

Minutes of meeting of the **Audit Committee** of Audit Scotland held in the offices of Audit Scotland, 110 George Street, Edinburgh on **Thursday, 23 September** 2010 at 10am.

PRESENT: J Maclean (Chair)  
R Cleland

IN ATTENDANCE: R W Black, Auditor General for Scotland / Accountable Officer  
D McGiffen, Chief Operating Officer  
R Frith, Assistant Auditor General  
A Devlin, Corporate Planning and Data Protection Officer  
P Wood (RSM Tenon)

<u>Item No</u>	<u>Subject</u>
1.	Apologies
2.	Declaration of Interest
3.	Minutes
4.	Internal audit update
5.	Internal audit progress
6.	Risk register update
7.	External audit management letter
8.	Financial performance
9.	Personal data incident / loss report
10.	Implications of the Bribery Act 2010
11.	National Fraud Initiative
12.	Appointing internal auditors
13.	Publication of Audit Committee's agenda and minutes
14.	Audit Committee's effectiveness
15.	Any Other Business
16.	Date of Next Meeting

1. Apologies

Apologies were given for J Baillie.

2. Declaration of Interest

Peter Wood, RSM Tenon, declared an interest in item 12 - appointment of internal auditors. As a result the Chair of the Audit Committee re-ordered the agenda to take item 12 last.

3. Minutes

The minutes of the meeting of the 3 June 2010 were agreed as an accurate record.

Matters arising from the minutes of 3 June

- 3.1 The Audit Committee noted the update from the Assistant Auditor General on further considerations of VAT liabilities. It was reported that it was ongoing and that consideration of Caroline Gardner's secondment may impact VAT thresholds for Audit Scotland. David Hanlon, Finance Manager, is to take up assistance from RSM Tenon to establish if Audit Scotland has VAT liabilities.
- 3.2 The Chief Operating Officer updated the Audit Committee on the outcome of the discussions with RSM Tenon on workforce/succession planning recommendations. RSM Tenon informed the Audit Committee that the issues had been resolved and that the recommendations had progressed satisfactorily and that this should now come off the action list. The Audit Committee agreed.
- 3.3 The Chief Operating Officer updated the Audit Committee on discussions with RSM Tenon on the Carbon Footprint advisory work. The Audit Committee were advised that the scope should be agreed after Audit Scotland's environmental strategy was finalised, and the advisory work would still take place in this year's work plan. The Audit Committee noted the update.
- 3.4 The Audit Committee were updated on how the other UK audit bodies measure and record their staff sickness. All other UK audit bodies use the same calculation as Audit Scotland except the Wales Audit Office.
- 3.5 The Assistant Auditor General had amended the Quality report to include the governance role and any mergers of appointed firms; this will also be done in future annual reports.

The Chief Operating Officer had amended the Audit Scotland's Annual Report to ensure clarity of message on the quality survey results table.

**Action(s):**

*The Assistant Auditor General to report back on progress of establishing if Audit Scotland has VAT liabilities.*

*The Chief Operating Officer and RSM Tenon to report back on the agreed scope and duration of the Carbon Footprint advisory work after the environmental strategy is finalised.*

4. Internal audit update

Peter Wood, RSM Tenon, updated the Audit Committee on the changes to the internal audit recommendations and opinions and how they relate to the previous reporting methodology. Peter Wood explained how the new audit opinions use a graphical and coloured speedometer to highlight the outcome of the audit and that there were four levels of recommendations.

After discussion the Audit Committee agreed the changes for inclusion in Audit Scotland's internal audit reports, and to consider after six months the impact of the changes.

**Action(s):**

*The Audit Committee to consider the impact of the changed assurance ratings at the summer meeting 2011.*

5. Internal audit progress

Peter Wood, RSM Tenon, introduced the Human Resources audit report which had been previously circulated. RSM Tenon's opinion is that the Audit Committee can take reasonable assurance that the controls are effective.

The Audit Committee was updated on work that has been undertaken on an advisory report on the Publications process. This report has been delayed because of the reorganisation of the business group concerned and the decision to consult more widely with key stakeholders following an interim report from RSM Tenon.

The Audit Committee noted the report and progress on the advisory work.

6. Risk register update

The Assistant Auditor General introduced the paper updating the risk register, which had been circulated. The Audit Committee were informed that since the previous review of the risk register there had been a restructuring of senior management and risk owner responsibilities had been adjusted accordingly.

The Audit Committee considered the changes to the risks identified, the impact of restructuring and that an additional risk had been identified and added to the register since the last Audit Committee meeting.

7. External audit management letter

The Chief Operating Officer introduced the external audit management letter as required by external auditing standards. The Audit Committee were also informed that a copy had been sent to the Scottish Commission for Public Audit (SCPA).

The letter gave assurances to the Audit Committee that there were:

- no material uncorrected errors in the financial statement
- no occasions of misconduct, fraud or irregularity or incidences of expenditure
- no internal weaknesses identified.

The Audit Committee welcomed the management letter.

8. Financial performance

The quarter one financial performance report for 2010/11, which had been circulated, was introduced to the Audit Committee.

As the report had been discussed at a previous Board meeting the members had no further comments to make. The report was noted.

9. Personal data incident/loss report

The Audit Committee were informed of a personal data loss incident by the Chief Operating Officer. Details of the loss and subsequent investigation had been previously circulated to the Audit Committee.

The Audit Committee were informed that staff had gone through data protection and security training. The Audit Committee were also notified that a similar loss was currently being investigated and the details of the loss would be included in a report at the next Audit Committee meeting.

The Audit Committee asked if there were provisions for disciplinary action should the data losses warrant them. The Chief Operating Officer explained that this option was available and covered in the staff Code of Conduct and Data Protection Policy.

The Audit Committee noted the report.

10. Implications of the Bribery Act 2010

The Assistant Auditor General introduced a paper on the implications to Audit Scotland from the introduction of the new 2010 Bribery Act. The Audit Committee were informed that the introduction of the Act would have minimal impact on our organisation. However some minor adjustments would have to be made to our policies and procedures as identified in the table at 4.3 of the paper.

The Chair of the Audit Committee asked that consideration be given in future internal audit plans to including a follow-up, through internal audit, that arrangements are in place and that they are effective.

Peter Wood indicated that RSM Tenon were developing further guidance on the Bribery Act for clients and that Audit Scotland would be invited to participate in this initiative around November 2010.

The Audit Committee noted the report.

**Action(s):**

*The Chief Operating Officer is to ensure that Audit Scotland's arrangements regarding Bribery and the Bribery Act are included in the next internal audit plan.*

11. National fraud initiative

A paper on Audit Scotland's participation in the National Fraud Initiative exercise was submitted to the Audit Committee by the Chief Operating Officer. The paper resulted from a recommendation in a previous internal audit report on NFI, which recommended review of Audit Scotland's arrangements following up data matches.

The Audit Committee discussed the detail and merits of the proposal. The Audit Committee were informed that the next data match was imminent and that the results would be known early in 2011.

The Audit Committee noted the proposal.

**Action(s):**

*The Chief Operating Officer will ask the internal auditors to conduct a review of our arrangements when dealing with data matches from the next NFI exercise.*

12. Appointing internal auditors

This item was taken last due a declaration of interest by Peter Wood, RSM Tenon.

13. Publication of Audit Committee's agendas and minutes

The Audit Committee received a report on the publication of the Audit Committee's agendas and minutes from the Chief Operating Officer. The Audit Committee agreed to the proposal and to suitable arrangements being established to enable the Audit Committee to discuss sensitive issues or topics in private.

The Audit Committee approved the publication of their minutes, starting effective from this meeting.

**Action(s):**

*The Chief Operating Officer to make arrangements for the publication of the Audit Committee's agendas and minutes. Arrangements for sensitive issues / or topics to be discussed in private at future meetings.*

14. Audit Committee effectiveness

A paper from the Chair of the Audit Committee was submitted proposing the approach and method the Committee should take to evaluate its own effectiveness.

The Audit Committee noted the proposed arrangements.

**Action(s):**

*The Chair to report back on the outcome of the evaluation of the Audit Committee's effectiveness at the next meeting.*

12. Appointing internal auditors

***Peter Wood left the meeting***

A report was presented to the Audit Committee by the Chief Operating Officer on the appointment of internal auditors. The Audit Committee were invited to discuss the proposals of either appointing Audit Scotland staff or an external firm as internal auditors for the next three year period and indicate their preferred option.

A discussion took place on the strengths and weaknesses of internal and external provision for the delivery of internal audit at Audit Scotland. The Audit Committee asked what provisions clients made regarding internal audit. The Assistant Auditor General informed the Audit Committee of the general arrangements for our clients in the different sectors. A subsequent discussion took place on the timing of the procurement and appointment of internal audit whilst the procurement of firms was taking place for the Accounts Commission and the Auditor General.

The Audit Committee agreed that although internal audit could be provided using Audit Scotland staff, more benefit would be accrued by the appointment of an external firm such as: auditors with topic specific in-depth experience gained through audit of many and varied organisations; costs only being incurred when a service is used; external scrutiny of internal processes resulting in transparency and propriety of our processes from clients and stakeholders.

The Audit Committee agreed that internal auditors should be appointed from an external resource.

**Action(s):**

*The Chief Operating Officer is to progress the procurement of internal auditors. A plan showing timescales for the procurement process to be prepared and circulated at the next meeting.*

*A progress report on procurement is to be submitted to the next Audit Committee.*

15. Any Other Business

There was no other business.

The Chair of the Audit Committee closed the meeting by thanking the attendees for their time and effort.

16. Date of Next Meeting

The next Audit Committee meeting will be held on **Thursday 27 January at 10.00hrs** and will be held in the offices of Audit Scotland, 110 George Street, Edinburgh.