



Minutes of the Audit Committee
2017

Minutes of meeting of the **Audit Committee** of
Audit Scotland held in the offices of
Audit Scotland, at 102 West Port, Edinburgh on
1 February 2017 at 10:15hrs.

PRESENT: H Logan (Chair)
D Sinclair

APOLOGIES: R Griggs

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
D Hanlon, Corporate Finance Manager
A Devlin, Corporate Governance Manager
O Smith, Senior Manager Audit Strategy
G Byers, Application Developer
N Paton, PMO Analyst
C Robertson, BDO LLP Internal Auditors
S Cunningham, Alexander Sloan External Auditors
J So, Alexander Sloan External Auditors

<u>Item No</u>	<u>Subject</u>
1.	Private meeting of Audit Committee members and BDO
2.	Welcome and apologies
3.	Declarations of interest
4.	Minutes of meeting 9 December 2016
5.	Review of actions tracker
6.	Audit Committee terms of reference
7.	Internal audit progress report 2016/17
8.	Internal audit reports – IT Security Review, Best Value Audit Approach
9.	Annual internal audit plan 2017/18
10.	Internal audit recommendations – update
11.	Co-operation between internal and external auditors
12.	Timetable for the completion of the Statutory Accounts to 31 March 2017
13.	External auditors plan 2016/17
14.	Review of risk register
15.	Risk interrogation – Failure of Legitimacy and Relevance; Failure of Independence
16.	Q3 Financial performance report 2016/17
17.	Comparison of indicative and agreed fees 2015/16
18.	Annual assurance and statement of control process
19.	AOB
20.	Review of meeting
21.	Date of next meeting

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

A private meeting was held with BDO, the internal auditors, prior to the start of the meeting. There were no issues raised for the members' attention.

2. **Welcome and apologies**

Russel Griggs submitted his 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 9 December 2016, which had been previously circulated.

The minutes were approved as an accurate record.

5. **Review of Actions Tracker**

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

- Action 14AC - The Chief Operating Officer updated the members on progress of action 14AC regarding recruitment feedback from external candidates. The Chair asked if information could be sought on candidates who had deselected themselves from the recruitment campaign; the Chief Operating Officer agreed to consider this in consultation with the HR team.
- Action 15AC – The Assistant Director, Corporate Performance and Risk informed the members that progress was being made on the business performance management recommendations.
- Action 16AC – The Chair invited the members to note that we would look at this action under item 15 on today's agenda.

Action(s):

The Chief Operating Officer to consider options for seeking on why candidates may have deselected themselves from recruitment campaigns. (June 2017)

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 were required to the Audit Committee's Terms of Reference since the last report.

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 since the last report to the committee a further two audits had now been completed, one was in progress and one was planned for early March; all in line with the 2016/17 audit plan.

The Chair asked when the Staff Performance Management report would be available. Claire informed the Chair that this had been delayed slightly due to staff illness but was on track to be submitted to the next Audit Committee meeting.

The Audit Committee welcomed the assurance that the 2016/17 audit plan was on schedule and noted the report.

The Chair welcomed Jillian So from Alexander Sloan who will be Audit Scotland's external auditor for the forthcoming audit of the 2016/17 accounts.

8. Internal Audit Reports

Fraser McKinlay, Director of Performance Audit and Best Value, Gavin Byers, Applications Developer and Nicola Paton, PMO Analyst joined the meeting.

Claire Robertson, BDO introduced the internal audit reports that had been completed since the last Audit Committee, which had been previously circulated.

IT Security Review

Claire advised the members that reasonable assurance had been achieved and that there were 12 recommendations made for further improvement.

The Chair advised the members that she had previously discussed the report with the Digital Services Manager as he could not attend this meeting; the Digital Services Manager had informed the Chair that he felt the audit report was a fair and helpful report. The Chair invited comments and questions from the members in relation to the audit report.

A discussion took place on:

- whether the Digital Services team had enough resource to cope with information and cyber security. The members were informed that resources had been reduced due to restructuring and were tight but security was a priority area for the team
- whether the views of digital service users should be sought during IT audits. The members were informed by Claire Robertson that the next IT related audit in 2017/18 will look at the IT service desk and this will involve getting users views
- the key risks as noted on page 26 of the report and what were the likelihood of the risks materialising to the extent that there could be a breach, for example, of bank details. The Chief Operating Officer informed the members that information security was a priority for the Digital Services team and that digital and cyber security was becoming more and more complex. The members were also informed that the systems and process put in place to achieve ISO 27001 certification helped us manage the risk, in addition we had set up secure and open zones for connecting external to the organisation to further reduce our security risks

- recommendations two, three, nine and 12 and the actions Audit Scotland management and managers were taking to address these recommendations and the reasons why not all of the recommendations were being implemented.

The members noted the report and the Chair commented that the reasonable assurance rating illustrated the robustness of the audit work and highlighted that IT security is a challenging and constantly changing risk which requires constant attention. The Chair also noted that the recommendations were defined as low level and took assurance from the actions being taken by the Digital Services team.

Best Value Audit Approach

Claire advised the members that substantial assurance had been achieved and that there were no recommendations for further improvement.

The Chair invited comments and questions from the members in relation to the audit report. The Chair of the Accounts Commission sought clarification on the second last key risk on page 11. Claire Robertson explained that this key risk was aligned to the new Best Value process and in particular principle six (page four of the audit report) as approved by the Commission in December 2014.

The members noted the report.

Fraser McKinlay, Director of Performance Audit and Best Value, Gavin Byers, Applications Developer and Nicola Paton, PMO Analyst left the meeting.

9. Annual Internal Audit Plan 2017/18

Claire Robertson introduced the draft annual internal audit plan for 2017/18, which had been previously circulated.

The Chair invited comments and questions on the plan.

The Audit Committee approved the plan.

10. Internal Audit Recommendations – Update

The Corporate Governance Manager submitted a report on the implementation of internal audit recommendations, which had been previously circulated.

The Chair requested an update on the progress of the performance management system and if it was still on track for reporting performance at Q1 2017/18. The Assistant Director, Corporate Performance and Risk confirmed it was progressing towards the stated timescale.

The Audit Committee noted the report.

11. Co-operation Between Internal and External Auditors

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

There was a brief discussion around what would happen if there was any issues around the co-operation between internal and external audit. The members were assured that should this happen then the matter would be raised directly with the Audit Committee,

however it would not affect the completion of the annual audit of Audit Scotland's accounts.

The members noted the report.

12. Timetable for the completion of the Statutory Accounts to 31 March 2017

The Corporate Finance Manager introduced the timetable for the completion of the statutory accounts to 31 March 2017, which had previously circulated.

The Audit Committee noted the timetable.

13. External Auditors Plan 2016/17

The Corporate Finance Manager gave a verbal update on the external audit plan and timetable for the 2016/17 audit. The members were informed that the timetable would be circulated after the completion of the interim audit work in February.

The Audit Committee welcomed the verbal update.

14. Review of Risk Register

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

The Assistant Director, Corporate Performance and Risk informed the members about the new risk on records management that had been added to the register. The Chair sought clarification on the impact of the records management issue and what type of records were at risk. The Chair was informed that some documents that should have been declared records had been auto-deleted by the system and that actions were being taken to recover them and further tighten the controls in place. The Audit Committee will be provided with an update/data loss report for its meeting in May.

A brief discussion took place on risk 13 – Failure of Capacity and whether the latest iteration of the risk fully captured previous comments on capability as well as capacity. After discussion the Assistant Director, Corporate Performance and Risk agreed to revisit the risk and explicitly add references to capability.

The Audit Committee noted the report.

Action(s):

- **The Assistant Director, Corporate Performance and Risk to provide an update/data loss report on the records management risk and actions. (May 2017)**
- **The Assistant Director, Corporate Performance and Risk to add capability to risk 13. (May 2017)**

15. Risk Interrogation – Failure of Legitimacy and Relevance; Failure of Independence

There was submitted a report by the Assistant Director, Corporate Performance and Risk, on the risk interrogation of risk 2 - Failure of Legitimacy and Relevance and risk 3

– Failure of Independence, 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 commented that the term 'structural independence' on page five could be clearer as the Scottish Ministers can give a direction to the Commission. It was agreed that the 'structural' would be removed from any future references of this nature.

A discussion took place on relevance and between active/reactive controls. The Assistant Director, Corporate Performance and Risk explained how the risk assessment process and portfolio monitoring arrangements informs the selection and focus of audit work at various levels across the organisations. The Chair welcomed the explanation.

The members noted the report.

16. Q3 Financial Performance Report 2016/17

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

The Chair advised the members that she had met with the Corporate Finance Manager prior to the meeting to clarify points and her understanding of the report. The Chair further advised the members that she was satisfied with the content of the report and invited comments and questions from the members.

The Chair of the Accounts Commission sought why training and recruitment was shown as one item and whether this could be shown separately in future. The Corporate Finance Manager explained that it had always been done this way for high level reporting but they were separate items at the local level. The Corporate Finance Manager agreed to show them as separate items in future quarterly performance reports.

The Audit Committee noted the report.

Action(s):

- **The Corporate Finance Manager to separate training and recruitment costs in future quarterly financial performance reports. (September 2017)**

17. Comparison of Indicative and Agreed Fees 2015/16

Owen Smith, Senior Manager Audit Strategy joined the meeting.

There was submitted a report by the Assistant Auditor General on the comparison of indicative and agreed fees for the 2015/16 audit year, which had been previously circulated.

The Chair invited comments and questions from the members on the report. The Chair of the Accounts Commission noted that the variance for smaller audits should diminish under the new appointments, the Assistant Auditor General confirmed that this would be the case. The Chair of the Commission also sought clarification on the reason one council had a greater than 15% increase in their audit fee. It was confirmed that this was mainly the result of additional audit around the governance of an event.

After discussion the Audit Committee noted the report.

Owen Smith, Senior Manager Audit Strategy left the meeting.

18. Annual Assurance and Statement of Control Process

The Corporate Governance Manager submitted the annual assurance and statement of control process report, which had been previously circulated.

The Audit Committee noted the report.

19. Any Other Business

The Assistant Director, Corporate Performance and Risk invited the members to note that the terms of reference for the audit recommendations follow-up audit had been received from BDO and that they would be distributed after the meeting for comment.

The members were also informed that the annual Audit Committee self-assessment was due to commence soon and that he would be contacting the members over the coming weeks.

Action: The Assistant Director, Corporate Performance and Risk to commence engagement with the Audit Committee members on the 2016/17 annual self-assessment. (May 2017)

20. Review of Meeting

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

There were no issues raised.

21. Date of Next Meeting

The next meeting will be held at 10.00am on **17 May 2017** 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
17 May 2017 at 10:00hrs.

PRESENT: H Logan (Chair)
R Griggs

APOLOGIES: R Hinds

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
E Boyd, Assistant Director of Audit Strategy
J Gilchrist, Manager in Audit Strategy
M Walker, Assistant Director, Corporate Performance and Risk
D Hanlon, Corporate Finance Manager
A Devlin, Corporate Governance Manager
D Blattman, HR&OD Manager
F Daley, External Consultant
C Robertson, BDO LLP Internal Auditors
A O'Donnell, BDO LLP Internal Auditors
S Cunningham, Alexander Sloan External Auditors

Item No

Subject

1. Private meeting of Audit Committee members and BDO
2. Welcome and apologies
3. Declarations of interest
4. Minutes of meeting 1 February 2017
5. Review of actions tracker
6. Audit Committee terms of reference
7. Internal audit reports – Staff performance management; Follow-up review
8. Annual internal audit report 2016/17
9. Review of audit quality
10. Review of risk register
11. Risk interrogation – Failure of reputation
12. Data incidents/loss
13. 2016/17 annual assurance on information governance and security
14. 2016/17 annual report on hospitality and gifts
15. 2016/17 annual report on fraud and bribery
16. 2016/17 annual report on whistleblowing
17. 2016/17 annual report on correspondence
18. Review of Audit Committee effectiveness
19. AOB
20. Review of meeting
21. Date of next meeting

1. Private meeting of Audit Committee members and BDO

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

There was nothing of significance raised for the members' attention.

2. Welcome and apologies

Ronnie Hinds submitted his apologies.

3. Declarations of Interest

There were no declarations of interest.

4. Minutes

The Audit Committee members reviewed the minutes of the meeting of 1 February 2017, which had been previously circulated.

The minutes were approved as an accurate record.

5. Review of Actions Tracker

The Audit Committee reviewed progress made on outstanding actions and the dates for implementation of the actions. The Chair of the Audit Committee noted that action 15AC was shown as closed and asked for confirmation that this was correct. The Assistant Director, Corporate Performance and Risk informed the Chair that it was correct and the action was closed.

The Chair asked if the review of the use, practice and cost of consultants was missing from the tracker. The Assistant Director, Corporate Performance and Risk informed the Chair that a review of the use, practice and expenditure on consultants formed part of the 2017/18 efficiency review programme agreed by management team in April 2017.

The progress of actions on the action tracker was noted.

Action(s):

- **The Assistant Director, Corporate Performance and Risk to update the Audit Committee on the review. (September 2017)**

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 the indicative checklist for Audit Committee meetings had been updated to reflect the revised meeting dates for the Committee in 2017.

A discussion took place on whether the Audit Committee had a role in monitoring the external auditor's independence, objectivity and appraising effectiveness and value for money given the appointment is made by the Scottish Commission for Public Audit.

The Assistant Auditor General noted that bodies are encouraged to offer feedback on the work of auditors who are appointed by the Auditor General and the Accounts Commission and that this principle also applies to the external audit of Audit Scotland.

The Chief Operating Officer agreed to discuss Audit Scotland's oversight of external audit with the secretary to the Scottish Commission for Public Audit (SCPA) and report back to the Committee.

The members noted the report and approved the update to the TOR.

Action(s):

- **The Chief Operating Officer to discuss oversight of external audit with the secretary to the SCPA and report back to the Committee. (June 2017)**

7. Internal Audit Reports

David Blattman, HR & OD Manager joined the meeting.

Claire Robertson, BDO introduced the internal audit reports that had been completed since the last Audit Committee, which had been previously circulated.

Staff Performance Management

Claire advised the members that substantial assurance had been achieved in terms of both design and operational effectiveness and that there were two recommendations made for further improvement. The members were informed that there had been wide consultation and buy-in to the 3D development process.

The HR&OD Manager commented that the audit had been helpful.

The Chair of the Audit Committee asked when the review of the 3D process would come to the Audit Committee/Board. The members were informed that it was planned to take the review to Management Team in June and thereafter to the Board's committees'.

The members noted the report.

David Blattman, HR & OD Manager left the meeting.

Action(s):

- **The HR&OD Manager to report on the outcome of the 3D review. (September 2017)**

Follow-up Review

Claire Robertson provided the members with an overview of progress of implementing previous recommendations. The members were informed that Audit Scotland had made good progress in implementing the recommendations.

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

Russel Griggs requested that future reports include sufficient explanations as to why it was taking longer than the timescale given to implement some recommendations.

The Chair asked Audit Scotland officers about progress of the outstanding recommendations. The Assistant Director, Corporate Performance and Risk informed the members that recommendations 1 & 2 in the report were complete and provided an update on the current positions of recommendations 3 & 4.

The Chair asked that for recommendation 3 the analysis of 2016/17 and longer term performance trends be shared with the internal auditor. The Chair also asked that for recommendation 4 that the Assistant Director, Corporate Performance and Risk report back on the dates for the efficiency reviews.

The Audit Committee noted the report.

Action(s):

- **The Assistant Director, Corporate Performance and Risk to share the analysis of 2016/17 and longer term performance trends be shared with the internal auditor. (June 2017)**
- **The Assistant Director, Corporate Performance and Risk to report back on the dates for the efficiency reviews. (September 2017)**

8. Annual Internal Audit Report 2016/17

Claire Robertson, BDO introduced Audit Scotland's internal audit annual report for 2016/17 which had been previously circulated.

The Chair invited comments and questions from the members in relation to the annual report. Russel Griggs suggested that information security should possibly be revisited sooner than planned due to the malware incident that severely affected the NHS. Claire Robertson informed the members that BDO had prepared a paper on the incident and that she would share it with Audit Scotland after the meeting.

The Chief Operating Officer agreed to discuss the malware incident with Audit Scotland's Digital Service Manager to evaluate if there was a need to move the timing of the next IT security audit. A paper would be prepared for the Committee on our systems and response to the malware issue that affected the NHS.

The Audit Committee noted the report.

Actions(s):

- **The Chief Operating Officer to advise the Audit Committee/Internal Auditors if the next IT security audit is required sooner. (September 2017)**
- **The Chief Operating Officer to prepare a report on our systems and response to the malware issue that affected the NHS. (September 2017)**
- **Claire Robertson to distribute BDOs report on information security. (May 2017)**

9. Review of Audit Quality

Elaine Boyd, Assistant Director of Audit Strategy, Fiona Daley, External Consultant and John Gilchrist, Manager in Audit Strategy joined the meeting.

The Assistant Director of Audit Strategy submitted a report on the review of audit quality, which had been previously circulated.

The Chair asked the members and those present to introduce themselves to those that had joined the meeting for this item.

The Chair informed the members that there were two areas for discussion covering governance of audit quality and securing external assurance over all audit work. Russel Griggs comment that it was a comprehensive report and that focus should be to concentrate on the important aspects of the report. The Chair invited comments and questions from the members.

A discussion took place on the following:

- The process for ensuring the audit quality of the firms including whether there was merit in including the firms in hot/cold reviews.

- The proposed governance arrangements and the role the non-executive members of the Audit Committee/Board would play, and whether there was a conflict between operational aspects and the oversight role.
- Reporting to management, the Audit Committee and the Board.
- The reporting on audit quality key performance indicators and how these should be filtered to highlight issues for the Committee and how reports should include the action management intends to take to address identified issues.
- The external organisations that have been identified that could carry out the audit quality assurance work for financial audits and whether those organisations could also cover performance audits.
- Claire Robertson informed the members that internal audit had commenced the quality management audit and would report back on the findings to a future meeting.

The Audit Committee noted the report and agreed to proceed with the proposals in the paper.

Elaine Boyd, Assistant Director of Audit Strategy, Fiona Daley, External Consultant and John Gilchrist, Manager in Audit Strategy left the meeting.

Action(s):

- **The Assistant Director, Audit Strategy to proceed with the proposals in the audit quality report and report progress to future meetings. (September 2017)**

10. 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.

Russel Griggs asked for and received an update from the Assistant Director, Corporate Performance and Risk on his visit to Visit Scotland to see their performance and risk management system.

The Chair welcomed the report but reiterated that Audit Scotland should not be confined to the current style of the report, which had been in use for some time, if a better style and format would help manage the risks/linkages/reporting. The Chief Operating Officer advised the Chair that the Assistant Director, Corporate Performance and Risk was currently looking at this in the context of developing the new corporate plan and the performance management framework.

A discussion took place on the net score of risk 14 – Failure to comply with file and records management policy and should the gross risk score better reflect the current position. The Assistant Director, Corporate Performance and Risk advised the members that the score was based on the current evidence available and that it was anticipated that the score could be reduce in the near future following a lessons learned review.

The Audit Committee noted the report.

11. Risk Interrogation: Failure of Reputation

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

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

The members were satisfied with the report and the Chair of the Board advised the members that he thought it was a very comprehensive report.

The report was noted.

12. Data Incident/Loss

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

The Auditor General as Audit Scotland's Accountable Officer informed the members of the Audit Committee that it was very important that lessons were learnt from the records management data incident to reduce the likelihood of this ever reoccurring.

There were no further comments or questions on the report and it was duly noted.

13. 2016/17 Annual Assurance on Information Governance and Security

The Assistant Director, Corporate Performance and Risk submitted the 2016/17 annual report on information governance and security, which had been previously circulated.

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

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

14. 2016/17 Annual Report on Hospitality and Gifts

The Corporate Governance Manager submitted the 2016/17 annual report on the register of hospitality and gifts, which had been previously circulated.

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

A discussion took place on when it was appropriate for hospitality or gifts to be declared in the Audit Scotland register, noting that some members had commitments with other organisations beyond Audit Scotland. It was generally agreed that declaration was required when an invitation was associated with a member's role at Audit Scotland.

The Audit Committee noted the report.

15. 2016/17 Annual Report on Fraud and Bribery

The Corporate Governance Manager submitted the 2016/17 annual report on bribery and fraud, 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 Audit Committee members noted the report.

16. 2016/17 Annual Report on Whistleblowing

The Corporate Governance Manager submitted the 2016/17 annual report on whistleblowing, which had been previously circulated.

The Chair invited comments and questions.

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

17. 2016/17 Annual Report on Correspondence

The Assistant Director of Performance Audit and Best Value submitted the 2016/17 annual report on correspondence, which had been previously circulated.

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

The members welcomed the report and commented on the continued improvement in this area and the secretary to the Committee was asked by the Chair to pass on the Committee's appreciation to Fraser McKinlay, Director of PABV and his correspondence team.

The members noted the report.

Action(s):

- **The Corporate Governance Manager to pass on the Committee's appreciation for the report to Fraser McKinlay, Director of PABV and his correspondence team. (May 2017)**

18. Review of Audit Committee Effectiveness

There was submitted a report by the Assistant Director, Corporate Performance and Risk, on the findings of the Audit Committee's self-evaluation questionnaire, which had been previously circulated.

The Assistant Director, Corporate Performance and Risk thanked the members for the prompt return of the evaluation questionnaires and advised that the report presented showed that there were no specific areas requiring attention beyond the review of each meeting.

The members were advised that the date on the appendix to the report should be April 2017 rather than April 2016.

The Audit Committee noted the report.

19. Any Other Business

There was no other business raised.

20. Review of Meeting

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

There were no issues raised.

21. Date of Next Meeting

The next meeting will be held at 09.30am on **6 June 2017** 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
6 June 2017 at 09:30hrs.

PRESENT: H Logan (Chair)
R Hinds

APOLOGIES: R Griggs

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
E Boyd, Assistant Director of Audit Strategy
J Gilchrist, Manager in Audit Strategy
M Walker, Assistant Director, Corporate Performance and Risk
D Hanlon, Corporate Finance Manager
A Devlin, Corporate Governance Manager
D Blattman, HR&OD Manager
J Gillies, Communications Manager
C Anderson, Senior HR&OD Consultant
C Robertson, BDO LLP Internal Auditors
A O'Donnell, BDO LLP Internal Auditors
S Cunningham, Alexander Sloan External Auditors
J So, Alexander Sloan External Auditors

<u>Item No</u>	<u>Subject</u>
1.	Private meeting of Audit Committee members and BDO
2.	Welcome and apologies
3.	Declarations of interest
4.	Minutes of meeting 17 May 2017
5.	Review of actions tracker
6.	Audit Committee terms of reference
7.	Internal audit report – Business continuity management
8.	Internal audit progress report
9.	Update on internal audit recommendations
10.	Standing Orders update
11.	Biennial review of Whistleblowing and Counter Fraud policies
12.	Review of risk register
13.	Data incidents/loss
14.	2016/17 annual report on Audit Quality
15.	2016/17 annual report on health, safety and wellbeing
16.	2016/17 governance statement on internal control and certificate of assurance
17.	Q4 financial performance report
18.	Audit management letter
19.	Draft annual report and accounts
20.	2016/17 annual report from the Chair of the Audit Committee to the Board
21.	AOB
22.	Review of meeting
23.	Date of next meeting

1. Private meeting of Audit Committee members and BDO

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

There was nothing of significance raised for the members' attention.

2. Welcome and apologies

Apologies were received from R Griggs.

3. Declarations of Interest

There were no declarations of interest.

4. Minutes

The Audit Committee members reviewed the minutes of the meeting of 17 May 2017, which had been previously circulated.

The minutes were approved as an accurate record.

5. Review of Actions Tracker

An updated copy of the actions tracker was tabled at the meeting.

The Audit Committee reviewed progress made on outstanding actions and the dates for implementation of the actions. Updates were provided by the Chief Operating Officer on the discussion with SCPA regarding external audit and the Corporate Finance Manager on training and recruitment costs in the Q4 finance paper.

The Chair of the Audit Committee requested that the reference number on the tracker be added to the minutes for ease of cross-referencing actions.

The progress of actions on the action tracker was noted.

Action(s):

- **34AC - The Corporate Governance Manager to arrange for the action tracker reference number to be added to the minutes. (September 2017)**
- **35AC - The Chief Operating Officer to provide a further update on the discussions with SCPA regarding external audit at the next meeting. (September 2017)**

6. Audit Committee Terms of Reference

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

The members noted the on-going dialogue with the SCPA on the Committee's role in monitoring the external auditor's independence, objectivity and appraising effectiveness and value for money given the appointment is made by the Scottish Commission for Public Audit.

The members agreed to amend the terms of reference to include the provision for members to be in attendance by video or telephone conferencing.

The members noted the report.

Action(s):

- **36AC - The Corporate Governance Manager to update the Audit Committee's term of reference with the provision for video and telephone conferencing. (September 2017)**

7. Internal Audit Reports

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

Claire advised the members that they found a lot of good practice in the continuity arrangement and this had led to substantial assurance being given for both design and operational effectiveness. There were two recommendations made for further improvement.

The Chair asked if the plans would be updated if the recovery time were not achieved during tests. The Corporate Governance Manager said they would. The Chair also asked why the implementation date for the second recommendation on referencing step-by-step guidelines would take until November. The Corporate Governance Manager informed the Chair that this coincided with the next regular refresh of the plans and that leaving it until this time would not compromise our recovery if an incident occurred.

The members noted the report.

8. Internal Audit Progress Report

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

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

Ronnie Hinds asked for and received an outline on the upcoming audit efficiency audit. Ronnie was advised that the draft terms of reference would be circulated for comment by the members prior to the audit as was customary.

The Audit Committee noted the report.

9. Update on internal audit recommendations

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

The Chair asked what the implications would be if the vulnerability security scanning was done more frequently and whether it would impact on normal working. The Assistant Director, Corporate Performance and Risk agreed to investigate this and report back to the next meeting.

The Audit Committee noted the report.

Action(s):

- **37AC - The Assistant Director, Corporate Performance and Risk to investigate the impact of more frequent security scanning. (September 2017)**

10. Standing Orders Update

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

The Corporate Governance Manager advised the members that the covering report suggests that the waiver could be provided by verbal means in addition to written notification. After discussion the Chair of the Board suggested amending the wording in the Standing Orders to allow for verbal notification of the application of the waiver by the Auditor General and/or the Chair of the Accounts Commission.

The members agreed to recommend the Standing Orders to the Board for approval at its next meeting later that morning, subject to the amendment above.

Action(s):

- **38AC - The Corporate Governance Manager to update the Standing Orders at section 15 to allow notice to be given by verbal means. (September 2017)**

11. Biennial review of Whistleblowing and Counter Fraud Policies

There was submitted a report by the Corporate Governance Manager, on the review of the Whistleblowing and Counter Fraud policies, which had been previously circulated.

The Chair invited comments on the policies. There were none and the committee agreed to recommend them to the Board for approval at their next meeting.

12. Review of Risk Register

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

The Chair of the Audit Committee asked if risk 14 on the register still retained a net score of 12. The Assistant Director, Corporate Performance and Risk advised that the trigger for reducing the risk would be the evidence arising from the lessons learned review which would be carried out by the Knowledge, Information & Technology Governance Group later that month. It was expected that the risk would reduce at that point and in advance of the next review of the risk register by Management Team in August and the Audit Committee in September.

Ronnie Hinds asked if the further actions to enhance protection of digital information through improved identity verification would cover the Accounts Commission members. The Assistant Director, Corporate Performance and Risk believed it would, but agreed to provide a further information at the next meeting.

The Audit Committee noted the report.

Action(s):

- **39AC - The Assistant Director, Corporate Performance and Risk to provide further information on the coverage and application of improved identity verification for the next meeting. (September 2017)**

13. Data Incident/Loss

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

There were no further comments or questions on the report and it was duly noted.

14. 2016/17 Annual Report on Audit Quality

John Gilchrest, Manager in Audit Strategy and Elaine Boyd, Assistant Director of Audit Strategy joined the meeting.

The Assistant Auditor General submitted the 2016/17 annual report on audit quality, which had been previously circulated. The Audit Strategy Manager advised that the report had been written in the context of the ongoing review of quality arrangements.

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

A discussion took place on:

- The staff survey results for Audit Scotland and the firms and why some responses relatively seemed low on training and development and the time and resources available to deliver high quality audits.
- The importance of the independence of Audit Strategy from the audit process and the role of the Assistant Auditor General
- Why cold reviews go into more detail than hot reviews, where it was explained that the detail is informed by the focus and timing of each kind of review
- Why the number of hot reviews had decreased and why only Deloitte had conducted EQCR reviews. It was explained it was determined by the criteria including the risk profile and size of the audit.
- If the internal audit on quality was forward or backward looking. Claire Robertson informed the members that it was forward looking and would consider the scope and arrangements for delivering the quality review.

The Audit Committee thanked the authors of the report and noted it.

John Gilchrest, Manager in Audit Strategy and Elaine Boyd, Assistant Director of Audit Strategy left the meeting.

15. 2016/17 Annual Report on Health, Safety and Wellbeing

David Blattman, HR&OD Manager and Charlotte Anderson, Senior HR&OD Consultant joined the meeting.

The Chief Operating Officer submitted the 2016/17 annual report on health and safety, which had been previously circulated. The HR&OD Manager informed the members that it was a strong report and that there were no issues of concern he wished to highlight.

The Chair agreed it was a strong report and invited comments and questions from the members in relation to the report.

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

David Blattman, HR&OD Manager and Charlotte Anderson, Senior HR&OD Consultant left the meeting.

16. 2016/17 Governance Statement on Internal Control and Certificate of Assurance

The Chief Operating Officer submitted Audit Scotland's 2016/17 governance statement on internal control and certificate of assurance, which had been previously circulated.

The Chair invited comments and questions.

There were no comments or questions and the Audit Committee members agreed to recommend the certificate to the Board at its next meeting.

17. Q4 Financial Performance Report

The Chair of the Audit Committee advised the members that she would like to take item 18 – Audit Management Letter first then return to the Q4 report.

On this item, there was submitted a report by the Corporate Finance Manager, on the Q4 financial performance, which had been previously circulated.

The Corporate Finance identified a number of key points in the report:

- Net expenditure after tax was £73k less than budget. Excluding the impact of IAS19 pension adjustments which were £366k more than the budget estimate, the underlying underspend increases to £439k. The adverse position in respect of IAS 19 pension adjustments reinforces the importance of ensuring that our budgets include sufficient flexibility to accommodate such variable outcomes.
- Staff numbers were very close to establishment throughout the year.
- Changes to National insurance rates had added £273k (2%) to people costs in 2016/17
- The sector cost analysis presented in the covering paper on the Annual report and accounts for 2016/17 demonstrates the early positive effect of our new Fees and Funding Strategy.

A discussion took place on:

- The timing of the available pension information from the actuary and how we make provision for this when preparing our budgets.
- The format of the pensions report from the actuary and whether it was given by employer and the inclusion of updates on the employers' assets and liabilities.
- The recording of work in progress, where the Corporate Finance Manager advised he was comfortable with the returns from the firms.
- Schedule 9 and work done after the audit year and the process for confirming the audit work was complete.

The members noted the report.

18. Audit Management Letter

This item was taken prior to the Q4 Financial Performance Report (agenda item 17).

Steven Cunningham, Alexander Sloan submitted the draft external audit Management Letter for the year ended 31 March 2017, 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 thanked the auditors and noted the report.

19. 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 2016/17, which had been previously circulated. Corporate Finance Manager informed the members that any changes suggested to the report would be made before it was signed on the 13 June by the Accountable Officer published on 16 June.

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

Ronnie Hinds asked why, in appendix 1, there had been no efficiency target set for the procurement of the firms. The Assistant Auditor General informed the members that significant savings had been made at the previous tender exercise and that forward budgeting had been based on costs remaining the same, however if savings were achieved then this would help with the budget and fee strategy.

The Chair of the Audit Committee asked whether the June 2017 general election should be referenced in the Accountable Officer's report.

The Audit Committee recommended the 2016/17 annual report and accounts to the Board for approval.

James Gillies, Corporate Communications Manager left the meeting.

20. 2016/17 Annual Report from the Chair of the Audit Committee to the Board

The Chair of the Audit Committee introduced the 2016/17 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.

The Corporate Governance Manager, as Secretary to the Committee, informed the members that section 2, paragraph two should read for the Year ended 31 March 2017.

There were no comments or questions and the report was approved for submission to the Board.

Action(s):

- **40AC - The Corporate Governance Manager to amend the report to show the correct date. (June 2017)**

21. Any Other Business

There was no other business raised.

22. Review of Meeting

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

There were no issues raised.

23. Date of Next Meeting

The next meeting will be held at 10.00am on **13 September 2017** in the offices of Audit Scotland, 102 West Port, Edinburgh.