporate Plan update for 2016 the final project in the Securing World Class Audit workstream is to review and enhance our audit quality arrangements to ensure that they will continue to deliver assurance to the Board, Auditor General and Accounts Commission about the quality of audit work undertaken and stimulate continuous improvement in audit quality.

3. Review approach

We have a number of well developed quality control and monitoring arrangements in place across business groups that have helped to demonstrate our commitment to audit quality. These are summarised in our [Corporate Quality Framework](#) and our published annual [Transparency and Quality Report](#). The start of a new round of audit appointments with a new Code of Audit Practice is a good time to review how we control, monitor and report on audit quality across the work of the organisation.

The increased expectations on auditors around the wider scope aspects of public audit as set out in the revised Code of Audit Practice and the new approach to the audit of best value will require enhancements to current arrangements and the growing amount of one organisation working across business groups increases the need for the quality arrangements to demonstrate consistent principles even though there will be legitimate differences in detailed arrangements.

Management Team are clear that they want the review to be comprehensive, cover all audit work across the organisation and include comparative information on approaches taken by firms and other public audit agencies.

Such a review would significantly benefit from dedicated resource being devoted to it and that level of resource is not available within the existing small Audit Strategy team.

Management Team have therefore agreed that, following on from the successful appointment of a fixed term Assistant Director to lead the development of a performance audit programme, the same approach should be taken to the review of Audit Quality arrangements.

The advert for the post and the further information provided alongside it are at Appendix 1.

Engagement is a key part of the review and the Auditor General, Accounts Commission, Board and Audit Committee will be involved in the review and in particular in the development of the revised Corporate Quality Framework.

The Accounts Commission considered the 2015/16 Transparency and Quality report at their meeting on 11 August and I took the opportunity to outline the nature of the review that we are commencing. In discussion the Commission members expressed interest in and commented on a number of areas including:

- Ensuring that the quality standards and processes are appropriately joined up across Audit Scotland both as an end in itself and to support the type of one organisation working that will be required to deliver the revised approach to the audit of Best Value
- Arrangements for seeking feedback from the Commission as a key customer/stakeholder for our work
- Clarity in the roles of all the players including the role of the Commission and study sponsors in the quality arrangements
- Approach to ensuring quality at firms
- Reporting of audit quality to the Commission

All of these points will be included in the detailed scoping of the review.

Timescales

We envisage that the post will be for a period of a year but we will keep this under review as the project progresses and will consider an extension if the implementation of revised arrangements would benefit from this level of resource for a further period.

The closing date was 10 August and six expressions of interest were received. Interviews will take place by 24 August and the successful candidate will start work as soon as practicable.

The first task for the successful candidate will be to produce a more detailed scoping document, work plan and timetable.

Funding

An Assistant Director post would cost around £85,000 for a year assuming that the existing role of the successful candidate would be backfilled all the way down the organisation. We have already said that we intended to use some of the savings from the procurement exercise to enhance our audit quality work. The post will commence at about the same time as the savings will start to be realised and we therefore intend to use part of the savings to fund this post.

4. Recommendation

The Board are invited to note the proposed approach to the review of audit quality.



World class audit quality – can you help?

**Leading a review of audit quality arrangements across Audit Scotland
Help demonstrate the quality of our work and enable improvement
High profile career development opportunity**

This is an opportunity for a talented and ambitious individual to lead a review of audit quality arrangements across Audit Scotland to ensure robust systems are in place to improve audit quality and provide assurance to internal and external stakeholders.

Background

The Securing the audit strand of our Becoming World Class ambition has already produced a revised Code of Audit Practice which will challenge auditors to achieve more from their audits. We have also completed an audit procurement exercise to support new audit appointments for 2016/17 to 2020/21 audits. The next step is to review our audit quality arrangements across Audit Scotland and appointed firms to ensure that they are robust across all our audit work and that we are continually improving our audit quality.

The project

We have a number of well developed quality control and monitoring arrangements in place across business groups that have helped to demonstrate our commitment to audit quality. These are summarised in our [Corporate Quality Framework](#) and our published annual [Transparency and Quality Report](#). The start of a new round of audit appointments with a new Code of Audit Practice is the right time to review how we control, monitor and report on audit quality.

Working with colleagues in Audit Strategy, Audit Services and PABV and with access to external support you will lead a review of all aspects of our audit quality arrangements, including:

- The quality of performance and best value audits as well as annual financial audits
- The wider scope audit work in the new Code of Audit Practice
- The consistency of audits in terms of identifying the right risks, and carrying out the necessary audit work to address them
- The quality and clarity of audit judgments and the evidence that underpins them
- The quality of audit reports
- The impact of audit in improving the use of public money
- Audited body and other stakeholders' perspective on audit quality
- Continuous improvement in audit quality
- How we report on audit quality internally and externally

There are links to the other Becoming world class workstreams, particularly Building a Better Organisation including:

- Job design and resourcing
- Reward and recognition
- Personal development
- Wellbeing

This project will have succeeded when:

- we have reviewed and revised all aspects of our audit quality arrangements;
- audit quality is consistently embedded in our thinking across the organisation;
- audit quality is improving.

A short briefing paper on the project is [here](#).

Can you help?

Some improvement projects require dedicated time, money or people to ensure that they can be delivered effectively and efficiently without the distraction of the day job. This one needs all three. If you feel you can own this project and deliver it successfully, then we need your help. The demands of the role mean that the person will be operating at **Assistant Director level** and reporting to the Management Team for **at least a year**, through to autumn 2017. So, if you're not currently an Assistant Director, an acting-up allowance will be available should you express an interest and be selected for this assignment. You will have a significant degree of autonomy - working with colleagues across Audit Scotland and externally to contribute to our **one organisation** objective. It may be possible to combine this role with a modest portfolio of mainstream audit work so that you don't lose touch with front-line delivery as we know that's important to colleagues across the business but the main focus of your time will be this project.

Expression of Interest

If you think you could make this project a success, please complete an expression of interest form and email this directly to Joy Webber by **12 noon on Wednesday 10 August**. You will meet me and other members of the Audit Scotland Management Team so that we can hear your vision for world class audit quality arrangements, and your early thoughts for delivering the project to time, quality and cost. We will confirm a date for the meetings in due course, but expect them to happen on Wednesday 17 August or the morning of Wednesday 24 August.

If you would like an informal chat before submitting your expression of interest, please contact Joy (ext 1606) to arrange a suitable meeting/telephone call.

Regards

Russell

Russell Frith
Assistant Auditor General

Securing world class audit: Quality framework

Introduction

Securing world class audit is a key part of Audit Scotland's commitment to becoming world class.

So far we have completed:

- *Public Audit in Scotland*
- *New Code of Audit Practice*
- Procurement exercise
- New audit appointments for 2016/17 to 2020/21

Next step is to review our quality framework to ensure that it supports world class audit by:

- Providing assurance to the Auditor General and the Accounts Commission about the quality of all types of audit work carried out on their behalf
- Supporting continuous improvement in the quality and value for money of audit work carried out by Audit Scotland and the firms.

Quality principles and the elements of audit quality

Audit quality has historically been largely linked to compliance with professional auditing standards. That remains important, but it's not enough to achieve our world class vision.

Our view of audit quality is that it should consider:

- The wider scope of public audit
- The quality of performance and best value audits as well as annual financial audits
- The consistency of audits in terms of identifying the right risks, and carrying out the necessary audit work to address them
- The quality and clarity of audit judgments and the evidence that underpins them
- The quality of audit reports
- The impact of audit in improving the use of public money
- Audited body and other stakeholders' perspective on audit quality
- Continuous improvement in audit quality

The International Audit and Assurance Standards Board (IAASB) has set out five elements of a quality audit, which form the basis of our current quality framework. A quality audit is likely to have been achieved by an engagement team that:

- ✓ Exhibited appropriate values, ethics and attitudes
- ✓ Was sufficiently knowledgeable, skilled and experienced and had sufficient time allocated to perform the audit work
- ✓ Applied a rigorous audit process and quality control procedures that complied with law, regulation and applicable standards
- ✓ Provided useful and timely reports
- ✓ Interacted appropriately with relevant stakeholders

These elements are equally relevant to all the audit work we undertake. In refreshing our quality framework, we should consider whether there are any gaps.

Roles and responsibilities

The **Audit Strategy** team is primarily responsible for providing assurance

ASG, PABV and firms are responsible for their own quality control and monitoring systems

The two elements need to fit together in a single quality framework. All parts of the organisation have a role to play in improving audit quality.

Quality assurance

- What assurance do AGS/AC/AS board need to monitor delivery of world class audit and support continuous improvement?
- What sources of assurance do we currently have?
- What are the gaps and how could we fill them – options?

Quality improvement

- How effective are the quality control and monitoring systems of ASG, PABV and the firms?
 - Audit Services
 - Professional Standards and Quality Improvement group – chaired by Gillian Woolman
 - Business Improvement Unit – Jim Rundell, Parminder Singh, Alison Turner, Christopher Gardner
 - PABV
 - PABV quality group led by an assistant director
 - Firms – are required to comply with International quality control and monitoring standards and to carry out at least one cold review of our audits annually - what else is needed to supplement this to achieve improvement?
 - Audit Strategy – currently improvement role comes from results of assurance work and thematic reviews. How should the improvement role develop?
 - Corporate quality group – currently acts as a forum for discussion across business groups – how should its role develop?
- How can we improve them, in line with both our quality principles and the Building a Better Organisation workstreams?
 - Job design and resourcing
 - Reward and recognition
 - Personal development
 - Wellbeing

Leadership and engagement

The impact and importance of this project mean that it requires dedicated, senior leadership reporting to the Management Team.

The project leader will be responsible for ensuring effective involvement with staff across Audit Scotland, the firms and external stakeholders. The project should also learn from good practice within Audit Scotland, in other public audit bodies across the UK and internationally, and leading accountancy firms.

Outputs

- A new audit quality framework that covers all our audit work
- A new system for providing assurance and reporting on audit quality

- A set of performance indicators for audit quality
- New internal and external quality reporting arrangements
- A revised Transparency and Quality Report that provides more useful information to our stakeholders

Outcome

- Audit quality embedded in the operating culture at all levels of the organisation

Timescales

The new system will take time to develop and implement, but auditors will need to have an indication of how the new framework will work for the 2016/17 audits at least by the beginning of the new audit appointments in October 2016.

AUDIT SCOTLAND BOARD

18 AUGUST 2016

REPORT BY CHIEF OPERATING OFFICER

PROPERTY POST IMPLEMENTATION REVIEW

1. Purpose of report

In line with good practice, we have carried out a post implementation review of the move to 102 West Port. This has included a post occupancy evaluation, carried out by haa design. The review has been carried out by Fraser McKinlay on behalf of the Property Steering Group, chaired by the Chief Operating Officer. The Post implementation review report is attached to this paper.

2. Background

The move to 102 West Port is one of the most significant projects ever undertaken by Audit Scotland. The post implementation review report has been considered and approved by the Property Steering Group and Audit Scotland's Management Team. We are now submitting it to the Board for consideration and for approval as the basis for any future external reporting.

In conducting the review, Fraser has engaged with a wide range of stakeholders. The individual teams within Audit Scotland carried out their own reviews on IT, Finance and facilities. Fraser interviewed all partners to gain feedback on their experience of the project. The review report summarises the findings from all of this activity.

We have currently left the introduction to the review report blank, and this will be informed by the Board discussion.

3. The post implementation review

The post implementation review considers all aspects of the project, including:

- an overall assessment of the project
- the project budget and outturn
- the project process
- the move itself
- the post occupancy evaluation.

The project has delivered a high quality working environment while saving money over the 10 year period of the lease. Feedback from colleagues, clients and stakeholders has been very positive. 102 West Port was always about more than just an office move, and we have tried to capture that in the review report. In particular, the engagement process has been critical to the success of the project,

with colleagues involved from the very earliest stages of the project in a spirit of genuine co-design.

The review has also highlighted some areas for improvement. We have actions underway to address all of these. We will continue to adapt our ways of working to suit the new office, recognising that it is still relatively early days in the life of the new office environment.

4. Recommendation

The Board is invited to consider the post implementation review and approve it as the basis for any future external reporting.

102 West Port

Post implementation review

DRAFT

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

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Introduction

To be completed following discussion with the Board.

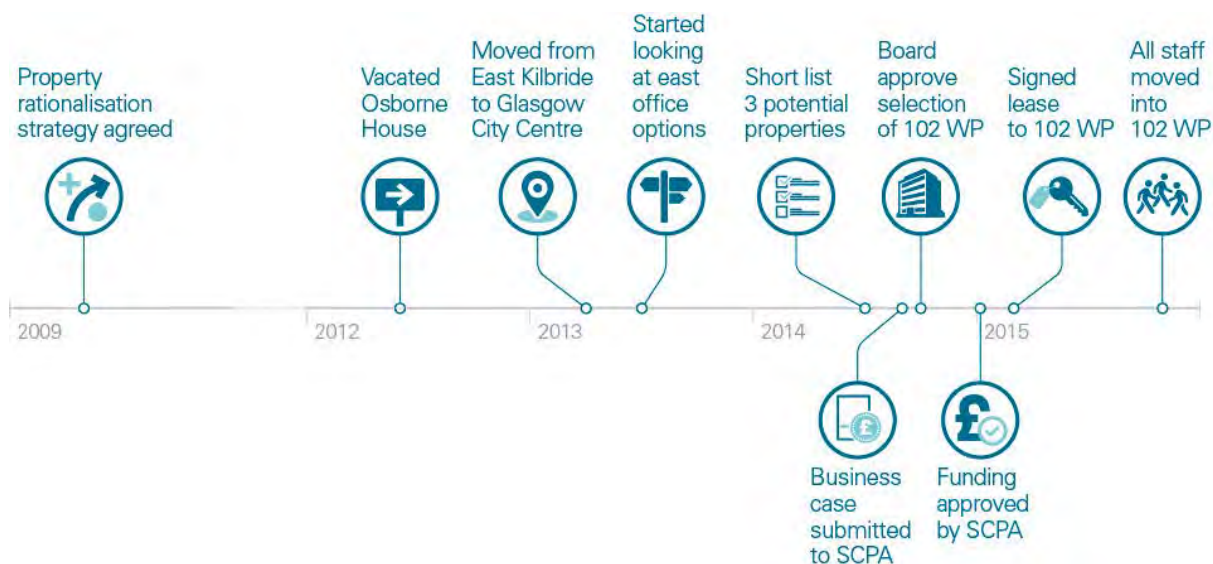
Background

Purpose of this report

1. The move to 102 West Port is one of the most important internal projects Audit Scotland has undertaken. It represents a key component of becoming a world class public audit organisation. It is therefore important that we account for the public money invested in the move, and demonstrate that we are delivering the benefits expected from that investment.
2. We have reviewed all aspects of the project to move from the George Street offices to 102 West Port. This report provides an overall assessment of the extent to which the project has delivered its goals. It covers the following areas:
 - Project budget and outturn.
 - The project process, including governance, working with colleagues, partners and contractors.
 - The move from George Street to 102 West Port.
 - Results from the post occupancy evaluation questionnaire - how colleagues are responding to our new working environment.

Feedback has been received from all the main parties involved in the project, and is summarised in the report.

History of the project



3. The Edinburgh office move formed the last part of our property rationalisation strategy agreed in 2009. The key elements of the strategy were to: identify cost reductions; increase space utilisation; reduce our carbon footprint and improve working arrangements across the business. In 2009, Audit Scotland occupied six leased properties in total across Scotland

(three in Edinburgh, one in East Kilbride, one in Aberdeen and one in Inverness), providing 35,801 square feet (sq. ft.) of space.

4. It has been a long term ambition for Audit Scotland to move into a single site in Edinburgh. We inherited three Edinburgh offices from our predecessor organisations; one at Haymarket (Osborne House) and two on George Street (18 and 110). While these offices served us well for over ten years, they were not suitable long term options for the future development of the organisation and our ambition to be a world class public audit organisation.
5. We vacated Osborne House in June 2012 and in 2013 moved our West of Scotland base from East Kilbride to a more suitable and accessible office in Glasgow city centre. The opportunity arose to come out of the leases of the George Street offices in 2015. The following table summarises the effect of our rationalisation process since 2009:

Change over 2009 base				
Year	Space sq. ft.	Cost (£m)	Space (sq. ft.)	£m / (%)
2009	35,801	£1.55m		
2012	26,748	£1.25m	-9,053 (-25.3%)	-£0.3m (-19.4%)
2013	24,899	£1.25m	-1,849 (-5.2%)	
2015	20,109	£0.95m	-4,790 (-13.3%)	-£0.3m (-19.4%)
Total			-15,692 (-43.8%)	-£0.6m (-38.7%)

6. Importantly, over the last few years we have been delivering several other corporate strategies to support new ways of working in pursuit of our world class ambitions. For example, we have: developed a new information technology strategy to support more innovative and flexible working; created, in-house, a new brand and a refreshed approach to the design of our products; revised our approaches to workforce planning and wider aspects of performance development and reward. All of this helped us to reduce the costs of public audit by 20%. Building on these initiatives, in the context of achieving our corporate plan, has made the 102 West Port project possible.
7. At all points in the process, over a period of years, we ensured that the Audit Scotland Board, the Accounts Commission and the Scottish Commission for Public Audit (SCPA) were kept up to date with our plans.

Options appraisal

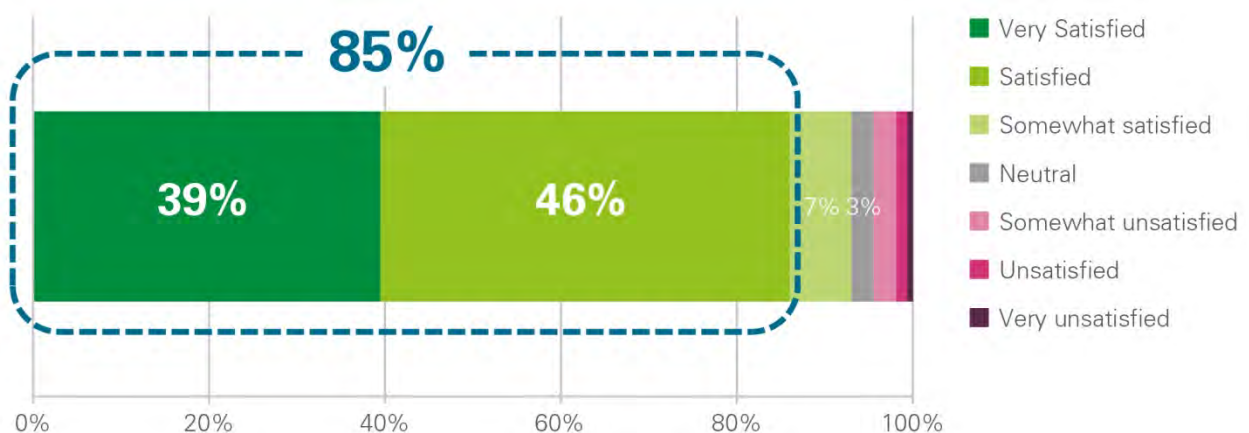
8. We started looking at our east based office options in 2013, and contacted the Scottish Futures Trust to help explore opportunities in the existing public sector estate. We also appointed an external advisor to assist with our property search and provide advice on the commercial property market.

9. Following a rigorous options appraisal process, including consideration of locations outside of Edinburgh city centre, we drew up a short list of three potential properties in Summer 2014. The shortlisted properties had the following things in common:
 - Central Edinburgh, in order to support the Scottish Parliament and other significant clients and stakeholders.
 - Good transport links, for colleagues, clients and stakeholders.
 - Single site - and ideally on one floor to support collaborative working .
 - It would save money over the period of the lease, compared to our existing offices on George Street.
 - In keeping with, and supportive of, our world class aspirations.
10. We submitted a business case to the SCPA in September 2014 for additional investment to support the move, as part of our 2015/16 budget proposals. Funding approval for £1.34m was formally received from the SCPA in January 2015.
11. The Audit Scotland Board approved a recommendation in October 2014 to select 102 West Port as our preferred site and to begin negotiations on the terms of the lease. The Board's decision was taken following detailed consideration of a full business case. Having secured improved terms on the lease of 102 West Port, we signed the lease in March 2015, allowing access from 1 April 2015.

Assessment of the project

Overall assessment

12. The move to 102 West Port was an important part of our becoming world class improvement programme. If we are to realise those ambitions, we recognise that we need office accommodation that supports more efficient, effective and collaborative working. Within that context, the objectives for the move were captured in the original business case as follows:
- Ensure best value in terms of finance and space utilisation.
 - Ensure we can work with national stakeholders and service clients in the east of Scotland in an efficient and effective way.
 - Ensure that we can retain, recruit and develop high quality staff.
 - Further support new and flexible ways of working.
 - Improve our ability to work as one organisation.
 - Reduce our carbon footprint.
 - Reduce the burden of managing our properties.
13. The move to 102 West Port has been successful. We delivered the project on time and within budget, releasing savings of around £2.8m over the ten year period of the lease. It is already having an impact on how we work and how we are perceived externally. Feedback from external stakeholders has been positive. It has dramatically improved our efficient use of space, and has made a significant contribution to reducing our carbon footprint.
14. The post occupancy evaluation (see paragraphs 40 and 41) demonstrates that colleagues feel very positively about the new office, while recognising there are improvements we can still make. Overall, 85% of colleagues who responded are satisfied or very satisfied with their new working environment.



15. The project process itself went well, and the commitment and enthusiasm of everyone involved in the project team is to be commended. The experience underlines the importance

of selecting the right partners, who shared our vision and passion for the project. The project steering group operated effectively, under the leadership of the Chief Operating Officer. The implementation group worked well, ensuring that the key elements of the project were delivered effectively. The process was highly engaging, and provides a blueprint for how we manage large scale organisational development projects in future. The early and sustained engagement with colleagues was well worth the investment and ensured a strong sense of ownership amongst colleagues.

16. The design elements of the project have been particularly strong. We worked very closely with our design partners from the outset and having one of our in-house graphics designers on the project steering group ensured that the space very clearly reflects who we are and the kind of organisation we want to be in future.
17. The construction process was relatively straightforward, although some aspects of working with our main contractor could have been better. In particular, the delay in getting appropriate access to the new computer server room at 102 West Port caused us problems and meant the IT installation was put under pressure towards the end of the programme.
18. There are, of course, lessons to be learned, both in terms of how we use the office in future and in terms of other major projects. These are captured in the following sections of the report.

Project budget and outturn

19. The SCPA approved a capital budget of £1.34m for the fit-out of 102 West Port. We conducted a tender exercise for the main contractor between March and June 2015. A two stage competitive tender was issued via the Public Contract Scotland portal and we appointed the successful bidder for the fit-out work contract (including furniture) on 6 July 2015. The final cost for the work was £941k plus VAT (£1,129k) and, once we include professional fees and furniture, the total cost of the project was £1,225k. This is £115k less than the original SCPA approved budget.

The project process

Project governance and resourcing

20. The governance of the 102 West Port project involved two main groups, the project steering group and the project implementation group. The steering group was chaired by Audit Scotland's Chief Operating Officer, who was also Project Sponsor. The steering group consisted of senior colleagues from across Audit Scotland and was responsible overall for ensuring delivery of the project.
21. The implementation group was chaired by Audit Scotland's Finance Manager who had day-to-day responsibility for managing the project. The implementation group consisted of colleagues from across the business and was designed to ensure a co-ordinated approach to the delivery of the project.

22. We appointed a firm of architects and designers in September 2014 to work with us throughout the project, from the early staff engagement workshops, the technical stages of the fit out, selecting the furniture and all aspects of design.
23. We also appointed a firm of external project managers in February 2015, to support the project as we entered the detailed design and construction phase. This recognised the need for additional capacity and expertise in the delivery of a construction programme. The project manager was responsible for overseeing all the non-Audit Scotland elements of the programme.
24. The governance arrangements worked well. Risk registers were in place and regular assurance on progress was received by the steering group. We reported regularly to Audit Scotland's Management Team and Board to ensure they were updated on project progress. The nature and financial value which was above the delegate authority of the Management Team dictated that Board approval was required to agree a lease for the new office and to award a contract to fit it out.

Working with colleagues

25. Engagement was a central part of the approach to the move. From early on, we were clear that we wanted colleagues to be intimately involved in the design and delivery of the new building. We held several workshops with colleagues in the autumn of 2014, before we had even selected 102 West Port as the preferred site. This allowed us to focus on how we wanted to work in future, and the kind of space we wanted to create together. Not knowing the final location allowed us to have those conversations from first principles, without being too focused on location, transport links and the building itself.
26. We engaged with colleagues throughout the process. We had to be agile in communicating the eventual moving date, as the fit out programme evolved and the issue with the server room was resolved.
27. The delivery of the project has been an outstanding team effort. Colleagues from business support, IT, HR, finance, facilities and communications all went above and beyond their normal roles to deliver the project effectively. Colleagues from the Edinburgh offices played their part in clearing out the George Street offices and contributing to the design of the office.

Working with partners

28. We worked well with our main partners on the project. We recognised from an early stage that selecting the right partners would be critical to the success of the programme. As well as making the decision on the basis of ensuring value for money and professional competence, we were also determined to appoint firms that shared our vision and passion for what we were trying to achieve and how we were trying to do it.
29. Feedback from our partners has been positive about their experience of working on the project, and with Audit Scotland. We may have benefited from appointing the external project managers earlier in the process, although it was still early enough for them to be involved in

the key decisions. In future, we should reflect on whether a project manager could have been responsible for overseeing the delivery of all aspects of the project, including IT.

Working with contractors

30. The procurement process for the main contractors was straightforward. The tender documentation was clear and we received a good selection of credible, competitive submissions. We made the appointment on the basis of good evidence and believe we received good value for money.
31. The initial part of the construction process was relatively straightforward, with no significant issues in gaining the statutory approvals. However, on reflection, it appears the contractor did not use the first third of the construction programme as effectively as they might have, with knock-on effects to the rest of the programme. Although we had contingency built in to the programme, there was pressure on the back-end of the project, with work being squeezed towards the end.
32. The most serious problem was the delay in building the server room, which put significant pressure on the IT team to get the servers up and running in time for testing in advance of the move.

Information Technology (IT)

33. The delivery of IT was a key part of the programme and is an important enabler for more agile working in the new office. The IT infrastructure elements of the programme were planned and, to some extent, delivered well in advance of the move project itself getting underway. In particular, moving our back up systems to a 24/7 secure off-site data centre has increased the resilience and flexibility of our IT systems. We were investing in hardware throughout 2014/15 in preparation for the move in November 2015.
34. In late 2014 and early 2015 we could have better integrated the IT planning with the rest of the programme. IT colleagues would have welcomed more direct contact with the steering group and at times the steering group felt a bit distant from some IT related decisions.
35. Most importantly, we now have an IT environment which is secure and flexible and is supporting more agile and collaborative working. The most important measure of success is that the vast majority of colleagues were able to work in the new office on 9 November 2015 without interruption.

Moving to 102 West Port

Planning and preparation

36. We started planning the move to 102 West Port early in 2015. One of the key tasks was to encourage colleagues in the George Street offices to clear out their work areas. We were clear with colleagues from the outset that there would be minimal space for personal belongings. This ensured that we only brought what we needed.

37. We re-used existing furniture where we could, and organised for the remainder to be recycled or disposed of appropriately.

Implementation

38. The move itself happened over the weekend of 7 and 8 November. The removal company did a good job moving the crates and furniture and the Business Support and IT teams worked over the weekend to ensure the move went smoothly. Many colleagues from across the business pitched in to help over the weekend to ensure colleagues were able to arrive in the new office on the Monday morning and start working without interruption.
39. Once the move had taken place, there was significant activity to decommission the offices on George Street. A major part of the work involved the agreement of dilapidation liabilities for each office with the landlords. In both cases a cash settlement was negotiated that was less than the provisions held to meet the liability. The contents of each office had to be removed, recycled and disposed of (a contractor was appointed to carry out this work), maintenance and utility contracts terminated and the offices cleaned. This work was important in order that we met the terms of the dilapidation agreements. The offices were handed back to the landlord on the lease termination dates.

Post occupancy evaluation - what difference has it made?

40. In line with good practice, we have undertaken a post occupancy evaluation (POE). We commissioned haa design to deliver the evaluation, which involved an on-line survey and two days of observations to see how the building is used in practice, supplemented by informal discussion with colleagues in 102 West Port. Some of the highlights from the POE are as follows:
- The survey response rate was very good for this kind of exercise. A total of 157 responses were received, which is 57% of total staff. When we consider the response rate from Edinburgh based colleagues only, the figure is around 70%.
 - Overall, satisfaction with 102 West Port is very high, with 85% of respondents saying they were satisfied or very satisfied with their new working environment.
 - Based on the observational study over two days, the utilisation rate for the office was 65%, which compares favourably with other offices and is a significant improvement on the George Street offices which was around 40%.
 - Colleagues were very satisfied with the move itself – 83% said they were able to work straight away on arrival.
 - The survey and free text comments give a strong sense of collaboration and working more closely with colleagues from other parts of Audit Scotland – though with comments from some colleagues that the ‘sense of team’ has been affected in some areas.
41. There are still areas for improvement, and inevitably some colleagues have different views on aspects of the new office. It is still early days, having only been in the office for around eight months. We will continue to learn how to make best use of the space and the office will evolve

and develop as we do over the next decade or so. That said, the POE does highlight some common themes that we recognise need to be improved:

- Getting the temperature in the office right – it is proving difficult to get the heating and cooling systems to maintain a consistent temperature – this is not straightforward to fix as our system is inextricably linked with the system for the whole building. We are continuing to work closely with the office landlords to improve the situation.
- Soundproofing and acoustics - there is a known issue about the soundproofing of some meeting rooms and feedback from colleagues is that the acoustics in some rooms could be improved. The most significant issues are being picked up as part of the 'snagging' process.
- Ensuring people know how to make best use of the space – a number of comments suggest that some colleagues are reluctant to use some of the more collaborative spaces in the office, e.g. the business lounge. We will reissue guidance about how to use the different spaces in the office, including the use of quieter areas and spaces for work that requires a higher degree of concentration or reflection.

42. From an employee wellbeing perspective, the Health, Safety & Wellbeing group are encouraged to see that the new physical working environment has been well received. The aspects that appear to have had the greatest positive impact are the overall feeling of brightness and lightness in the new office, making it an enjoyable place to be, together with the breakout spaces available for lunch and quick catch ups. Over and above the points above, there could also be scope to further explore the facilities available to those running and cycling, and make improvements where possible.
43. It is clear from the survey results that the new environment is supporting changes to the culture at Audit Scotland, with colleagues reporting increased openness, collaboration and communication between business groups. The benefits of engagement and co-creation as a blueprint for large scale organisational change are also clear. These principles will continue to support developments under Building a Better Organisation, particularly around the Personal Development strand which seeks to embrace new ways of working and explore how we better share knowledge and learning across the organisation.

Conclusions and lessons for the future

44. Overall, the project to move our Edinburgh base to 102 West Port has been successful. Having carried out the POE and reflected on feedback from a wide group of people, we would highlight the following key lessons:
- Engagement, engagement, engagement – working closely with colleagues from the outset is key to making sure that the design is right and that people feel ownership of the end result. At the same time, we need to recognise that we can't please all of the people all of the time.
 - Getting the right team in place – it has been great to have the designers and external project managers on board, working alongside a highly committed internal team, all of whom shared our vision for the project. In future we would consider appointing the project manager sooner, potentially with a remit to oversee the whole project.
 - Good design is key - having our in-house designer on the steering group, working closely with our external design partners, ensured that the final design of the office is in keeping with our brand values and clearly reflects who we are and the organisation we are aspiring to be.
 - Thinking through the arrangements for IT in future for a project of this size and complexity, including considering additional external resource earlier in the process. Having IT colleagues more engaged with the steering group from the start would have helped integration.
 - The commitment and enthusiasm of colleagues has been the key to making the whole project work – it was important to set out with a bold and achievable vision, closely tied to our objective of becoming world class.

AUDIT SCOTLAND BOARD

18 AUGUST 2016

REPORT BY THE CORPORATE GOVERNANCE MANAGER

CORPORATE GOVERNANCE POLICIES AND CODES OF CONDUCT REVIEW

1. Purpose of Report

This report informs the Audit Scotland Board of the annual review of the Standing Orders, Financial Regulations, Scheme of Delegation and the members' and staff Codes of Conduct.

The Board is invited to note the review and re-approve the governance policies for a further year.

2. Annual Review of the Standing Orders, Financial Regulations, Scheme of Delegation and Members' and Staff Codes of Conduct

It is the responsibility of the Audit Committee to keep under review the Standing Orders, Financial Regulations, Scheme of Delegation and Codes of Conduct and recommend to the Board any amendments.

The Standing Orders has not been submitted for approval due to the reasons discussed at the earlier Audit Committee meeting.

The annual review identified that the Members' Code of Conduct remained up to date but that some minor amendments were required to the Financial Regulations, Scheme of Delegation and the staff Code of Conduct.

At its meeting earlier on 18 August 2016, the Audit Committee considered the annual review and discussed the required changes to the documents. The outcome of that discussion will be reported to the Board on its meeting on 18 August 2016.

3. Recommendation

The Audit Scotland Board is invited to:

- note the review of the governance policies
- subject to Audit Committee comments, re-approve the Financial Regulations, Scheme of Delegation, members' and staff Codes of Conduct for a further year.

AUDIT SCOTLAND BOARD

18 AUGUST 2016

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**AUDIT SCOTLAND BOARD ON 15 SEPTEMBER 2016 AT THE CONCLUSION OF THE
REMUNERATION AND HUMAN RESOURCES COMMITTEE MEETING HELD IN THE
OFFICES OF AUDIT SCOTLAND, 102 WEST PORT, EDINBURGH**

A G E N D A

1.	Apologies
2.	Declarations of interest
Standing Items	
3.	Chair's Report – Verbal update
4.	Accountable Officer's Report – Verbal update
5.	Accounts Commission Chair's Report – Verbal update
Governance	
6.	Minutes of the meeting dated 18 August 2016
7.	Review of Actions Tracker
8.	Review of Information Governance Policies – Report by the Corporate Governance Manager
Items for Information	
9.	New Financial Powers Update - Report by the Assistant Director, Audit Services Group
10.	Securing World Class Audit: Audit Procurement – Post Tender Review – Report by the Assistant Auditor General
Item for Approval	
11.	Securing World Class Audit: Budget Proposal 2017/18 and Fee Strategy 2016/17 – Report by the Chief Operating Officer and Assistant Auditor General
Conclusion	
12.	Publication of reports
13.	AOB
14.	Review of meeting
15.	<p>Date of next meeting</p> <ul style="list-style-type: none"> • 27 October 2016 at the conclusion of the Remuneration and Human Resources meeting in the offices of Audit Scotland, 102 West Port, Edinburgh. <p><i>Please submit your apologies to Joy Webber</i></p>

Minutes of Meeting of **Audit Scotland** held on 15
September 2016 in the offices of Audit Scotland at
102 West Port, Edinburgh

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

APOLOGIES: R Griggs

IN ATTENDANCE: D McGiffen, Chief Operating Officer
R Frith, Assistant Auditor General
M Walker, Assistant Director, Corporate Performance and Risk
D Hanlon, Corporate Finance Manager
J Webber, Senior Executive Assistant

<u>Item No</u>	<u>Subject</u>
1.	Apologies
2.	Declarations of Interest
3.	Chair's Report
4.	Accountable Officer's Report
5.	Accounts Commission Chair's Report
6.	Minutes of the meeting dated 18 August 2016
7.	Review of the Actions Tracker
8.	Review of Information Governance Policies
9.	New Financial Powers Update
10.	Securing World Class Audit: Audit Procurement – Post Tender Review
11.	Securing World Class Audit: Budget Proposal 2017/18 and Fee Strategy 2016/17
12.	Publication of Board Papers
13.	AOB
14.	Review of meeting
15.	Date of next meeting

1. Apologies

The members noted Russel Griggs apologies for today's meeting.

2. Declarations of Interest

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

3. Chair's Report

Ian Leitch advised that, since the previous meeting of the Board, he had held regular meetings with Caroline Gardner, Auditor General for Scotland and Diane McGiffen, Chief Operating Officer, and that he had met with Russell Frith prior to this morning's meeting to discuss the papers scheduled for discussion at item 11.

4. Accountable Officer's Report

Caroline Gardner provided an update on her activity since the previous board meeting. She advised that work continued to develop our support and engagement with the Scottish Parliament, and of her recent meetings with the new Cabinet Secretary for Finance and a number of MSPs.

Caroline advised of her recent speaking commitments, notably at the Holyrood Summer School on 19 August, the University of Strathclyde conference on 12 September, the Fraser of Allandar Institute budget discussion on 13 September and that evening's EY Dinner.

She informed the Board on the work underway to conclude this year's audits and looking ahead to the quality reviews which were due to commence in October alongside the new appointments. The Board noted that an update will be shared with them at their meeting in December 2016.

5. Accounts Commission Chair's Report

Douglas Sinclair provided an update on the work of the Accounts Commission since the previous meeting of the Board. He advised that he had attended to the Scottish Parliament's Local Government and Communities Committee to give evidence on the Local Government Overview report 2016.

He also advised that the Social Work in Scotland report would be published on 22 September and highlighted some of the main issues covered by the report.

6. Minutes of the meeting dated 18 August 2016

The Board considered the note of the meeting of the Board on 18 August 2016, which had been previously circulated, and confirmed the note was an accurate record of the meeting, subject to correcting the spelling of Kevin Stewart's surname at item 5.

With regard to the action for Russell Frith under item 10, Heather Logan requested more detail in the report around recovery and how this will be maintained when this comes to the Board in December 2016.

7. Review of the Actions Tracker

An updated version of the Action Tracker was tabled, which had been further revised. The members noted the update provided by the Action Tracker.

8. Review of Information Governance Policies

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the report on the Review of Information Governance Policies, which had been previously circulated.

The Board was invited to note the review and reapprove the policies for Data Protection, Freedom of Information and Records Management for a further year.

The Board considered and duly approved the policies for a further year.

9. New Financial Powers Update

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

Mark Taylor, Assistant Director, Audit Services Group, introduced the New Financial Powers Update report, a copy of which had been previously circulated.

Mark invited members to note the update on key developments surrounding further financial devolution, including Audit Scotland's organisational arrangements in this area.

Heather Logan sought clarification on Audit Scotland's responsibilities as distinct from the Auditor General for Scotland's to respond to the consultation from the Joint Exchequer Committee in relation to the setting of robust auditing arrangements with respect to the fiscal framework and the Scotland Act 2016. Mark advised that while the timeline for this was not yet finalised we continued to engage with the Scottish Government regarding the developments, including concerns around resourcing, given the considerable scope of the new powers and the need for clarity around the impact this may have for the Auditor General and Audit Scotland.

Turning to internal resource, Mark advised members that the team will focus on the work programme which will identify any additional requirements.

The Chair thanked Mark for the update.

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

10. Securing World Class Audit: Audit Procurement - Post Tender Review

The Board noted the report on Audit Procurement – Post Tender Review, a copy of which had been previously circulated.

Russell Frith advised members that the Audit Strategy team involved were content with the procurement exercise. In response to Heather's query on the matter of conflicts arising, Russell advised the team would consider requesting details of conflicts earlier in the process in the next procurement round.

Caroline informed members that as a member of the interview panel, she felt the process had gone very well, recognising the valuable contribution of Fiona Daley in developing the thinking and providing assurance of the exercise.

The Board welcomed the report and, at the suggestion of Douglas Sinclair, Russell would approach the independent consultant, Fiona Daley, to invite her input to the review in light

of her involvement in the procurement exercise. The Board also noted the proposal to involve Fiona in the quality review work to be taken forward by Elaine Boyd, a report on which is scheduled to come to the Board in December 2016.

Action(s):

- **The Assistant Auditor General, to invite input from Fiona Daley on the procurement review process. (October 2016)**
- **The Assistant Director, Audit Strategy, to bring a report to the Board on the quality review work. (December 2016)**

11. Budget Proposal 2017/18 and Fee Strategy 2016/17

David Hanlon, Corporate Finance Manager, joined the meeting.

Diane McGiffen, Chief Operating Officer, advised the Board of her discussion with the new secretary for the SCPA, who had confirmed that Audit Scotland would not be required to submit a budget proposal this month due to the scheduling of the UK and Scottish budget process. Diane would advise members when written notification of the submission date is received.

Diane invited members to consider and approve the draft Budget Proposal 2017/18, which had been previously circulated.

The Chair commented he had shared a number of minor drafting points with Russell prior to this meeting and invited members to note the documents will be reviewed and refined by the communications team.

Following discussion, the Board approved the budget proposal.

Turning to the Fee Strategy 2016/17, Russell Frith introduced the report, which had been previously circulated.

Douglas Sinclair was interested to know how we were communicating with audited bodies around the new fee arrangements, particularly in light of those organisations which would see an increase in fees.

Caroline advised that with the delay to the submission of the budget and fee strategy our intention would be to advise audited bodies of their likely fees and provide them with the opportunity to respond.

The Chair highlighted the ability to apply a reduction in fee setting across a particular sector to allow a transition to the new fee strategy.

Following discussion, the Board approved the Fee Strategy 2016/17.

On behalf of the members, the Chair thanked Russell, David and their respective teams for their work on the submissions.

David Hanlon, Corporate Finance Manager, left the meeting.

12. Publication of reports

The Board approved all reports for publication with the following exception:

- Item 11 – Budget proposal 2017/18 and Fee Strategy 2016/17 (draft due for future publication).

Action(s):

- **The Assistant Director, Corporate Performance and Risk to arrange to publish the reports on the Audit Scotland website alongside the approved minute. (October 2016)**

13. Review of meeting

Diane McGiffen tabled a summary which provided a distillation of matters discussed at the Board development event held on 30 August 2016.

The Chair welcomed the clear summation, acknowledging the positive outcomes from the event.

Diane invited members to discuss the proposal of having separate dates for the Board and Committee meetings and following discussion the Board agreed to trial separate dates for a period of time and to keep this under review.

The members took the opportunity to reflect on the quality of reports and balance of support and challenge of discussions at today's meeting.

14. AOB

There was no further business.

15. Date of Next Meeting

It was noted that the next Audit Scotland Board meeting had been scheduled for **27 October 2016** in the offices of Audit Scotland, 102 West Port, Edinburgh.

Ref	FORUM	Agenda Item No	Item Title	Action Description	Meeting Date	Due Date	Responsible	Assigned to	Complete/Ongoing	Reported Yes/No	Progress Notes
	Board	10	Q3 Corporate Performance	Russell Frith, Assistant Auditor General, to consider whether performance reports could include more information on audit quality.	26/02/2016	03/05/2016	Russell Frith	Russell Frith	Complete	Yes	This item at 14 (c) was considered at the meeting on 18/08/2016.
	Board	12(b)	Funding and Fees – 2016 Issues and Work Plan	The Assistant Auditor General to report on the final proposed fee strategy	26/02/2016	18/08/2016	Russell Frith	Russell Frith	Complete	Yes	The report at item 14(b) on the Board agenda will be considered 18/08/2016.
	Board	12(b)	Funding and Fees – 2016 Issues and Work Plan	The Assistant Auditor General to report on 2017/18 budget assumptions	26/02/2016	18/08/2016	Russell Frith	Russell Frith	Complete	Yes	The report at item 14(b) on the Board agenda was considered 18/08/2016.
	Board	12(b)	Funding and Fees – 2016 Issues and Work Plan	Board approval of 2017/18 budget and 2016/17 audit fees	26/02/2016	15/09/2016	Russell Frith	Russell Frith	Ongoing		The report at item 11 of the agenda was considered by the Board on 15/09/2016.
	Board	12(b)	New Financial Powers Update	The Assistant Director, Audit Services Group will provide an update on the New Financial Powers.	24/03/2016	15/09/2016	Mark Taylor	Mark Taylor	Complete	No	This report is item 9 on the agenda on 15/09/2016.
	Board	13	Openness and Transparency: Publication of Board Papers	The Chief Operating Officer to schedule a future agenda item to review the arrangements.	24/03/2016	01/12/2016	Diane McGiffen	Diane McGiffen	Ongoing		This is scheduled for discussion at the Board meeting on 1 December 2016.
ASB1	Board	3	Chair's Report	The date for the Board development event to be finalised and the Chief Operating Officer would schedule the SCPA legacy paper for discussion together with quorum options at the event.	03/05/2016	02/06/2016	Diane McGiffen	Diane McGiffen	Complete	Yes	A verbal update was provided to the Board on 18/08/2016 prior to the event on 30/08/2016.
ASB2	Board	12	Funding and Fees – Draft Consultation	Russell Frith to prepare a report on fee setting options, including Audit Scotland's efficiency plans.	03/05/2016	02/06/2016	Russell Frith	Russell Frith	Complete	Yes	This item was covered as part of item 19 at the meeting on 02/06/2016.
ASB3	Board	12	Funding and Fees – Draft Consultation	Russell Frith to prepare a summary of all decisions taken on procurement.	03/05/2016	02/06/2016	Russell Frith	Russell Frith	Complete	Yes	This item was covered at item 16 a at the meeting on 02/06/2016.
ASB4	Board	12	Funding and Fees – Draft Consultation	Russell Frith to prepare a draft consultation on fees and transparency.	03/05/2016	02/06/2016	Russell Frith	Russell Frith	Complete	Yes	This item was covered as part of item 19 at the meeting on 02/06/2016.
ASB5	Board	12	Funding and Fees – Draft Consultation	Russell Frith proposals for developing the work on demonstrating best value in the delivery of audit and the added value provided by the public audit model to be progressed.	03/05/2016	15/09/2016	Russell Frith	Russell Frith	Ongoing		This Assistant Auditor General will provide a verbal update at the Board meeting on 15/09/2016.
ASB9	Board	16	Publication of Board Papers	The Assistant Director, Corporate Performance and Risk to arrange to publish the reports on the Audit Scotland website alongside the approved minute.	03/05/2016	30/06/2016	Martin Walker	Martin Walker	Complete	Yes	The reports and minutes have been published following the meeting of the Board on 02/06/2016.
ASB10	Board	16	Draft Annual Report and Accounts	The Auditor General to sign the annual report and accounts.	07/06/2016	07/06/2016	Caroline Gardner	David Hanlon	Complete	Yes	Annual Report and Accounts signed by the Auditor General on 07/06/2016.
ASB11	Board	17	Becoming World Class - Securing World Class Audit - Review of funding and fees	Russell Frith to present further updates and recommendations on the longer-term financial strategy and potential impacts on Audit Scotland and on fees to the Board meetings in August and September 2016	18/08/2016	18/08/2016	Russell Frith	Russell Frith	Complete	Yes	This action was covered as part of item 14(a) of the agenda on 18/08/2016.

ASB12	Board	17	Becoming World Class - Securing World Class Audit - Review of funding and fees	Russell Frith to present further updates and recommendations on the longer-term financial strategy and potential impacts on Audit Scotland and on fees to the Board meetings in August and September 2016	18/08/2016	15/09/2016	Russell Frith	Russell Frith	Complete	No	This informs the report at item 11 on the agenda for the meeting on 15/09/2016.
ASB13	Board	10	Q1 Corporate Performance Report	The Assistant Auditor General to prepare a report for a future Board meeting on the levels of reporting and roles on fraud.	18/08/2016	01/12/2016	Russell Frith	Russell Frith	Ongoing		This report will be scheduled for the Board meeting on 01/12/2016.
ASB14	Board	14 (a)	Securing World Class Audit: Review of Funding and Fees - Consultation Responses	The Assistant Auditor General to prepare a revised fee strategy and fee proposals for the 2016/17 audits to the Board meeting in September 2016.	18/08/2016	15/09/2016	Russell Frith	Russell Frith	Complete	No	This appears at item 11 on the agenda for the meeting on 15/09/2016.
ASB15	Board	14 (b)	Securing World Class Audit: 2017/18 Budget and Financial Strategy - Initial Proposals	The Assistant Auditor General to prepare a budget proposal for the September 2016 meeting of the Board.	18/08/2016	15/09/2016	Russell Frith	Russell Frith	Complete	No	This appears at item 11 on the agenda for the meeting on 15/09/2016.
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	00/08/2017	Alex Devlin	Alex Devlin	Ongoing		The next review will be scheduled for August 2017.
ASB17	Board	17	Publication of Board Papers	The Assistant Director, Corporate Performance and Risk to arrange to publish the reports on the Audit Scotland website alongside the approved minute.	18/08/2016	22/09/2016	Martin Walker	Joy Webber	Ongoing		The reports and minutes will be published following the meeting of the Board on 15/09/2016.
ASB18	Board	16	Proposed Board Meeting Dates 2017	The Chief Operating Officer to propose meeting dates for discussion by members at the September meeting of the Board.	18/08/2016	15/09/2016	Diane McGiffen	Joy Webber	Ongoing		A verbal update will be provided to members at the meeting on 15/09/2016 with a report to follow for consideration at the meeting of the Board in October 2016.

AUDIT SCOTLAND BOARD

15 SEPTEMBER 2016

REPORT BY THE CORPORATE GOVERNANCE MANAGER

REVIEW OF INFORMATION GOVERNANCE POLICIES

1. Purpose of Report

This report invites the Board to note the annual review of Audit Scotland's key information governance policies.

This report seeks the Board's approval to re-approve the policies for a further year.

2. Review of Audit Scotland's key information governance policies

The Board is responsible for approving Audit Scotland's Data Protection, Freedom of Information, Records Management and Information Security Management policies.

These key information governance policies are reviewed annually to ensure that they remain up-to-date, and are submitted to the Board for re-approval to demonstrate they are fully supported at Board level.

The Data Protection, Freedom of Information and Records Management policies were reviewed during June and July 2016. The review found them to be up-to-date with no changes required this year.

The Information Security Management policy was reviewed during March/April 2016 as part of the review for ISO 27001 certification. The Board approved the policy at its meeting on 3 May 2016 for a further year.

The reviews of the policies were considered by the Knowledge, Information and Technology Governance Group (KITGG) on 25 August 2016 and they agreed to recommend the policies to Management Team. Management Team agreed at their meeting on 30 August 2016 to recommend them to the Board for re-approval for a further year.

3. Recommendation

The Board is invited to note the review and re-approve the Data Protection, Freedom of Information and Records Management policies for a further year.

Data Protection Policy

Owned and maintained by:	Corporate Governance Manager				
Approved from:	September 2016	Next review:	August 2017	Version:	11

Introduction

1. The Data Protection Act 1998 (DPA) places a duty on us to protect the personal information that we collect and hold and to provide individuals with access to the personal information we possess about them.
2. Audit Scotland collects and processes personal information covered by the DPA. Examples include information on current, past and prospective employees, clients, suppliers, complainants, people covered by the audit process and others with whom we communicate.
3. Audit Scotland recognises the benefits of the DPA for both the organisation and the individual (data subject), and the seriousness of failing to comply with it and the risk of prosecution. Therefore, we are committed to:
 - full staff awareness and on-going training in data protection legislation, its implications for our work, our data protection arrangements and our data loss/incident process
 - ensuring that all personal information is stored and processed properly and securely in keeping with the eight data protection principles
 - implementing effective systems for handling data subject access requests (requests from individuals to access their personal information)
 - implementing effective systems for handling security breaches and data loss.

Scope

4. This policy applies to the Auditor General, the Accounts Commission and Audit Scotland.
5. This policy does not cover personal information stored on our network by any other organisation as part of a shared service agreement.
6. 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

7. The DPA defines personal data as information about a living, identifiable individual and requires that all personal data is stored securely and processed properly. It applies to information held on paper, on a computer, or stored on any other medium.

Principles

8. The DPA contains eight data protection principles which specify the standards that must be met when obtaining, handling, processing, transporting and storing personal data. We are committed to these principles.
9. To comply with the eight data protection principles we will:
 - 9.1. collect and process personal information fairly and lawfully
 - 9.2. collect, store and process personal information only for the purposes originally specified, which must fall within our remit
 - 9.3. ensure that personal information we collect, store and process is confined to what is required for our purposes and is not disclosed improperly
 - 9.4. ensure the accuracy of personal information and, where necessary, keep the information up to date
 - 9.5. destroy personal information when it is no longer needed for the purpose it was originally collected
 - 9.6. process personal information in accordance with the rights of data subjects and ensure that any data subject access requests and rights are handled fairly, courteously and completed within 40 days of a valid request
 - 9.7. protect the personal information we collect, process, store and transport from unauthorised access, abuse, loss or damage by providing appropriate security, both technical and organisational
 - 9.8. ensure that personal information is not transferred to people or other organisations outside the European Economic Area.

Disclosure of personal information

10. We will supply personal information to:
 - those who are entitled to the information
 - any authority we are required to do so by law eg HMRC
 - anyone to whom we are required to disclose it, such as staff seeking to access their own personal data.

Roles, responsibilities and governance arrangements

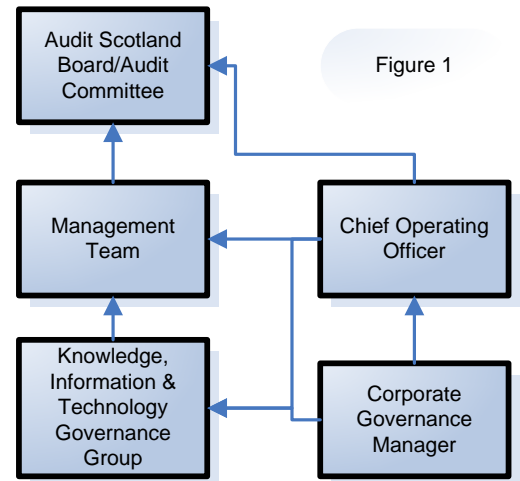
11. The Corporate Governance Manager's role is to:
 - maintain and update the data protection register for Audit Scotland, the Auditor General and the Accounts Commission
 - manage any data subject access requests
 - manage any data security breaches or data loss incidents

- provide advice and assistance for staff on data protection issues and where necessary commission legal advice
- provide data protection training and guidance for staff
- maintain and update the data protection policy and associated documentation
- advise the management team on compliance with the DPA
- manage personal data audits if required by the management team.

12. Figure 1 shows the reporting arrangements. The Corporate Governance Manager (CGM) reports directly to the Chief Operating Officer and attends the meetings of the Knowledge, Information & Technology Governance Group (KITGG).

13. The KITGG is responsible for overseeing and developing our data protection arrangements and presenting them to Audit Scotland's management team and/or Board/Audit Committee for approval.

14. You can contact the CGM at dataprotection@audit-scotland.gov.uk



15. 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 accordance with this policy and the Data Protection Act, and to undergo training as required.

Training and awareness

16. We are committed to full staff awareness and training in Data Protection, 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.
17. Guidance on the application of data protection is available on [ishare](#).

Misuse of employee and audit data

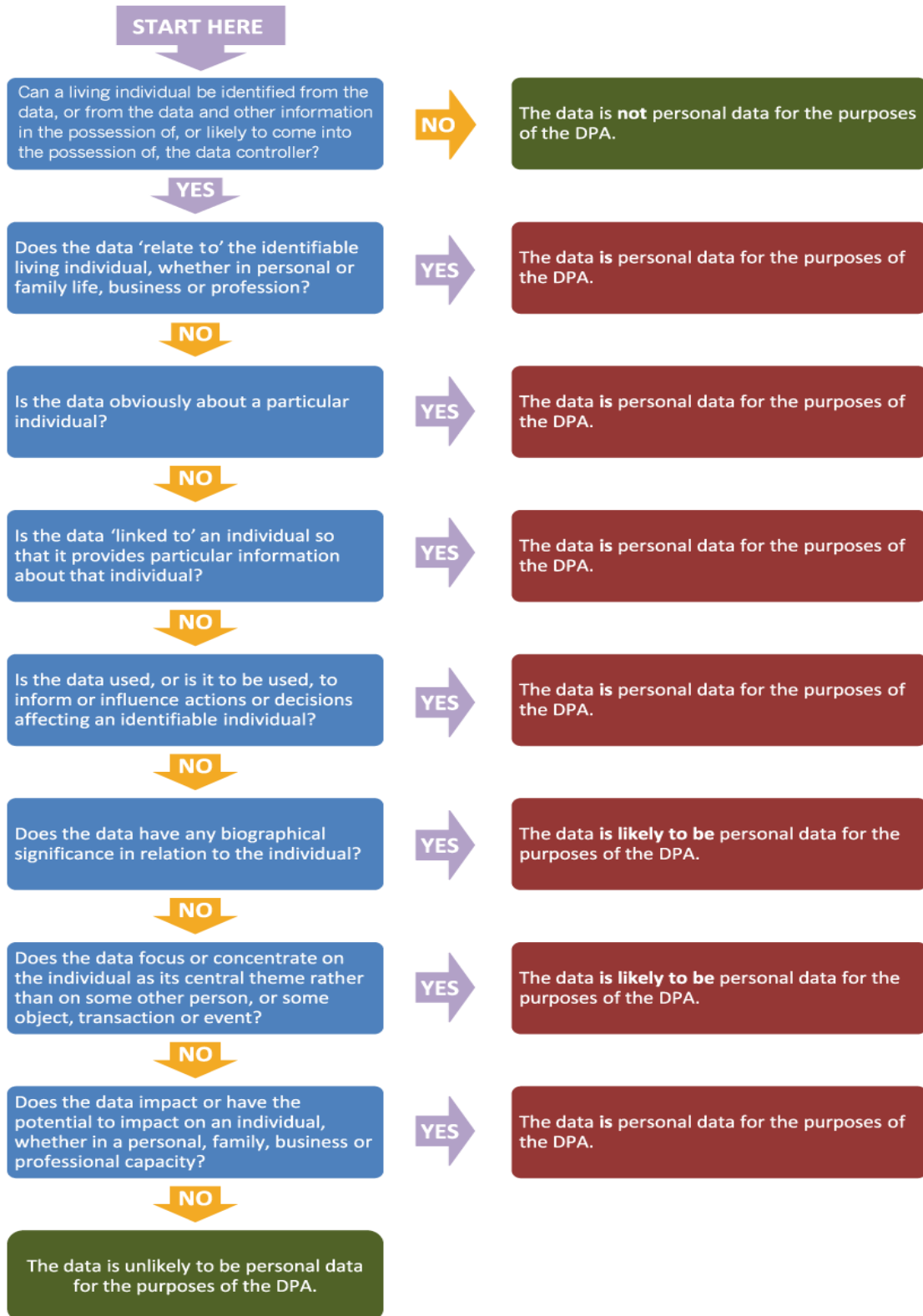
18. It is an offence under the DPA for staff to disclose personal data of others to third parties or procure the disclosing of such personal data to third parties without the consent of Audit Scotland. This includes personal information we hold as a result of our audit work.
19. Failure of staff to comply with this policy and the eight data protection principles may result in action under Audit Scotland's disciplinary policy and could incur a risk of personal prosecution.

Supplementary documentation

20. The following Acts, policies, standards, procedures and guides should be used to support and supplement this policy:
- Data Protection Act 1998.
 - The personal data checklist (see Appendix 1), which enables staff to identify if information is covered by the DPA.
 - The data subject access procedure, which defines the process to be followed for a data subject access request.
 - The data loss procedure, which defines the process to be followed for a data security breach or loss of data.
21. Current versions of these documents can be found on Audit Scotland's intranet – [ishare](#).

Appendix 1 - Personal data checklist

Use this flow chart to help you decide if the information you hold is personal data and therefore covered by the Data Protection Act.



Freedom of Information and Environmental Information Policy

Owned and maintained by:	Corporate Governance Manager				
Approved from:	September 2016	Next review:	August 2017	Version:	07

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:	September 2016	Next review:	August 2017	Version:	04

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 IT 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 1998
 - 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:
 - Audit standards eg ISA's
 - Audit Services audit and MKI guidance
 - Performance Management Framework.

AUDIT SCOTLAND BOARD

15 SEPTEMBER 2016

REPORT BY THE ASSISTANT DIRECTOR, AUDIT SERVICES GROUP

NEW FINANCIAL POWERS UPDATE

1. Purpose

This report provides an update on key developments surrounding further financial devolution, including Audit Scotland's organisational arrangements in this area.

This report is provided for information.

2. Background

We provided an update to the Board in March 2016 on the new financial powers and the work of the new financial powers steering group. Significant developments since then include:

- the Scotland Act 2016 became law
- a new Scottish Parliament and minority Scottish Government was established following the election
- the UK voted to leave the EU, leading to a change of UK Government
- the Scottish Government is consulting on policy, delivery and operational issues for devolved social security powers
- the Scottish Government has proposed that the 2017/18 Draft Budget will be delayed until after the UK Autumn statement and be one year only
- the Finance Committee has established a Tri-Partite review of the Scottish Parliament's budget process involving parliamentary and government officials and external experts, including the AGS.

3. Fiscal Framework and Scotland Act 2016

The Scotland Act 2016 was enacted on 23 March 2016. The provisions of the act will largely come into force when HM Treasury make commencement regulations. The timetable for this is as set out in the fiscal framework agreement. Extended powers over income tax and borrowing, and new resource powers will commence from 1 April 2017.

The timetable for the transfer of social security powers has yet to be agreed. At the end of June 2016 the UK government laid regulations which devolved some of these powers from 5 September 2016.

On 15 March 2016 the Scottish and UK governments published a technical annex to the fiscal framework. It describes in more detail how the key elements of the framework will be implemented and will operate. This includes the following provision in relation to audit arrangements:

“In line with the Smith recommendations for strengthening intergovernmental relations, both Governments have agreed to put in place a set of robust auditing arrangements with respect to the operation of this fiscal framework and the Scotland Act 2016. These arrangements should be efficient and effective. They should ensure that duplication is avoided as far as possible and that auditors are not overburdened by new responsibilities once the Smith provisions are fully implemented.

The Joint Exchequer Committee should agree detailed arrangements based on these provisions.”

4. New Parliament and Government

Following elections the fifth session of the Scottish Parliament commenced in May 2016. A new Government and Parliamentary committees were then established, with new committees beginning to meet from mid-June. The committee structure has been aligned to ministerial responsibilities. Responsibilities most related to the new financial powers include:

Ministers		Committees
Cabinet Secretary for Finance & the constitution Derek Mackay		Finance & Constitution Committee Convener – Vacant (SNP)
Cabinet Secretary for Economy, Jobs & Fair Work Keith Brown	Minister for Transport and the Islands Humza Yousaf	Economy, Jobs & Fair Work Committee Convener – Gordon Lindhurst (Conservative)
Cabinet Secretary for Communities, Social Security & Equalities Angela Constance	Minister for Social Security Jeane Freeman	Social Security Committee Convener – Sandra White (SNP)
Cabinet Secretary for Culture, Tourism & External Affairs Fiona Hyslop	Minister for UK Negotiations on Scotland's Place in Europe Michael Russell	European & external relations committee Convener – Joan McAlpine (SNP)

The First Minister announced the Programme for Government on 6 September. This contained the following bills (alongside the budget bill), relevant to the new powers:

- Social Security Bill - to be introduced by the end of this Parliamentary year. It will set out the over-arching legislative framework for social security in Scotland.
- Air Passenger Duty Bill - to set out the scope and structure of the tax and make provisions for the management and collection of the tax, which is planned to come into effect in April 2018. The Scottish Government have stated their intention to half the level of APD over the course of the next Parliament.
- Railway Policing Bill - to transfer railway policing powers to Police Scotland and the Scottish Police Authority.

- Gender Balance on Public Boards Bill - to require positive action to be taken to redress gender imbalances on public sector boards under new competence transferred to the Scottish Parliament through the Scotland Act 2016.
- Islands Bill - to help the islands to build a more prosperous and fairer future for their communities. It will be introduced in the first year of Parliament. A new Islands Strategic Group will meet for the first time in the autumn.
- Forestry Bill - to ensure the Scottish Government has control over all aspects of forestry. Transfer of powers from forestry commissioners to Scottish Ministers. Scotland Act orders will be used to wind up the Commissioners as a cross-border public authority.

In addition to these Bills the programme makes the commitment to hold consultations on a number of issues including:

- Electoral reforms - what electoral reforms Scottish Citizens would like to see taken forward.
- Crown estate - how communities can benefit from the devolution of the management of the Crown Estate in Scotland.

5. Implications of EU referendum result

A report on the potential implications of the vote to leave the EU was provided to the Board on 18 August. This outlined the political background, set out some of the potential implications for the Scottish public finances and explored what this might mean for Audit Scotland.

The vote to leave the EU creates significant uncertainties for our work that are likely to continue for an extended period of time. These include the immediate and longer term implications for the Scottish public finances, the affect on audits we undertake and what this means for our organisational arrangements. Existing programmes of work, including New Financial Powers and Building a Better Organisation, will help us to ensure we are well placed to respond in an increasingly dynamic environment. We will build on this early assessment to understand the implications better as things develop, and ensure that we respond effectively.

Following Board consideration, the report was shared with staff along with an accompanying blog.

6. Social security powers

The Scottish Government has established a programme to implement the social security powers in the Scotland Act 2016. Its key priority for this programme is the safe and secure transfer of benefits from Westminster to Scotland. This is likely to mean the introduction of the less complex benefits first - learning from this before implementing more complex ones.

Initial work underway includes:

- Preparing budget proposals, which will include the investment required for social security implementation, alongside longer term administration costs and options for future investment.
- Consulting on the content of a Social Security Bill.
- Developing an options appraisal on the structure of the new social security agency. A decision on the preferred option is expected to be made soon. This is likely to consider whether there should be significant roles for other partners.

We anticipate that activity in the next year is likely to include:

- Policy development for the earlier introduction of the simpler benefits as well as planning of longer-term policy development.
- Agreeing implementation plans for the benefits to be introduced earlier in the programme.
- Development of the Social Security Bill, which is planned to be introduced in June 2017.
- Progressing the development of the social security agency, including establishing relationships with relevant bodies.
- Designing processes and systems that are secure and fit for purpose.
- Setting the longer-term direction for social security policy.

David Wallace has been appointed as the interim Chief Executive/Head of the new social security agency. David was the Chief Executive of Disclosure Scotland prior to his appointment. Work to set up the agency continues.

7. Scottish Fiscal Commission

The Scottish Fiscal Commission Act 2016 received Royal Assent in April. This establishes the Scottish Fiscal Commission and provides for its functions, including the preparation of economic and devolved tax forecasts. The Commission is expected to be established as a non-Ministerial Department from April 2017. In advance of this it is operating on a non-statutory basis. Professor Charles Nolan (University of Glasgow) has been appointed by the Cabinet Secretary as a member of the Commission until 31 March 2017. He replaces Professor Andrew Hughes Hallett who resigned in June 2016.

A full-time team has been appointed to progress the programme to establish the Commission as an organisation. Sean Neill has been appointed as interim Chief Executive. He was previously head of the Fiscal Responsibility Division within the Scottish Government.

8. Scottish Parliament's budget process

The Cabinet Secretary for Finance and Constitution wrote to the Finance Committee on 23 June 2016 requesting it to consider agreeing that the Draft Budget 2017/18 be

published after the UK Autumn statement. This could mean the Draft Budget will not be available for Parliamentary scrutiny until late November or December. The Cabinet Secretary proposed that delaying the budget would be the most effective way of “*managing the risks and volatility presented by the relationship between the Autumn Statement, related OBR forecasts and the Scottish Budget*”.

The Finance Committee has been considering the impact of this proposal over the summer. The Convener wrote to the Cabinet Secretary on 25 August asking him to respond to a number of questions relating to consideration of Parliamentary process, risks, data sharing, and the timing and responsibility for forecasting. Any delay will narrow the window available for Parliamentary scrutiny.

The Cabinet Secretary provided a written response on 1 September and appeared before the Committee on 7 September. The Cabinet Secretary stated that he plans to produce the Draft Budget within 3 weeks of the Autumn statement and offered to provide the committee with additional information to aid its scrutiny of the budget. The Committee agreed to consider his response in private.

The Finance Committee Convener announced in June 2016 that Parliament will lead a tri-partite review of the Scottish Parliament’s budget process including the Finance Committee, the Scottish Government and external financial experts. The Auditor General has agreed to be part of this group. The first meeting is scheduled for 20 September 2016. The group has been asked to bring forward proposals for a revised budget process. Findings are anticipated prior to summer recess 2017 for consideration by ministers and the Parliament with implementation in time for the 2018/19 budget.

9. Audit reporting

We will shortly publish a briefing paper summarising the new powers, our role, and some key issues for Parliament to consider in its scrutiny of the implementation and management of the new powers.

Work is underway on our performance audit *Managing New Financial Powers*. This will examine how well the Scottish Government and others are implementing or preparing to introduce the new powers. This will include reviewing the Scottish Government’s progress in securing appropriate skills and capacity and the effectiveness of the Scottish Government’s arrangements for managing Scotland’s public finances overall as new financial powers are introduced. Reporting is currently anticipated in March 2017.

We have also started our work reviewing the National Audit Office’s 2015/16 audit of the implementation of the Scottish Rate of Income Tax, in accordance with the memorandum of understanding we have with them. This enables us to provide assurance to the Parliament on this work. Reporting is currently anticipated in October or November 2016.

10. Parliamentary engagement

As part of our wider engagement strategy, work has been progressing to establish effective working relationships with the clerking teams of relevant committees, including the Public Audit, Finance and Social Security committees. We participated in the Public Audit Committee’s business planning day on 8 September, providing a briefing on the new powers and their implications. This included advance copies of our briefing paper.

11. Consultations

A number of Parliamentary committees have launched consultations to inform their future work programmes, much of which are pertinent to the new powers. A list of these and relevant Government consultations can be seen at appendix A. We are reviewing our general approach, to be clear about when and how we respond to such consultations.

We responded to a Scottish Government consultation on the timing and format of the Government Expenditure and Revenue Scotland (GERS) report in July 2016. Part of this consultation was to gauge whether there was an appetite for the annual GERS report to be published in August rather than March each year. Our view was that this would be useful providing that the relationship with other financial reporting and impact of reporting 7 months earlier than in previous years was fully explained in the report. The GERS report was published on 24 August 2016.

12. Organisational arrangements

Work is underway to extend the remit of the NFP steering group to include other constitutional change such as considering the implications of the EU referendum result.

Our existing cluster arrangements support our understanding of the policy environment - including engagement and research - and support the development of the forward work programme. Work is underway within the PIE (Public finances, investment & economy) cluster to widen involvement in the NFP programme. This aims to widen the pool of individuals directly involved to build their knowledge, skills and involvement and to provide further capacity for the development of the programme and for monitoring the wider issues around constitutional change.

The Audit Committee reviewed a risk interrogation on risks associated with the new financial powers and fiscal framework at its meeting on 18 August 2016. This contained a summary of recent organisational activity and ongoing and planned actions.

13. Conclusion

The Board is asked to note the content of this report.

Appendix A- Summary of recent consultations

Consultations and Calls for Evidence	Issued by	Closing Date	Audit Scotland Response
Consultation on Government Expenditure & Revenue Scotland (GERS) 2015-16 : The consultation seeks users' views on changes to methodologies and links to the wider financial information published by the Scottish Government.	Scottish Government	12/07/2016	Yes
A Consultation on proposals to establish the interim body to manage The Crown Estate assets in Scotland post-devolution	Scottish Government	26/08/2016	No
Land and Buildings Transaction Tax (LBTT) call for evidence : Finance Committee inquiry considering the operation of LBTT in its first full year, including forecast revenues in comparison to outturn figures.	Finance Committee	26/08/2016	No
Scotland's relationship with the EU call for evidence : the European and External Relations Committee inquiry into the implications for Scotland's relationship with the EU of the referendum result. In order to support that inquiry work, the Committee has agreed to issue a call for evidence on a range of issues relating to the implications of the referendum result for Scotland.	European and External Relations Committee	05/09/2016	No
A Scottish approach to taxation call for evidence : As a result of the devolution of taxation powers via the Scotland Act 2012 and 2016 the structure of devolved public finance will shift from a focus upon expenditure to consideration of revenue-raising and the principles which should underpin the Scottish approach to taxation.	Finance Committee	30/09/2016	TBD
Consultation on the social security including policy, delivery and operational issues : seeking views on the Scottish Government's paper, A New Future for Social Security in Scotland, which was published in March 2016. This will then enable the views of stakeholders to be reflected in primary legislation to be introduced to the Scotland Parliament by June 2017.	Scottish Government	28/10/2016	TBD

AUDIT SCOTLAND BOARD

15 SEPTEMBER 2016

REPORT BY THE ASSISTANT AUDITOR GENERAL

AUDIT PROCUREMENT - POST TENDER REVIEW

1. Purpose

This report updates the Board of the review of the audit procurement exercise and shares the high level lessons learned.

This report is provided for information.

2. Background

The recently completed tender resulted in the appointment of four of the top five UK audit firms and a further two in the top ten, with annual savings over the current round of nearly £900k.

The strategy for the procurement was discussed at several Board meetings between June 2015 and final approval in September 2015. Alternative approaches were discussed, modelled, but ultimately rejected.

A more detailed analysis of each part of the procurement strategy is included as an appendix to this report. It provides useful information to inform the development of the next procurement strategy.

3. Lessons Learned

Overall, we feel that the procurement exercise was very successful. We were able to make recommendations to the Auditor General and Accounts Commission for appointment of auditors which met the overall procurement strategy. There were sufficient tenders from firms capable of delivering high quality audit to generate real competition for the work. The level of discounts obtained and the commitments made by the firms above the basic specification were greater than we had anticipated.

Things that worked well:

- We used an external consultant to review our tender documentation which resulted in some new questions and the additional review meant that our documentation was clearer. The same person was then a member of the evaluation and interview panels. The early involvement allowed them to understand what we were seeking to achieve and make a valuable contribution to both panels.
- The Scottish Government procurement expert provided us with ready access to expert advice on compliance with EU procurement law so we could easily resolve any uncertainties.

- The new tender questions about adding value and working together generated a wide variety of offers that will add value to public audit in Scotland.

Things that could work better:

- The timing of the Best Value development work made it very difficult to provide much detail about the new approach and therefore for firms to provide information on their response. It is however likely that some aspect of audit requirements will be in progress at any one time.
- We asked for conflict of interest information in the tender documents only for the bodies listed as being likely to be audited by firms. When, due to conflicts, we had to substitute other bodies we had to collect further conflict of interest information which slowed the process of finalising appointments by around two weeks. Future exercises might consider collecting conflict information on all audited bodies or at least all councils and health boards at the tender stage. Despite this, the flexibility of Audit Services group in accommodating late changes demonstrated the value of having a strong in house practice.
- The review of the strategy by the Board was more detailed than in previous procurement exercises. This led to some pressure to deliver the procurement exercise in the original timescale. The timing and level of engagement with the Board and Accounts Commission should be agreed earlier, particularly if there is any significant reorganisation of public bodies planned.
- The staff resources used to manage the tender from initial strategy discussions through to the end of the process were significant and created pressure on other work of the team (Quality Appraisal and NFI). A decision should be made early in the next tender process on whether to bring in additional staffing resource for the duration of the exercise.

4. Reappointment of auditors policy

In November 2015 internal audit reviewed the procurement process up to the point of issue of the tender documentation. The report provided substantial assurance on the process and made one recommendation that there should be a formal policy on reappointment of firms of auditors.

This is ultimately a matter for the Auditor General and the Accounts Commission as it relates to the appointment of specific auditors. The following policy was discussed with them and applied to the recent appointments with a view to being used in the next appointment round, subject to any review of the strategy:

“Audit Scotland will not, other than in exceptional circumstances, propose a firm for appointment to an audit more than twice in succession”.

Exceptional circumstances would include a formal announcement that the body was going to be abolished within a year of the end of the existing appointment. This policy would mean an auditor being appointed for no more than 10 years, considerably less than the 20 years permitted by the latest EU regulations for public interest entities in the private sector.

5. Recommendation

The Board is invited to note the report and provide any observations on the tender process for consideration ahead of the 2021/22 audit appointment exercise.

Analysis of Procurement Strategy

1. The principal components of the agreed procurement strategy are set out below. Our experience and view of each element is set out after each component of the strategy.
2. **Scope:** Single exercise covering Auditor General and Accounts Commission appointments covering financial audit work.
 - 2.1. *We did not hear any views expressing dissatisfaction with this approach. The move towards integrating health and social care creates further support for maintaining the single exercise.*
 - 2.2. *The tender took a largely sector blind approach on the basis that a good auditor is capable of auditing any part of the public sector. The only sector differentiation was in the team composition question and price. This approach meant that in practice a firm that was getting high marks in one sector was likely to do so in all sectors that they had bid for and meant that any particular expertise in one sector was unlikely to be rewarded by the scoring system. Whether sector expertise should carry more weight in the next exercise might usefully be considered in developing the next strategy once evidence of auditor performance is available.*
3. **Approach:** Mixed market with only external firms being invited to bid.
 - 3.1. *This was subject to discussion by the Board to ensure that Audit Services Group was operating at a competitive level compared to the firms, while recognising the additional value that they provide to the Accounts Commission and Auditor General.*
4. **Procurement framework:** EU compliant with open competition route adopted.
 - 4.1. *The open route runs the risk of a significant number of tenders being received all of which may have to be fully evaluated. In this exercise we received 10 tenders (16 in 2010) which was easily manageable. Bids were received from all the existing firms and sufficient numbers from others that there was a good level of competition. Having more credible potential bidders than the number of likely successful firms is an important factor in ensuring strong competition. In this respect we almost certainly benefitted from one new firm having been successful in recent exercises in England and having expressed a clear intent to try to re-enter the market in Scotland.*
 - 4.2. *The assessment was clearly separated between the selection criteria and the award criteria. One firm failed to pass the selection criteria so only nine were assessed at the award stage. Feedback was provided to both successful and unsuccessful firms which was well received and no challenges to the process were received. We received comments from firms that they appreciated the clarity of identifying each stage of the process.*
5. **Type of contract:** Appointment rather than sub-contract.
 - 5.1. *This was decided early in discussions on the strategy. The strength of the appointment approach is that the firm is clearly responsible for the conduct and reporting of the audit and are publicly associated with it through the signing of the audit opinion and other reports. There is also a potential cost benefit in that we do*

not conduct reviews of the firms. The main risk of this approach is that it is easier for differences of approach or opinion to emerge. The risk is addressed through guidance to and discussions with firms throughout the appointment. It will be worth considering this as part of the preparation for the next strategy including discussions with the NAO and WAO on how well their sub-contracting arrangements operate.

6. **Length of appointment:** 5 years with option to extend by up to 2 years.
 - 6.1. *Five year appointments are consistent with the length of time an engagement partner can lead an audit of a public interest entity in the private sector. A longer period would mean either multiple changes of lead or relaxing the length of time that a lead can operate for. The extension period is provided in order to cope with the timing of any significant changes to the public sector.*
7. **Percentage of in house work:** Approx. 62% by value.
 - 7.1. *The initially proposed portfolios allocated 64% of the work to ASG. This is consistent with the proportion of 2015/16 audits. Following changes to appointments to mitigate conflicts not notified in the tenders, the final proportion increased very slightly to 65% which ASG has indicated it is capable of managing.*
8. **Audits reserved for in house teams:** Scottish Government and EAFA, Scottish Parliament, Glasgow Council (and hence health board), Police Scotland, Revenue Scotland.
 - 8.1. *Identifying a small number of audits to reserve to in house teams worked well. The list was smaller than in previous exercises and several audits that had been audited in house for many years have been transferred to firms including Edinburgh City Council, NHS Lothian Highland Council and NHS Highland.*
9. **Audits available to firms:** List of audits in the tender was based on criteria in the discussion paper including rotation and appointment of same auditor to council and health board where practicable.
 - 9.1. *Listing the audits to which we intended to appoint successful firms was a critical part of the tender. It allowed firms to estimate the likely value of successful work so that they could price their bids accordingly. Firms were positive about this approach in their feedback.*
10. **Tender lots:** Firms bid to work in one or more sectors but firms bidding for health work had to bid for local government in order to allow the same auditor to be appointed to councils and the health board in an area.
 - 10.1. *There was a possibility that a firm that was successful in health might not have been successful in local government. This did not occur. Further work should be carried out before the next tender to identify how to deal with such a possibility or to eliminate it.*
 - 10.2. *The chance of a firm being successful in health but not in local government was low because the tender provided very little differentiation between sectors. If the tender allowed for greater differentiation by sector, the chance of a firm being successful in health but not local government would increase.*
11. **Number of firms to be appointed:** Local government – 5, Health – 3, Central government – 3, Further education – 3-4, Water – 1. Numbers were influenced by the

need for ensuring critical mass of audit work for each firm alongside the strategy aim of maintaining a sustainable market.

- 11.1. *We were able to appoint the number of firms planned in all sectors. The smallest number of tenders received was three, for Scottish Water and all of them were from firms capable of carrying out the work.*
- 11.2. *Six firms have been appointed compared to seven for the current appointments. The two firms that lost out were both operating only in the further education sector where the number of firms required reduced due to college mergers.*
- 11.3. *The result is that market concentration across the UK has decreased in recent years so that the main firms involved are the Big 4 plus Grant Thornton, Mazars and Scott Moncrieff/Moore Stephens. This number of firms still provides scope for effective competition to take place but any fewer firms being in the market might pose a risk.*

12. Tender evaluation criteria – award stage: 75% Quality, 20% Price, 5% Interview.

- 12.1. *The quality questions did not provide a great deal of differentiation in scores, although there was a fairly clear separation between the top six and the bottom three.*
- 12.2. *The quality question with the largest differentiation was on the quality of written material. This was a 15 mark question, so each difference in assessment criteria was worth three points. This implies that greater differentiation can be achieved by having fewer questions which are each worth more marks.*
- 12.3. *The tender separately identified 10 of the 75 quality marks as “Working together”. This question provided little differentiation among the top six firms, but the top six scored clearly better than the other three.*
- 12.4. *The similarity of marks in quality and working together for the top six firms meant that, as with last time, price became the most significant factor that determined who was ultimately successful. However, the range of offers made in the responses to the adding value and working together questions will be of value to Audit Scotland improving audit quality over the next five years.*
- 12.5. *The range of discounts offered was far greater than anticipated. The scoring approach to the price criteria had limited the benefit from high discounts to 1.5 marks per percentage of discount but given the wide range offered the mechanism had little effect. It may be worth modelling a wider range of scenarios for future exercises to ensure that if quality remains a prime objective, pricing strategies are not so dominant in the overall outcome.*
- 12.6. *One of the reasons for continuing to ask firms to bid for one or more parts of the public sector was the expectation that there may be further potential to receive different discounts in different sectors. This did turn out to be the case with health and local government receiving higher discounts than central government and further education. Once fees have been rebased to account for the minimum discount in each sector, the potential for further differential discounts across sectors may have been largely exhausted. Consideration should be given at an early stage in the development of the next strategy to whether this barrier to seeking single bids to work across all sectors has now been removed. There may of course be other reasons for retaining sector based bidding.*

- 12.7.** *The five marks available for the interview meant that it was not able to significantly alter the result. This is consistent with last time. EU rules discourage interviews because of the difficulty of demonstrating objectivity. The ability to present information and answer questions is an important skill for appointed auditors so it is a relevant skill to assess. Clear assessment criteria were provided to the interview panel and full notes supporting the marking were retained.*
- 12.8.** *Using the scores from this exercise we have modelled the impact of increasing the interview marks to 10%. The results show that there would have been a slightly different outcome in two sectors. This is because the scores pre interview were very close together for the final place in each sector and one firm performed particularly well in the interview.*
- 13. Use of relative scores:** Relative scores to be used to influence portfolio size.
- 13.1.** *The use of the score to influence portfolio size was one factor that encouraged more aggressive price bids.*
- 13.2.** *Due to the number of conflicts preventing certain allocations, the aggregate of health and local government portfolios was used to measure portfolio sizes – for example one firm has a smaller health portfolio but a larger local government portfolio but their aggregate portfolio is the largest of the three firms in both sectors. A number of queries about the portfolio sizes were received due to this but when the aggregation of the portfolio sizes, as the measure of the relative success of each tender and therefore fee income was explained, the firms were content. An additional query from one firm was received after the changes to their portfolio and its compliance with the terms of the Invitation to Tender (ITT). The ITT provided for conflicts of interest to over-ride the commitment to allocate portfolio sizes in accordance with the relative scores. The wording of the ITT should be reviewed to ensure that it is sufficiently robust and clear for all relevant circumstances.*
- 14. Interview panel:** Auditor General for Scotland, Chair of Accounts Commission FAAC, Chair of Audit Scotland Audit Committee, Independent member.
- 14.1.** *The panel composition ensured that all parties with an interest in the result were involved. In contrast to the previous exercise an independent external member joined the panel. The independent member had also provided advice during the strategy development and had been a member of the evaluation panel. This worked very well.*
- 14.2.** *There was some concern expressed about the limited scope to explore Best Value at the interview stage. The timing of the interviews relative to the developments in the new approach to Best Value meant that it would not have been fair to make significant marks available for Best Value. In future exercises it may be worth exploring with the Auditor General and the Accounts Commission at an early stage whether there are any aspects of their work that they would particularly like to see explored in the tender process. If so this may influence the strategy eg the weight given to sector specific knowledge.*
- 14.3.** *The firms noted that the interview was a testing process for them. This provides reassurance that the level of questioning was appropriate.*
- 15. Initial tender evaluation:** Assistant Auditor General, Senior Manager – Audit Strategy, Senior Manager – Performance Audit and Best Value, external person.

- 15.1.** *The same independent external member took part in the initial evaluation as the panel interview. This external contribution proved useful. In addition the analysis of tenders provided prior to each moderation meeting helped assessors to focus on those areas where discussion was required.*
- 16. Rotation of auditor:** Generally rotation to be applied but firms can be reappointed where it helps to meet other objectives of portfolio construction.
- 16.1.** *Rotation of auditors was achieved in the majority of cases. The only bodies that were not rotated were:*
- 16.1.1.** *four special health boards because conflicts of interest and portfolio sizes limited options*
- 16.1.2.** *three further education colleges because of the reduction in firms and the geographical approach to portfolios.*
- 16.2.** *All reappointments were for a second term meaning that the firm will only have been the auditor for 10 years by the time of the next round of appointments which is well within the 20 year limit recently introduced for public interest entities in the private sector.*
- 17. Cross boundary working:** Same auditor to be appointed to council and health board where practicable - particularly for geographically co-terminus areas.
- 17.1.** *The auditors of each territorial health board have also been appointed to at least one of the geographically coterminous councils. This means that 25 of 32 council auditors are auditors of the relevant health board.*
- 17.2.** *The result of creating such closely coterminous council/health board appointments was that the councils then available to the two firms that were only successful in local government were extremely limited. The combination of few available councils and conflicts of interest meant that the fifth placed firm had a bigger portfolio than the fourth placed firm. This meant that the objective of creating portfolios in accordance with how successful each firm was could not be fully delivered.*
- 18. Conflicts of interest:** Appointments to avoid declared conflicts – significant issue with internal audit work in NHS.
- 18.1.** *The conflicts of interest in NHS resulted in the firm with the most conflicts being allocated a portfolio first, and the other firms fitting around that. This in combination with the coterminous criterion resulted in the options being quite limited.*
- 18.2.** *A smaller number of firms makes it more difficult to prepare portfolios that avoid conflicts. Should the conflicts remain largely the same in 2021 and the same firms win, it would become very difficult to create portfolios.*
- 18.3.** *Conflicts in local government from one firm meant that we swapped one of the audits that was advertised for one that we had allocated to Audit Services Group. This meant that additional potential conflicts of interest for audits that were not advertised as part of the tender had to be obtained. Consideration for the next exercise should be given to asking for conflicts of interest for all bodies, or perhaps just all councils and health boards. The ability of Audit Services Group to be flexible enough to change audits supports the case for a strong in house team.*

19. **Portfolio structure:** Portfolios to contain large and small audits to recognise continuing resource pressures on small audits and links between councils and related bodies. Portfolios in LG and health to contain mix of local and stay away audits.
- 19.1. *These objectives were largely achieved although the constraints discussed above meant there was little deliberate consideration of them. It may be worth considering prioritising the factors that will influence future portfolio construction, for example by distinguishing essential criteria from desirable ones.*

Thursday 27 October 2016, 10.00

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

Present:

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

In attendance:

D McGiffen, Chief Operating Officer
R Frith, Assistant Auditor General
D Hanlon, Corporate Finance Manager
F Kordiak, Director of Audit Services Group
D Blattman, HR & OD Manager
J Webber, Senior Executive Assistant

1. Welcome and Apologies

There were no apologies.

2. Declarations of Interest

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

3. Chair's report

Ian Leitch advised that since the previous Board meeting he had held regular meetings with Caroline Gardner, Auditor General for Scotland and Diane McGiffen, Chief Operating Officer. He advised that he and Caroline Gardner had recently met with Colin Beattie, Chair of the Scottish Commission for Public Audit (SCPA) and that they would provide an update as part of the discussion on the SCPA official report at item 13.

The members welcomed the update.

4. Accountable Officer's report

Caroline Gardner provided an update on her activity since the previous board meeting. She advised of continued work to support the Scottish Parliament, noting the number of opportunities to work with SPICe and the Clerks, as well as her continued engagement with MSPs.

Caroline referred to the recent announcement by the Presiding Officer, Ken Macintosh MSP, that membership of the independent Commission on Parliamentary Reform will include external experts as well as MSPs.

Caroline invited the Board to note the number of recent publications and the widespread coverage received them, particularly for the NHS Overview and section 22 reports on NHS Tayside and NHS24 and the forthcoming attendance at the Scottish Government's consolidated accounts with the Public Audit and Post Legislation Scrutiny Committee on 10 November 2016.

The Board welcomed the update.

5. Accounts Commission Chair's report

Douglas Sinclair provided an update on the work of the Accounts Commission since the previous meeting of the Board. He advised the Accounts Commission were looking forward to welcoming Kevin Stewart MSP, Minister for Local Government and Housing to their meeting on 10 November 2016. He also advised of workshops being held with Councils to discuss Best Value and the Accounts Commission's strategy.

Heather Logan enquired whether the Accounts Commission had received any feedback from Councils on fees. Douglas confirmed they had not received feedback to date and Russell Frith advised members that there would be an opportunity for feedback at Audit Scotland's forthcoming meeting with the local government Directors of Finance.

There was discussion of the issue of bonds by local authorities and Russell Frith advised of the specific role of the Audit Scotland audit team at Aberdeen City Council.

The Board welcomed the update.

6. Review of minutes

The Board considered the note of the meeting of the Board on 15 September 2016, which had been previously circulated, and confirmed the note was an accurate record of the meeting, subject to ensuring the action under item 10, Securing World Class Audit: Post Tender Review to provide more detail around recovery of monies revealed by the NFI and how this will be monitored in future and for this to be captured in the actions tracker also. In addition, there were minor amendments to the wording of item 9 to clearly state the distinct responsibilities of the Audit General for Scotland versus that of Audit Scotland and the re-ordering of paragraphs under item 11.

Action: Joy Webber, Senior Executive Assistant, to make the necessary amendments and publish the minute. October 2016

7. Review of actions tracker

The Chair invited members to note the action tracker and welcomed any comments or updates. Diane McGiffen advised that a verbal update on item ASB19 would be provided by Russell Frith when he discussed Developments in Audit which was item 9 on today's agenda.

The members noted the update.

8. Review of standing orders

Diane McGiffen introduced the report (Review of standing orders, which had been previously circulated and on which members of the Audit Committee had been consulted by correspondence.

Douglas Sinclair asked, as part of the reference in the Standing Orders to the quorum for board meetings, if members could nominate substitutes to attend on their behalf.

Following discussion, it was agreed that the Chief Operating Officer and the Chair would seek a legal view on the potential role of substitutes and the Chair advised the Board that a draft form of words on introducing a waiver for quorum members was being discussed with legal advisers for consideration by the Board.

Heather Logan suggested a minor amendment to paragraph 10, deleting 'less' and replacing this with 'fewer'.

Following further discussion, the Board approved the Standing Orders and noted the further advice being sought on the issues of waivers and substitutes for board members.

Action: Diane McGiffen, Chief Operating Officer, to seek advice on the attendance by the Office or Deputy Chair of the Accounts Commission. November 2016

9. Securing World Class Audit: Developments in audit

Russell Frith introduced the report on Developments in audit, which had been previously circulated.

Russell Frith invited members to note the basis of developments in audit was based on the Financial Reporting Council (FRC) report which in turn was focussed on quality of auditing in the private sector.

The Board welcomed the report and discussed whether this fully captured the ambition of Securing World Class Audit.

Caroline Gardner advised this formed part of the wider Becoming World Class programme, on which the Board received quarterly reports. It was agreed that the Board would welcome a more detailed briefing on the criteria that could be used to assess world class audit. Diane McGiffen advised that there had been a baseline report looking at international public audit agencies and that an update for that work was being considered as part of the review of quality. It was agreed to schedule a discussion in early 2017.

Action: Diane McGiffen, Chief Operating Officer, to schedule an update report on the Becoming World Class and world class audit. January 2017

10. Review of Remco performance and identifications of priority areas

Russel Griggs, Chair of Remco, introduced the report on Review of Remco performance and identifications of priority areas, which had been previously circulated and invited members to note the work of the Committee during 2015/16 before welcoming any comments on the priorities for 2016/17.

Following consideration, the members noted the performance of the Committee to date and welcomed the priorities as set out for 2016/17.

11. Building a Better Organisation: Update

Fiona Kordiak, Director of Audit Services Group and David Blattman, HR & OD Manager, joined the meeting.

Fiona Kordiak, Director of Audit Services Group, introduced the Building a Better Organisation: Update report, a copy of which had been previously circulated.

Fiona invited members to note progress to date on Building a Better Organisation which had reached a significant milestone with outline proposals to revise pay and progression arrangements to support the revised role profiles that had been developed. She advised that the proposals had been developed by the Institute for Employment Studies who had been appointed to provide professional advice and would be shared with colleagues at eight workshop sessions over the next few weeks.

The Board discussed the current grade, pay and reward system, recognising its complexity and the desire to simplify pay and career progression within Audit Scotland.

Fiona advised that she and David Blattman would next present the proposals to the Remuneration and Human Resources Committee in December, when members would receive an update on the feedback from and dialogue with colleagues.

Following discussion, the Board welcomed the update and opportunity to discuss the outline proposals.

12. UK & Ireland Supreme Audit Institutions meeting, 4 November 2016

Diane McGiffen, Chief Operating Officer, invited the Board to note the agenda for the meeting of the UK and Ireland Supreme Audit Institutions Meeting on 4 November 2016, which had been previously circulated, and advised she would report back to the Board on the meeting.

Action: Diane McGiffen, Chief Operating Officer, to report on the meeting of the UK & Ireland Supreme Audit Institutions meeting. January 2017

13. **SCPA Official Report, 28 September 2016**

The Chair invited members to note the SCPA Official Report of the meeting on 28 September 2016, a copy of which had been previously circulated.

Ian Leitch advised members of a further meeting between Colin Beattie, Chair of the SCPA, Caroline Gardner, Auditor General for Scotland and himself on Tuesday 25 October 2016. He advised that the discussion centred around the question in the SCPA's legacy report about whether Audit Scotland's governance arrangements were appropriate for the demands to be placed on the organisation given the Scottish Parliament's new financial powers. This is a matter that the SCPA may consider further this session and the Convenor had advised that he would work with the Chair and the Auditor General for Scotland to develop thinking further.

Caroline Gardner advised it had been a useful and informative meeting and she looked forward to continued engagement.

14. **Publication of reports**

The Board approved all reports for publication with the following exception:

- Item 11 - Building a Better Organisation update (statutory/security/legal - personal information)

Action: Diane McGiffen, Chief Operating Officer, to arrange to publish the reports on the Audit Scotland website alongside the approved minute. January 2017

15. **Any other business**

Heather Logan advised she would welcome an update on how the engagement with young people on the forward work programme had developed. Diane McGiffen advised Fraser McKinlay, Director of Performance Audit and Best Value, would share with the Board in January the forward programme of work in this area as part of the Making a Difference workstream under Becoming World Class.

Action: Fraser McKinlay, Director of Performance Audit and Best Value, to report on this to the Board in January 2017.

16. **Review of meeting**

The members took the opportunity to reflect on today's meeting, agreeing it had been informative and they welcomed the opportunity to discuss Building a Better Organisation as a work in progress ahead of the Remuneration and Human Resources Committee meeting on 9 December 2016 and valued the short report that provided the basis for discussion.

Heather asked about strategic planning for board meetings and Diane advised that members would be consulted by correspondence on draft proposals during November, now that the Board would not meet until January 2017.

17. **Date of next meeting**

It was noted that the next Audit Scotland Board meeting had been scheduled for 20 January 2017 in the offices of Audit Scotland, 102 West Port, Edinburgh.

Russel Griggs submitted his apologies for the meeting on 20 January 2017.

Ref	FORUM	Agenda Item No	Item Title	Action Description	Meeting Date	Due Date	Responsible	Assigned to	Complete/Ongoing	Reported Yes/No	Progress Notes
	Board	12(b)	Funding and Fees – 2016 Issues and Work Plan	Board approval of 2017/18 budget and 2016/17 audit fees	26/02/2016	15/09/2016	Russell Frith	Russell Frith	Complete	No	The report at item 11 of the agenda was considered by the Board on 15/09/2016.
	Board	12(b)	New Financial Powers Update	The Assistant Director, Audit Services Group will provide an update on the New Financial Powers.	24/03/2016	15/09/2016	Mark Taylor	Mark Taylor	Complete	Yes	A report was considered by the Board at its meeting on 15/09/2016.
	Board	13	Openness and Transparency: Publication of Board Papers	The Chief Operating Officer to schedule a future agenda item to review the arrangements.	24/03/2016	01/12/2016	Diane McGiffen	Diane McGiffen	Ongoing		An update will come to the Board at its meeting in December 2016.
ASB5	Board	12	Funding and Fees – Draft Consultation	Russell Frith proposals for developing the work on demonstrating best value in the delivery of audit and the added value provided by the public audit model to be progressed.	03/05/2016	15/09/2016	Russell Frith	Russell Frith	Complete	No	Item 9 of today's agenda reports on developments in audit.
ASB12	Board	17	Becoming World Class - Securing World Class Audit - Review of funding and fees	Russell Frith to present further updates and recommendations on the longer-term financial strategy and potential impacts on Audit Scotland and on fees to the Board meetings in August and September 2016	18/08/2016	15/09/2016	Russell Frith	Russell Frith	Complete	Yes	A report was considered by the Board at its meeting on 15/09/2016.
ASB13	Board	10	Q1 Corporate Performance Report	The Assistant Auditor General to prepare a report for a future Board meeting on the levels of reporting and roles on fraud.	18/08/2016	01/12/2016	Russell Frith	Russell Frith	Ongoing		This report will be scheduled for the Board meeting in December 2016.
ASB14	Board	14 (a)	Securing World Class Audit: Review of Funding and Fees - Consultation Responses	The Assistant Auditor General to prepare a revised fee strategy and fee proposals for the 2016/17 audits to the Board meeting in September 2016.	18/08/2016	15/09/2016	Russell Frith	Russell Frith	Complete	Yes	A report was considered by the Board at its meeting on 15/09/2016.
ASB15	Board	14 (b)	Securing World Class Audit: 2017/18 Budget and Financial Strategy - Initial Proposals	The Assistant Auditor General to prepare a budget proposal for the September 2016 meeting of the Board.	18/08/2016	15/09/2016	Russell Frith	Russell Frith	Complete	Yes	A report was considered by the Board at its meeting on 15/09/2016.
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	Ongoing		The next review will be scheduled for Board meeting on 23 August 2017.
ASB17	Board	17	Publication of Board Papers	The Assistant Director, Corporate Performance and Risk to arrange to publish the reports on the Audit Scotland website alongside the approved minute.	18/08/2016	22/09/2016	Martin Walker	Joy Webber	Complete	No	The agenda and reports have been published on the Audit Scotland website together with the approved minute.
ASB18	Board	16	Proposed Board Meeting Dates 2017	The Chief Operating Officer to propose meeting dates for discussion by members at the September meeting of the Board.	18/08/2016	15/09/2016	Diane McGiffen	Joy Webber	Ongoing		A verbal update will be provided to members at the meeting on 15/09/2016 with a report to follow for consideration at the meeting of the Board in October 2016.
ASB19	Board	10	Securing World Class Audit - Audit Procurement - Post Tender Review	The Assistant Auditor General to invite input from Fiona Daley on the procurement review process.	15/09/2016	27/10/2016	Russell Frith	Russell Frith	Ongoing		Fiona Daley has been invited to input on the procurement review process and a verbal update will be provided at this meeting.
ASB20	Board	10	Securing World Class Audit - Audit Procurement - Post Tender Review	The Assistant Director, Audit Strategy, to bring a report to the Board on the quality review work.	15/09/2016	09/12/2016	Russell Frith	Elaine Boyd	Ongoing		A report is scheduled to come to the meeting of the Board in December 2016.
ASB21	Board	12	Publication of Board Papers	The Assistant Director, Corporate Performance and Risk to arrange to publish the reports on the Audit Scotland website alongside the approved minute.	15/09/2016	30/10/2016	Martin Walker	Joy Webber	Ongoing		The reports and minutes will be published following the meeting of the Board on 27/10/2016.

AUDIT SCOTLAND BOARD

27 OCTOBER 2016

REPORT BY THE CORPORATE GOVERNANCE MANAGER

REVIEW OF STANDING ORDERS

1. Purpose of Report

The Board is invited to note the review and approve the proposed amendments to the Standing Orders.

2. Annual Review of the Standing Orders, Financial Regulations, Scheme of Delegation and Members' and Staff Codes of Conduct

It is the responsibility of the Audit Committee to keep under review the Standing Orders, Financial Regulations, Scheme of Delegation and Codes of Conduct and recommend to the Board any amendments.

At its meeting on 18 August the Board reviewed and re-approved the Members' Code of Conduct and approved some minor amendments to the Financial Regulations, Scheme of Delegation and the staff Code of Conduct, as recommended by the Audit Committee.

The Standing Orders were not submitted for approval at that meeting so that any changes arising from the Board development event on 30 August could be reflected in any revisions.

The Audit Committee has been consulted on the proposed revisions via correspondence and is recommending the standing orders to the Board.

The Standing Orders are attached as appendices to this report and the amendments are highlighted as tracked changes and relate to openness and transparency (the publication of Board reports) and Board self evaluation. The proposed changes are on pages 7 and 8.

The Board committed to review the arrangements around openness and transparency when it agreed to publish board papers in addition to agendas and minutes. Papers have been published since June 2016 and it is proposed that the arrangements are reviewed early in 2017. The Board may also wish to consider other governance arrangements at that time.

3. Recommendation

The Audit Scotland Board is invited to:

- note the review of the Standing Orders
- approve the amendments to the Standing Orders.

Standing Orders



Prepared for Audit Scotland

October 2016

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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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 Chairman 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 Chairman 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 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

11. At least three clear working days before a meeting of the Board the Chief Operating Officer will send written notice of the 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.

Conduct of Business

12. 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.
13. 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.
14. The Chair of the meeting will decide all questions of order, relevancy and conduct of business during the meeting.
15. 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.
16. 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

17. Minutes of every meeting of the Board will be drawn up and will be approved at the following meeting.

Vacancy

18. 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

19. Each member will abide by the Code of Conduct for Members of the Audit Scotland Board current at any time.

Committees

20. 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.
21. The Board will establish an Audit Committee with the terms of reference contained in Appendix 1.
22. The Board will appoint a Remuneration & Human Resources Committee with the terms of reference contained in Appendix 2.
23. The Board will establish an Appeals Committee with the terms of reference contained in Appendix 3.
24. Any committee will operate within the terms of remit and any delegation made to it by the Board.

Deeds and Documents

25. Any deed or document requiring formal execution by Audit Scotland will be signed for and on behalf of Audit Scotland by the Chairman of the Accounts Commission or the Auditor General for Scotland and the Chief Operating Officer.

Advisers and Committee Co-optees

26. 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.
27. Employees of Audit Scotland, advisers and others may attend meetings of the Board at the invitation of the members.

Openness and Transparency

28. The Board will publish agendas, minutes and papers of a non confidential nature on the Audit Scotland website.

Board Effectiveness

~~27-29.~~ The Board will conduct a self-evaluation of its effectiveness on an annual basis.

Application of Standing Orders

~~28-30.~~ These Standing Orders will apply to meetings of committees of the Board subject to any due modification of details.

Alteration

~~29-31.~~ 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

~~30-32.~~ 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.

~~34-33.~~ The purposes of the Audit Committee are detailed in the Audit Committee terms of reference. The key points are:

Internal Control and Corporate Governance

~~32-34.~~ 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.

~~33-35.~~ 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

~~34-36.~~ To consider all audit material, in particular:

- Audit Reports.
- Annual Reports.
- Management Letters.
- Management Reports.

~~35-37.~~ To monitor management action taken in response to all external audit recommendations.

~~36-38.~~ To hold meetings with the external auditors at least once per year and, as required, without the presence of senior management.

~~37-39.~~ To review the extent of co-operation between external and internal audit.

~~38-40.~~ 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

~~39-41.~~ To review and recommend approval of the Annual Accounts.

Standing Orders, Financial Regulations and Scheme of Delegation

~~40-42.~~ To keep under review the Standing Orders, Financial Regulations and Scheme of Delegation and recommend to the Board any amendments.

Other duties

~~41-43.~~ The Audit Committee may take on other duties as determined by the Audit Scotland Board.

Appendix 2: Remuneration & Human Resources Committee remit

42-44. 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.

43-45. The purposes are detailed in the Remuneration & Human Resources Committee terms of reference.

Remuneration & Human Resources Committee responsibilities

44-46. 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.

45-47. 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

~~46.48.~~ The Remuneration & Human Resources Committee may take on other duties as determined by the Audit Scotland Board.

Appendix 3: Appeals Committee remit

~~47.49.~~ The Appeals Committee will consist of at least 2 members of the Board.

~~48.50.~~ 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

~~49-51.~~ 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 meetings of the Board at the invitation of the members.

Reasons for co-option

~~50-52.~~ 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.

~~54-53.~~ The Board should discuss and agree the specification of skills and experience being sought through co-option.

Nominations process

~~52-54.~~ If the Board agrees to co-opt to its committees to fulfil requirements identified under 49 above, an advertisement seeking expressions of interest will be placed on Audit Scotland's website.

Application process

~~53-55.~~ Applicants for co-option should provide a written statement of their relevant skills and a CV.

~~54-56.~~ 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.

~~55-57.~~ Candidates and interviewers must declare any relationships or potential conflicts of interest to the Chair.

~~56-58.~~ The Board should approve the final recommendation from the Chair.

Term of Office

~~57-59.~~ Co-option is intended to provide specific skills for a fixed term as determined by the Board.

~~58-60.~~ There is potential for renewal, subject to the approval of the Board.

Remuneration

~~59.61.~~ 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

~~60.62.~~ 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.

AUDIT SCOTLAND BOARD

27 OCTOBER 2016

REPORT BY THE ASSISTANT AUDITOR GENERAL

DEVELOPMENTS IN AUDIT

1. Purpose

This paper provides a summary of a recent FRC paper [Developments in Audit 2015-16](#) and comment on its links to, and implications for our work.

This report is provided to the Board for information.

2. Background on the FRC's role in audit

The FRC report is a round up of how the FRC sees audit in the UK at the present time and reflects on developments in audit since the financial crisis and looks to the future.

The FRC's mission is to "promote high quality corporate governance and reporting to foster investment". Its vision for audit in the UK is "that audit is trusted to provide reliable assurance on public reporting of financial performance, and in doing so, to promote good governance and facilitate the effective allocation of capital".

The FRC is the UK standard setter for auditing standards and ethical standards for auditors. UK auditing standards generally adopt International Standards on Auditing (ISAs) but sometimes add additional requirements to reflect the UK statutory framework.

Following the strengthening of the FRC's statutory position as the Competent Authority for audit in the UK as a result of the recent EU Audit Regulation and Directive it has set out its regulatory stance of promoting continuous improvement in standards of reporting and auditing and set six key aims for audit in the UK:

- 1) Audit and auditors are trustworthy, act with integrity, serve the public interest and consistently meet the objectives of audit and auditing standards.
- 2) Audit is subject to appropriate oversight within a clear regulatory regime.
- 3) Roles and responsibilities of auditors and audit committees are clear, and aligned with the interests and needs of investors.
- 4) Audit is a sustainable business with adequate capacity, and sufficient levels of competition and choice.
- 5) Audit innovates to meet changing business and economic circumstances to improve audit quality.
- 6) Global audits are effectively managed and overseen and quality is consistent across international work.

The FRC note that promoting continuous improvement will not reduce the need to take tough action when necessary and that they retain their focus on being proportionate in their actions, focusing on areas of higher risk to the public interest.

Bearing in mind that the FRC's primary focus is the private sector there is a strong correlation between the FRC's vision for audit and our vision of being a world class audit organisation.

The FRC is unusual amongst accounting and auditing standard setters in that its remit includes corporate governance and ethics which has enabled it to have a more joined up and holistic view of regulation than global standard setters such as the International Accounting Standards Board and the International Audit and Assurance Standards Board are able to do. This is particularly apparent when the FRC promotes good governance practices or imposes requirements on audit committees and creates links between audit committee reporting and auditor reporting.

Whilst the FRC's primary role is in relation to the private sector it maintains an interest in the public sector as it represents a significant part of the economy. All the heads of the national audit agencies have stated that they will use FRC standards as the basis for their work. The FRC's Audit & Assurance Council has a public sector advisory group and the Assistant Auditor General is Audit Scotland's representative on the group. The group is currently working with the FRC and the Public Audit Forum to revise Practice Note 10 - the FRC's guidance note on applying auditing standards to the public sector.

3. The audit market

The FRC say that there is evidence that, as a result of regulatory changes, audit firms are seen as more independent and competing for audit engagements on quality grounds. This is largely prompted by UK market innovations - retendering and revised ethical requirements; developments in corporate and auditor reporting; recasting the auditor's relationship to the audited entity through promotion of the role of the audit committee; and introducing some independent oversight arrangements to the firms. However, concern remains that the FTSE 350 audit market is concentrated across the Big Four firms.

The concentration of Big 4 firms in 2011 and movements by 2014 and 2015 are shown in Table 1.

Table 1

	Big 4 firms (%)		
	2011	2014	2015
FTSE 100	99.0	98.0	98.0
FTSE 250	95.2	96.8	96.8
Other main market	68.7	69.7	71.1
All main market	78.4	79.9	83.2

The continued domination of major firms is also reflected in the experience of public sector audit procurement across the UK. In recent procurements in England and in Wales the vast majority of work has been awarded to Big 4 firms plus Grant Thornton and Mazars. We are also increasingly finding that the most credible bidders are the Big 4 plus a small number of firms such as Grant Thornton, Scott Moncrieff and Mazars which have built up specialist expertise in public sector audit.

Mandatory rotation of auditors and restrictions on provision of non-audit services are perceived as creating a risk of making audit less attractive as a profession as a result of increased public and regulatory scrutiny driving a compliance mind-set which, in the longer term, may risk the development of judgement skills and impact the level of talent and quality within the profession.

Audit remains a core activity for firms with audit fees representing 21% of income for Big 4 firms and 27% for other firms with public interest entity clients. Fees do not appear to be under significant pressure as audit committee chairs reported that the fee level was not the most significant factor in tendering decisions.

The private sector has seen an increase in business confidence and profits since the financial crisis which may help explain the emphasis on criteria other than fee levels.

4. Auditor reporting

One of the most significant developments in auditing in recent years has been the requirement for auditors of listed companies to include much more information in their audit reports including information on materiality and on the key audit risks and the approach adopted by the auditor in addressing the risks.

Some firms, notably KPMG, have gone further than the minimum requirements by including their findings from their audit work in relation to the key risks. The FRC have reported on the experience of the first two years of this reporting and found that it has been welcomed by investors and the better reports have moved away from templates to make them more relevant and insightful. They also found that there were areas for further improvement such as being more explicit about auditor's views on management estimates and giving more insight into the auditor's assessment of the quality of internal controls used to inform their risk assessment.

Audit Scotland has led the way amongst UK public audit agencies in requiring auditors to include similar information in their Annual Audit Reports. We chose the Annual Audit Report as the vehicle for this increased disclosure rather than the audit opinion as these reports are all publicly available in Scotland and we thought this would encourage auditors to be more expansive and less likely to use boilerplate language and also would keep the audit opinion shorter.

This approach has led to improved audit reporting with more information being provided more consistently across our audits. We will be continuing this approach into the new audit appointments and are consulting with auditors on whether and how to adopt early for all 2016/17 audits new auditing standards on reporting which change the format of the audit report and require more explicit statements about the consistency and content of the annual report part of the report and accounts.

5. Audit quality monitoring

The FRC undertakes inspection of firms and their audits on a statutory basis and also under contracts for local public audit in England and audits carried out by the National Audit Office.

In 2015/16 the FRC undertook 137 inspections including 12 relating to local public audit and 6 at the NAO. 89 of the inspections were at the Big 4 firms.

77% of the inspections were assessed as good with limited improvements required, 21% as improvements required and 2% as requiring significant improvements. These results continued an improving trend since 2011/12. Of the 190 main findings 45 were in relation to fair value and value in use measurements and 39 about revenue recognition. Both these issues have greater significance for the private sector as they have direct effects on profit for the year. Other findings such as communication with audit committees and internal control testing have equal relevance to public sector audits.

We review the FRC's published reports on each major firm and consider whether any of the issues raised could have implications for our audits. We also review the FRC's thematic quality reports and where relevant consider undertaking similar reviews for our audits.

Over the last six years we have invited ICAS to conduct three independent reviews of six in house audits each time. The review of audit quality arrangements will include consideration of the extent, frequency and scope of future external reviews of our work as well as how we measure audit quality and report on it.

6. Enforcement

The FRC operates the Accountancy Scheme which considers the more serious allegations of misconduct against firms and individuals involved in preparing accounts and auditing. Less serious cases are handled by the professional institutes.

Fourteen cases involving the accounts of seven companies were closed in the five years to 2015/16 and resulted in sanctions being imposed including Manchester Building Society and Farepak Food and Gifts. A further 7 cases were closed with no action taken including Lehman Brothers and Equitable Life Assurance Society. There were 15 cases still being investigated. Less serious cases are handled by the individual professional bodies such as ICAEW and ICAS. Since the report was issued the FRC has issued its largest fine to date of £2.3 million against PwC in relation to the audit of Cattles plc.

Audit Scotland staff have never had any disciplinary cases referred to the FRC or any of the accountancy institutes. We read the published outcome of the FRC cases to ensure there are no issues which could apply to us.

7. Looking forward

The FRC will focus on:

- making a success of its new competent authority status to promote audit quality
- working with auditors, audit committees and investors to communicate good practice
- continuing to represent the UK internationally
- facilitating changes in audit and the use of technology in improving the effectiveness and quality of audit.

There have been a number of revisions to auditing standards in 2016 including those relating to audit reporting described above. The FRC will focus on effective implementation of the new standards in 2016/17.

The competent authority role means that the FRC will have to expand its direct audit quality monitoring role from nine firms to around 50 with an increase from six to eight in those inspected annually.

The FRC will conduct three thematic reviews in 2016/17 covering firms approaches to root cause analysis of FRC findings, the use of data analytics and firms' processes for achieving consistent audit quality. All of these reviews will be relevant to our work.

Since the FRC published Developments in Audit 2015-16 the International Audit and Assurance Standards Board has published a discussion paper, [Exploring the Growing Use of Technology, with a Focus on Data Analytics](#), on how data analytics are starting to be used and what implications that might have for auditing standards, methodologies and staff skills. Audit Scotland is looking at how data analytics might contribute to our work through some pilot work at a small number of audited bodies and by looking to follow up on offers in this area made by firms as part of their tenders in the audit procurement exercise.

The Institute of Chartered Accountants in Scotland and the FRC have also published a final report on research projects into [Auditor skills in a changing business world](#) which identifies business acumen, technology and data interrogation and soft skills (professional scepticism) as key areas for the development of the auditor of the future. This report has been discussed by our Personal Development and Growth group and will be used to inform the next learning and development plan.

8. Recommendation

The Board is invited to note this report.

AUDIT SCOTLAND BOARD

27 OCTOBER 2016

REPORT BY THE CHAIR OF REMCO

REVIEW OF REMCO PERFORMANCE AND IDENTIFICATION OF PRIORITY AREAS

1. Purpose of report

This paper informs the Audit Scotland Board that the Remuneration & Human Resources Committee (Remco) has completed the review of the past performance of Remco and identified the future priority areas.

This report is provided to the Board for information.

2. Background

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 June 2016.

3. Performance highlights from 2015/16

During the period from 1 April 2015 through to 31 March 2016, Audit Scotland's Remco met on five occasions. Key achievements and activity have included:

- approval of a VERA scheme for 2016 together with the on-going review of the operation, impact and savings achieved from earlier Audit Scotland VERA schemes
- review of the pay award outturn following the conclusion of the April 2015 pay cycle
- consideration and approval of a proposal to temporarily suspend Contribution Based Pay (CBP) for April 2016 and the application of new parameters for the pay award
- the application of pay policy for awards being recommended for the most senior members of Audit Scotland's executive
- consideration of Audit Scotland's continued commitment to talent management and succession planning
- regular discussion and input into Audit Scotland's organisational development programme *Building a Better Organisation*
- consideration of the 2015 Best Companies staff engagement survey results
- workforce planning for 2016/17.

All of this work has been achieved in accordance with good employment practice and is cognisant of the external public sector financial environment/guidance affecting organisations such as Audit Scotland.

4. Future priority areas

Remco has agreed that the following list of potential items will be considered as priority items for future discussion:

- the continued progress and development of Audit Scotland's organisational development programme, *Building a Better Organisation*
- a focus upon the development plans for the workforce as the impact of the new financial powers for Scotland becomes clearer.

5. Conclusion

The operation of the Remco during 2015/16 has been effective and in accordance with the ToR. The work of the Committee continues to ensure good governance arrangements continue to exist and the Committee has supported the efficient and effective operation of Audit Scotland.

6. Recommendation

Audit Scotland Board members are invited to take note and comment upon the work of the Committee during 2015/16 and comment upon the priority areas for 2016/17.

7. Next steps

The Remco Chair will facilitate the next review of Remco performance at the meeting scheduled in May 2017. A report will then be submitted to the Audit Scotland Board and Accountable Officer in June 2017.

Agenda

UK & Ireland Supreme Audit Institutions

Friday 4 November 2016, 11.00am

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

1. Welcome and introductions Diane McGiffen
2. Draft minutes of the meeting held on 22 January 2016
3. EU Referendum Outcome
4. Devolution Developments
5. Public Audit Committee Meetings
6. International Staff Training and Development Opportunities Huw Thomas
7. Any other business
8. Next meeting



OFFICIAL REPORT
AITHISG OIFIGEIL

DRAFT

Scottish Commission for Public Audit

Wednesday 28 September 2016

Session 5

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Wednesday 28 September 2016

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MEETING OF THE COMMISSION

1st Meeting 2016, Session 5

COMMISSION MEMBERS

- *Colin Beattie (Midlothian North and Musselburgh) (Chair)
- *Alison Johnstone (Lothian) (Green)
- *John Lamont (Ettrick, Roxburgh and Berwickshire) (Con) (Deputy Chair)
- *Rona Mackay (Strathkelvin and Bearsden) (SNP)
- *Jenny Marra (North East Scotland) (Lab)

*attended

THE FOLLOWING ALSO PARTICIPATED:

- Russell Frith (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 28 September 2016

[Colin Beattie opened the meeting at 13:00]

Decision on Taking Business in Private

Colin Beattie (Midlothian North and Musselburgh): Good afternoon and welcome to the first meeting this session of the Scottish Commission for Public Audit. I have the honour of chairing this meeting in my capacity as the oldest—and clearly the wisest—member of the commission until the chair has been elected. I remind members to turn off mobile phones and other electronic devices.

Agenda item 1 is a decision on taking business in private. Does the commission agree to take items 6 and 7 in private?

Members *indicated agreement.*

Interests

13:01

Colin Beattie: Under agenda item 2, members are invited to declare any relevant interests. I will start: I have nothing to add to the interests that I have declared in the register of members' interests.

John Lamont (Ettrick, Roxburgh and Berwickshire (Con): Similarly, I have nothing to declare other than what I have disclosed in the register of members' interests.

Alison Johnstone (Lothian) (Green): I have nothing additional to declare.

Rona Mackay (Strathkelvin and Bearsden) (SNP): I have nothing to declare.

Jenny Marra (North East Scotland) (Lab): I have nothing additional to declare.

Chair

13:01

Colin Beattie: Agenda item 3 is choice of chair of the SCPA. I seek nominations for the position.

John Lamont: I propose Colin Beattie.

Alison Johnstone: I second that.

Colin Beattie was chosen as chair.

Deputy Chair

13:01

The Chair (Colin Beattie): Agenda item 4 is choice of deputy chair of the SCPA. I propose John Lamont.

Jenny Marra: I second that.

John Lamont was chosen as deputy chair.

The Chair: Congratulations, John. You have taken on an onerous position.

I suspend the meeting for a couple of minutes to allow the witnesses to come in for agenda item 5.

13:02

Meeting suspended.

13:02

On resuming—

Audit Scotland Annual Report and Accounts and Auditor's Report on the Accounts

The Chair: Agenda item 5 is an evidence-taking session on Audit Scotland's "Annual report and accounts 2015/16". Members have a copy of the report in their meeting papers, along with the auditor's report on the accounts.

I welcome to the meeting Ian Leitch, chair of the Audit Scotland board. He is accompanied by Caroline Gardner, the Auditor General for Scotland and from Audit Scotland, Diane McGiffen, chief operating officer, and Russell Frith, assistant auditor general.

I invite Ian Leitch to make a short introductory statement. I should point out that we have a fairly tight schedule today because we have to finish the meeting in time to release members for the chamber at 2 o'clock. I therefore ask for responses to questions and so on to be fairly tight.

Ian Leitch (Audit Scotland): Thank you, chair, and congratulations on your re-election. I assume that it is appropriate to say that.

The Chair: Thank you.

Ian Leitch: Thank you for this opportunity to make a brief opening statement. I am pleased to be able to introduce the Audit Scotland annual report and accounts, my first as chair of the board, and I look forward to working with the new commission.

As the commission will know, the role of the Audit Scotland board is to support the work of not only the Auditor General but the Accounts Commission, which deals in particular with local government and other areas. We do that to help ensure that public money is being spent properly and effectively on the key public services on which we all rely.

I am also pleased to welcome to our board Professor Russel Griggs, who was appointed by the previous commission. The board and our audit committee have reviewed the current Audit Scotland accounts and considered reports from our internal auditors, which are mentioned on page 24 of the annual report.

The annual report makes reference to significant political and economic changes and challenges that public bodies have faced over the previous year and which reinforce the need for us to continue to keep a sharp focus and to be able to adapt. We are ensuring that we organise ourselves to be flexible enough to respond to the

challenges ahead. We already have a strong organisation to build on and I thank the Auditor General, Diane McGiffen, Russell Frith and all staff for the work that they have done and the commitment that they have shown throughout the year.

As we highlight on page 9 of our annual report, the Scottish Parliament is getting substantial new financial powers that will mean even greater policy choices over tax spending and additional responsibilities for us. We have been discussing the implications of all those new powers—and any additional work that they imply—for Audit Scotland. I am pleased to say that Audit Scotland has actively been considering the practical implications of the developments and we will be able to share our plans when we present our budget proposals to the commission in the next few weeks, depending on the commission's timetable.

Thank you, chair. I believe that Caroline Gardner has a brief comment or two to make.

Caroline Gardner (Auditor General for Scotland): Audit Scotland plays a vital role in helping me and the Accounts Commission to ensure proper scrutiny of public money. Like all public bodies, we recognise the need to continue to change, to improve and to demonstrate efficiencies. Our strategy in that respect is set out in a stream of projects under the becoming world class banner, and we are happy to talk more about how we are doing that.

A key part of our work is supporting the Scottish Parliament, especially the Public Audit Committee, to subject public bodies to effective scrutiny. At the same time as driving change in our own organisation, we have delivered our core work successfully over the past year, producing more than 300 annual audit reports, 17 performance audits and all the accompanying work needed to support the Parliament and its committees. Some of the themes highlighted in the report before you include the implementation of the Parliament's new financial powers, managing public sector reform and transforming public services.

I am grateful to my colleagues for all their hard work and commitment during a year that has been challenging and productive for all of us. We will do our best, chair, to answer the commission's questions.

The Chair: Thank you, Caroline. On page 6 of the annual report, you state that 96 per cent of central Government audit reports and 21 further education audit reports were completed by their respective due dates. Can you confirm the reasons for the delays in the 4 per cent of audits that were not completed on time?

Caroline Gardner: Two of those—the audit reports for the Scottish consolidated fund and Skills Development Scotland—were just three days late due to timing difficulties with the audit committees and the sign-off of the audits themselves, so the delays were really not significant in any way.

The third report was the audit report for the Scottish Police Authority. As a member of the Public Audit Committee, chair, you will be aware that I have expressed particular concern about the SPA's financial management systems and controls. The situation led to a much more significant delay in the completion of that audit and a significant increase in the audit fee that we had to charge for that work.

The Chair: How much extra was the audit fee?

Caroline Gardner: Can you help me with the additional fee, Russell?

Russell Frith (Audit Scotland): From memory, I think that it was £40,000.

The Chair: That is not insignificant.

Caroline Gardner: It is a significant amount of money.

The Chair: Probably the main thing that I am trying to get reassurance on is that the delays were not caused by lack of resources.

Caroline Gardner: No, that was not true of those cases. As I have said, two of the delays were very short and were down to timing and scheduling difficulties. With the SPA, the delay was due to problems within the police authority, not within the audit process, but I thank you for your concern about the resources that we have available.

The Chair: We were not promising you more.

Caroline Gardner: I know. [*Laughter.*]

Jenny Marra: On page 10 of the annual report, Audit Scotland advises that

“there were seven auditor opinions qualified this year—two in further education, one in central government and four in charities.”

Is that a normal number of qualified audit reports in any given year or is it untypically high? Are there any resource implications for Audit Scotland that may result from qualified audit reports?

Caroline Gardner: I will ask Russell Frith to come in with the detail for those seven bodies in a moment.

In broad terms, the figures are fairly typical. We have not yet seen an increase in the number of qualified or modified auditor opinions as a result of increased pressure on public bodies. However, it is a risk that we are conscious of, especially as we

head into the next Scottish parliamentary budget round and, for us, a new round of five-year audit appointments. Russell, can you amplify the reasons with regard to those particular bodies?

Russell Frith: I can indeed. First, none of the qualifications related to the true and fair view of the financial statements. Two colleges had qualified opinions on their remuneration reports due to certain pension information not being included, which was required to be included for the first time.

The modified opinion in relation to the Scottish Police Authority related to keeping or not keeping proper accounting records during the year on fixed assets. The issue was eventually resolved post the year end for the accounts, but there was an issue during the year.

The other four bodies were local authority charities. Their opinions were qualified because the governing documents could not be traced. To give members a bit of context, I should point out that some of those charities have been around for over 100 years and have been through many local government reorganisations, and they were only just being required under the charities legislation to be formally audited. Therefore, it is perhaps not too surprising that the records for some of those very old and small charities were not complete going right back to the beginning.

Jenny Marra: Thank you.

John Lamont: My question relates to the section on page 15 of your report entitled “Improving our performance”. There, you mention

“developing a new fees strategy, which will be implemented during 2016.”

Given the previous commission's interest in that area, will you give us an update on that work?

Ian Leitch: Yes. We have carried out a consultation with other client groups and looked at the overall feeing arrangements, and we are introducing transparency into the process. There will be no cross-sector subsidies. In other words, each sector—such as health and local government—will pay its own fees. Within that, there might be some adjustments between local government bodies. All the detail of that will be supplied to members in the budget submissions that we will make shortly for the next round. When we have your timetable, we will submit all the documents.

As the chair will recollect, I gave an undertaking before the commission last year that that work would be undertaken during this year, and it has been done.

John Lamont: I used to be a solicitor in private practice—

Ian Leitch: I still am.

John Lamont: Lucky you—I like to think that I am now a reformed character. When we charged clients fees, we had to justify the fee by giving a breakdown of the hours and the chargeable rate for each solicitor involved in the work. Before the changes, how have you worked out the fees that you have charged?

Ian Leitch: Russell Frith will deal with the detail of that.

Russell Frith: The fees that are paid by the audited bodies are an amalgam of several things, one of which is the direct cost of carrying out the annual financial audit. There is also a sharing out of some central costs, which are apportioned between the bodies, largely according to the size of the audit fee.

The fees for individual audits are worked out on the basis of what we think the risk profile is for a body of its size in the particular part of the public sector, so they are different for local government, health and central Government. We set an indicative or now expected fee for the audit, which is based on our overall central intelligence. The auditor and the audited body then agree the precise fee based on the individual circumstances. For example, if our expectations of a good level of internal control or good accounts preparation are not being met, the auditor may agree a final fee that is above the expected level.

John Lamont: Okay. Thank you.

Rona Mackay: Page 18 of the report relates to staff numbers. In particular, there is a rising number of staff departures annually. Can you confirm that business cases are in place to demonstrate value for money in the funding of staff departures, given that they are increasing year on year? Will you give us an idea of the forward planning that goes into those rising costs?

13:15

Diane McGiffen (Audit Scotland): I am very happy to do that. We have a voluntary early release agreement policy and practice that was approved by our remuneration committee, and we report annually on the savings that have been made from previous early releases. Each individual case has to have a business case and it has to generate savings over a three-year period. We report annually to the remuneration committee on each case to ensure that the savings are continuing to be made. The process is very tightly managed and we report clearly on it because we are keen to demonstrate that we are achieving good value for money.

Because we have a no compulsory redundancy policy, we have two possibilities available to us in

reshaping the organisation. One is to make clear choices when we have ordinary turnover and leavers from the organisation. We need to decide whether we should continue to fill the post or whether we want to restructure. Secondly, over the past few years, although not every year, we have run a voluntary early release scheme in which we seek agreement with colleagues over their departure. That has helped us to fundamentally reshape the organisation. Those are the two options that are available to us in that regard.

Rona Mackay: Are you confident that you are getting value for money from those voluntary redundancies?

Diane McGiffen: Very much so. The tariff that is in place for the voluntary early release agreement ensures that we manage the cost and benefits to the public purse very carefully.

Rona Mackay: Thank you.

John Lamont: My next question is on payments to suppliers. You mention on page 20 of the report that

“84 per cent ... of trade invoices were paid within ten days”,

which represents a slight fall from the previous year's performance of 87 per cent. Are there any reasons for that marginal fall in payment rates?

Caroline Gardner: I do not think that there are any particular reasons for it. It is simply a result of the changing pattern of suppliers and invoices coming through. We monitor the matter carefully as part of the quarterly performance monitoring that goes to the Audit Scotland board for its attention. If the trend continues, we will drill further into it, but the evidence for last year suggests that it was just a normal business variation.

Alison Johnstone: Page 21 of the annual report reports an underspend by Audit Scotland of £834,000 during 2015-16, which equates to 8.4 per cent of the total resource requirement that was approved by Parliament. Does Audit Scotland have a target for underspends? The figure of 8.4 per cent seems relatively high.

Caroline Gardner: That is a very good question. The first thing to say is that we aim to underspend. If we overspend the budget that is approved by Parliament and the SCPA, our accounts are automatically qualified, which you will understand would be very bad news for me as Auditor General. We therefore go to some lengths to ensure that that does not happen.

Of the £834,000 that is mentioned in the report, £125,000 relates directly to our capital budget. That reflects the savings that we made on the contract for fitting out our new offices at West Port. That was a large capital contract last year, and we

made significant savings that will be returned to the consolidated fund unused.

In the revenue part of our budget, the underspend was about £700,000. We can give you a more detailed breakdown if that would be useful, but two big things contributed to that. The first was higher-than-budgeted fee income. The income was about £390,000 higher than expected because of extra work being required for things such as the Scottish Police Authority, new bodies coming in during the year and other movements at the margin.

The second thing was a reduction in our property running costs. You will see a reference in the annual report to the fact that the dilapidation costs that we had to pay to our landlord in George Street were lower than the provision that we had made. That released about £270,000 to our revenue account, which again we could not have budgeted for in advance.

We aim to keep our underspend lower than that in normal circumstances but, in particular, the property move last year made the underspend higher than we planned for.

The Chair: It would be helpful if you could give us a breakdown of that in writing, so that we can have a look at it.

Caroline Gardner: I am happy to do that.

Alison Johnstone: There were obviously unexpected savings and perhaps unexpected income. Is there an opportunity to recycle some of that underspend back into the public sector at a time of incredibly tight budgets?

Caroline Gardner: We do not have the ability to hold reserves so, if we underspend our budget, there are two broad options. If the underspend is significant and it relates to the audit work that we carry out directly, we can make a refund of fees to audited bodies, which we have done in the past. The other option is that the money is simply returned to the Scottish consolidated fund and is available for recycling. Because we cannot hold reserves, we aim to balance our budget each year on the nose of the total that is approved by Parliament.

Ian Leitch: The issue has exercised the board members and me because we are conscious that, when we ask for funding—as we will do in the next few weeks when we come before you for the next budget round—we are asking for something that top slices the consolidated fund and that, if we ask for too much, some other body will be denied a resource that year. It is all very well having an underspend at the end of the year—we need some margin there—but we are taking a very sharp pencil to this in order to ensure that the margin of underspend is reduced year on year so

that, as you rather validly said, other bodies are not denied the money up front.

Alison Johnstone: The annual report says that part of the aim of a world-class audit organisation is about identifying risks. With regard to improving the use of public money, the collapse of the Scottish Coal Company, for example, exposed a series of woefully inadequate insurance and bond schemes that had been set up with local authorities and which might have a significant impact on public finance. Is that the sort of risk that Audit Scotland might look at?

Caroline Gardner: It is certainly one of the sort of risks that we look at. You are right to say that the opencast mining claims that we saw, first in East Ayrshire, were a wake-up call for everybody about some of the longer-term liabilities that might be around but which people were not paying attention to. We have looked closely at related claims for opencast mining waste disposal sites, where there is a liability in the longer term that will have to be met with regard to ensuring that the risks are managed.

One of the things that I have been making a priority as Auditor General is ensuring that public bodies' financial reporting is as clear as it can be about what those risks are—this goes from local authorities through to the Scottish Government—because there is a need to ensure that there is transparency around long-term commitments and liabilities. We aim to do that from the bottom up, through our knowledge of individual public bodies, and from the top down, thinking about issues such as opencast coal mining and the parallels for other public bodies. We are always keen to hear from people with a specialist interest in or insight into things that might not be getting the attention that they deserve.

Jenny Marra: On page 31, the annual report states that a benefit in kind that is provided for the director of audit services has increased by 18 per cent, from £3,800 to £4,500. Can you explain the precise nature of that benefit in kind and explain the 18 per cent increase from 2014-15? Furthermore, can you explain the governance arrangements that are in place for granting such additional employee benefits?

Caroline Gardner: The benefit in kind that is referred to in that table relates to the provision of the leased car for the employee concerned. We have a leased car scheme that is available to a number of our staff who are required to travel for their work. You will understand that auditing 220 bodies across Scotland means that it is important that our staff are mobile and able to get to where they need to be.

Diane McGiffen can talk you through the detail of the governance of that and the reason for the

increase in relation to the individual whom you mention.

Diane McGiffen: I think that the increase relates to the routine replacement of the car. Cars are provided on a four-year lease period. Over the past few years, we have done a lot of work to reduce the overall cost of our car leasing arrangements, and that has contributed to some efficiencies that we have made. Currently, we have 105 leased cars in the scheme, and they are part of the terms and conditions of colleagues who are working on front-line audit work. Membership of the car scheme has shrunk over the past few years and, as you will see from our carbon reporting, we are consciously looking at effectively managing people's mileage.

The car scheme has been in existence for some time. We are currently looking at the wider pay terms and conditions of colleagues, and the scheme is in the mix of those discussions.

Jenny Marra: Please correct me if I am wrong, but I do not think that the other staff who have benefits in kind are detailed in the report. If they were, it would let us see the cost of the other cars and whether there had been such a large cost increase—18 per cent—for all of them. Can you give me any idea of how many cars we are talking about and whether the replacements all show an 18 per cent increase, so that we can see whether that is an average increase?

Diane McGiffen: I am very happy to come back to you later and supply you with the details that you have asked for.

The presentation of the benefit in kind in the table on page 31 is part of the accounting requirements and those requirements apply to the management team members of Audit Scotland and other public bodies. There is not an accounting requirement for us to present that information for all staff, but we would be happy to give that information to you.

As I mentioned, we have 105 cars at the moment; our lease commitments total about £970,000. I can break that down for you. Some people are at the beginning of leases and some are coming to the end of leases. Overall, we retendered our contract for the supply of the vehicles in the past 12 months and we are bringing down the cost, but we have not run off all our older contracts.

I can certainly provide you with more information, if that would help.

Jenny Marra: It would be useful if you could give us more information on the car scheme, because 18 per cent seems to be a huge year-on-year increase for a benefit in kind. What is the

decision-making process behind signing off that 18 per cent increase?

Diane McGiffen: The contribution that Audit Scotland makes towards any car is fixed. I cannot recall the current value of it—I think that it is fixed at about £3,000.

Russell Frith: Approximately that, yes.

Diane McGiffen: The cost to Audit Scotland is absolutely fixed. Individuals may request additional features on cars. We do not pay for those; the individual does. In accounting terms, Russell may have a better definition of a benefit in kind in relation to cars, which might help.

Russell Frith: The value that is recorded in the table on page 31 is HM Revenue and Customs benefit-in-kind value for the car. It is not necessarily the precise cash cost to Audit Scotland.

Jenny Marra: Okay. Thank you.

Diane McGiffen: The contribution that Audit Scotland makes is a flat rate regardless of who the employee is. There is one scheme for all employees and there is a flat-rate contribution from Audit Scotland.

The Chair: Will you to write to us and give us a bit of detail around that? Thank you.

Jenny Marra: I have another question. Page 48 of the annual accounts shows an increase of £451,000, which is a 68 per cent increase, in the "local government retirement benefit scheme costs".

Can you explain the background to those costs and the reason for the significant year-on-year increase?

Caroline Gardner: Certainly. Russell Frith is our expert in these very complicated pension accounting issues.

Russell Frith: First, Audit Scotland is a member of two public sector schemes. The vast majority of our staff are members of the local government scheme, which is a funded scheme. We happen to be in the Lothian pension scheme. A small number of staff remain in the principal civil service scheme.

There is a significant difference between the accounting for the two. For the civil service scheme, we simply record the employer contributions in our accounts as the cost of pensions, but for the local government scheme, we have to include the full actuarial value of the pension benefit in the year. That value goes up and down in a quite volatile way depending on movements in assumptions around discount rates and longevity—and salary increases, for that matter.

The cost of our pension scheme is quite volatile, and the volatility is non-cash cost. For 2016, you see a £1.1 million adjustment for retirement benefit scheme costs. That is the additional cost that the actuary believes is the full cost of providing pension contributions in the year above the amount that we pay into the scheme.

Over the scheme's life, that number evens out to zero; in some years, the number has even been negative. As I say, it is a non-cash cost, and it is to do with the accounting requirements for funded schemes, which we are required to follow.

13:30

The Chair: Page 54 of the report shows a significant underspend on accommodation and on travel and subsistence costs. Were there reasons for that? Was it just the result of efficient budgeting? The number of audits that have been done has not reduced.

Russell Frith: On accommodation, we are starting to see the benefits of last November's move from two offices to one office. The figures also reflect the benefit of agreeing lower dilapidations on our previous buildings than we had originally provided for.

The Chair: However, rent and rates took quite a jump. Is that because you were paying duplicate rent?

Russell Frith: We were double running costs for part of 2015-16.

The Chair: Did you not know about that when you budgeted in 2015? No—scrub that; that does not make sense.

Information technology costs have moved from £335,000 in 2015 to £461,000 in 2016. That is quite a substantial increase.

Russell Frith: That relates partly to the move and to the installation of new equipment and cabling in the new office. We have also improved and increased the resilience and back-up facilities for our IT equipment. We used to keep that in our George Street offices but, now that we have moved to one office, that is no longer a sensible arrangement, so we have in place off-site back-up facilities. In the same year, the cost of some of our software licences that we need to operate the core systems also increased.

The Chair: I am rather curious about the section on audit quality on page 14. You say:

"Audit quality is also independently reviewed by other UK audit agencies".

How does that work?

Caroline Gardner: We have a couple of approaches to ensuring the quality of audit work,

given its fundamental importance to what we do. First, each audit group in Audit Scotland is required to have in place its own internal peer-review process. We also have external peer-review arrangements with our colleagues in the National Audit Office, the Wales Audit Office and the Northern Ireland Audit Office. They do cold reviews, particularly of performance audits after the event, to ensure that we are meeting professional standards and to make suggestions for improvement.

Alongside all that, Russell Frith's team has responsibility for providing assurances to me, the Accounts Commission and the board about the quality of all the audit work that is carried out on our behalf. The firms that we appoint are subject to regulation either by the Institute of Chartered Accountants of Scotland or the Institute of Chartered Accountants in England and Wales.

For the in-house team that carries out annual audits, we have for the past four years had in place a contract with ICAS to review a sample of audits, to provide us with the assurance that they are complying with the international standards on auditing and the ethical standards that we must comply with.

The Chair: What tools do the other agencies use to assess you?

Caroline Gardner: We all have our own audit management and performance audit management frameworks, and those frameworks learn from each other to make sure that we are applying best practice.

The Chair: So that is more a process assessment.

Caroline Gardner: Absolutely. The other bodies will give feedback if they think that our conclusions could have gone further or that we could have benefited from a different approach to analysing data but, really, they make sure that we have complied with the project management and audit frameworks that we have in place.

The Chair: On page 15, at the first bullet point under the heading "Securing world class audit", you say that you are

"developing a new Code of audit practice for public audit in Scotland."

That sounds like quite a big undertaking. I presume that you are not doing that in isolation and that you are taking ideas from elsewhere. How are you approaching that?

Russell Frith: The new code has been issued, as it applies from the start of the new audit appointments, which will kick off next week. We have had a code in place for many years, and we

revise it every five years. The idea is to have a public statement of our expectations of audit.

In revising the code, we look at similar codes that are in place in the rest of the United Kingdom. We consider what we are trying to achieve from audit and where we are trying to lead the way and go further than might be required for, say, an audit under companies legislation. We go beyond a pure financial statements audit into the wider scope of public audit around governance, financial sustainability and so on, and the code is the place where we set out our high-level expectations in those areas.

The Chair: Would it be possible to see a copy?

Russell Frith: Yes—certainly.

The Chair: Such a code is not something that people naturally browse in the course of their day, but it might interest members.

Page 21 sets out “Other finance income”. I am a little curious about that. The report says that it is

“the expected interest income from the local government pension scheme assets less the interest payable”.

Could we get a bit more information on that? It is unusual to see anything to do with pensions in that way. I am not sure whether that is positive.

Russell Frith: That is the place in a set of financial statements where we are now required to include the actuarial assessments of the interest that we would notionally receive on our share of the pension funds assets.

The Chair: Notwithstanding the fact that the pension fund assets are already invested elsewhere and have their own income.

Russell Frith: Yes.

The Chair: I am struggling with that.

Caroline Gardner: It is a required accounting treatment. We find it complicated, too, as you will know from working with us on the issue over a number of years. However, that is the way in which we are required to account for that in the annual report and accounts.

The Chair: Okay—there is not much to say about that. I suppose that it is what it is.

You are going to bring forward the fee strategy with the budget. The previous commission looked at governance and the current one might look at it. What are you doing to look at your governance?

Ian Leitch: We have reviewed our standing orders and looked at how our quorum is made up. The Auditor General and the chairman of the local authority Accounts Commission are by statute members of the board, as you are aware, chair. A provision in our standing orders stipulates that both have to be in attendance; otherwise, the

meeting is inquorate. The reason for that, which goes back some time, is that the primary function of the Audit Scotland board is to ensure the supply of the services and staff that are required by the Auditor General and the local authority Accounts Commission in order to discharge their statutory functions, so both those representatives should be in attendance when any material matter is considered.

That poses a potential difficulty in that, if one is unable to attend for whatever reason, we simply cannot deliberate any business. We have considered that. I told you some time ago, chair, that we would look at the question. We have had a long discussion on it and we are saying that each person has to commit to a specific date to ensure that we are quorate. That does not take away the potential for someone to be abducted and taken away for whatever reason or to fall under the proverbial number 22 bus, which would mean that we were inquorate.

Nevertheless, there is a balance of issues to consider and, having discussed the matter, we consider that the current arrangements should continue for the time being. There has not proved to be any difficulty, but we are aware of the potential for difficulty to arise.

We want the Auditor General and the chairman of the local authority Accounts Commission to be satisfied that their statutory interests are being protected by the way in which we operate. We undertook to look at the matter, we have done so and we have decided to stay with the existing arrangements for the foreseeable future. However, we will review that annually along with all our standing orders and, if there are any practical difficulties, we will try to deal with them. In any case, that is the reason for the position.

Caroline Gardner: More generally, the board has been paying a great deal of attention to the implications for Audit Scotland’s work and governance of the Parliament’s new financial powers and, more recently, of the result of the European Union referendum. In September, we spent a day looking specifically at the ways in which we work and at ensuring that we are equipped to do that work. We agreed that that is all fit for purpose at the moment and that we will continue to keep the matter under review. If we need to draw any matters that come out of that process to the commission’s attention, we will certainly do so.

The Chair: Thank you. Do members have any further questions?

Alison Johnstone: On that last point, do you have any particular views on Audit Scotland’s role in the new fiscal framework?

Caroline Gardner: Yes. We have done a lot of work on that over the past couple of years, initially in relation to the Scotland Act 2012, which is only now fully in place, and since then, in relation to the Scotland Act 2016 and any further changes that might come from the EU referendum. We have published a number of papers, including just yesterday a briefing paper on the new financial powers that sets out questions for all of us—the Government, the Parliament and Audit Scotland—about the way in which some of that will work.

We expect to have additional audit work to do, not least because of the establishment of things such as the new social security agency; because of the need to ensure that the Scottish Parliament has assurance on taxes that are collected on its behalf by HMRC at a UK level and on benefits that will continue to be administered by the Department for Work and Pensions and which will interact with the social security powers here; and because of the work of the new Scottish Fiscal Commission.

Equally, we have a role in developing the financial information that is available to the Scottish Parliament in making decisions about the new tax and spending powers. We will continue to play that role; indeed, I will meet the budget review group here tomorrow to help to shape some of the processes. We expect that to have an impact on our work. It is too soon to say what that impact will be, but the organisation and the board are closely focused on the implications for us and ensuring that we are properly equipped to respond.

Alison Johnstone: A more specific event that might have an impact on planning in the shorter term is the late budget. Westminster is going to be later and we are going to be later. Will that have an impact on your work or ability to plan?

Caroline Gardner: Not so much this year, given that most of our work at the moment focuses on the annual audit accounts at the end of a financial year. I have no doubt that the situation will cause difficulties for some of the bodies that we audit—some more than others—and we will have to look at how we work with them to minimise the impact of those difficulties.

Our bigger interest is in ensuring that the Parliament can put in place a budget process that really gives members time to scrutinise tax and spending proposals, to understand the choices that are implicit in them and to involve the wider public in that discussion. We are keen to play our part in helping the development of that process.

The Chair: As members have no further questions, I ask Ian Leitch and Caroline Gardner whether they have anything to add.

Ian Leitch: No, chair.

Caroline Gardner: No—I am fine.

The Chair: In that case, thank you very much for your evidence and attendance. We look forward to working together over the session.

As agreed at the beginning of the meeting, we now move into private session.

13:43

Meeting continued in private until 13:47.

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