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

Item No	Subject
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

Item No	**Subject**
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.

Minutes

Audit Committee Meeting

Wednesday 13 September 2017, 10.00

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

Present:

H Logan (Chair)
R Hinds

Apologies:

R Griggs

In attendance:

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

1.   Private meeting

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

There were no issues raised from the private meeting.

2.   Welcome and apologies

The Committee noted the apologies received from Russel Griggs for today's meeting.

3.   Declarations of interest

There were no declarations of interest.

4.   Minutes of meeting 6 June 2017

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

The Chair requested updates from the officers in attendance on the actions from the previous meeting. The following actions were discussed:

35AC – The Chief Operating will cover this at a meeting scheduled for 25 September 2017 with the Clerk of the SCPA. Action on-going.

36AC – Audit Committee's terms of reference updated, action complete.

37AC – Action on data security will be covered under item 11 on today's agenda.

38AC – Standing Orders updated, action completed.

39AC – Identity verification will be covered under agenda item 11 on today's agenda.

The minutes were approved as an accurate record.

5.   Review of actions tracker

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

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

6.   Audit Committee terms of reference

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

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

7.   Internal Audit Reports

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

Claire Robertson, BDO introduced the internal audit report on Quality Management which had been previously circulated. Claire advised the members that there were five recommendations made for further improvement.

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

A discussion took place on:

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

The members noted the report.

Action(s):

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

8. Internal Audit Progress Report

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

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

The Audit Committee noted the report.

9. Update on internal audit recommendations

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

The Audit Committee noted the report.

10. Audit Quality Review Update

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

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

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

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

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

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

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

A discussion took place on the style, purpose, content and application of the draft Audit Quality Framework including:

- Confirmation that the framework applied to all audits, whether the appointed auditor is Audit Scotland or one of the firms. The members were informed that the draft will be discussed with the firms after today's discussion. The Auditor General suggested that the Framework could be more explicit about what was required of Audit Scotland and the firms and would be redrafted in light of that.

- Reporting on quality assurance and timescales involved for planning purposes for Management Team, Audit Committee, Accounts Commission, etc.
- The role of the Professional Support Team.
- The need for more detail on how any quality shortfalls would be treated.

Recommendation (c) – consider and agree key performance indicators

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

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

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

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

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

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

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

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

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

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

The members noted the report.

Action(s):

42AC   **The Assistant Auditor General to develop a diagram to aid the explanation of the interrelationships between the different quality groups for the Human Resources and Remuneration Committee update report in October. (October 2017)**

43AC   **The Assistant Director, Quality to arrange for the Audit Committee's Terms of Reference to be updated to include audit quality. (November 2017)**

44AC   **The Assistant Director, Quality to update the framework in light of the Audit Committee's comments, including reference to the firms (October 2017)**

45AC   **The Assistant Director, Quality to include a KPI on any management responses that disagreed with the audit findings. (November 2017)**

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

11. Digital Security Enhancements

David Robertson, Digital Services Manager joined the meeting.

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

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

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

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

The Audit Committee noted the report.

David Robertson, Digital Services Manager left the meeting.

12. Review of Risk Register

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

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

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

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

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

The Audit Committee noted the report.

Action(s):

46AC   **The Assistant Director, Corporate Performance and Risk to remove risk 14 from the register and ensure it remains on the information risk register. (November 2017)**

47AC   **The Assistant Director, Corporate Performance and Risk to update the risk register legend to incorporate an explanation of the direction of travel arrows. (November 2017)**

13. Risk Interrogation – Capacity and One Organisational Working

David Blattman, HR & OD Manager joined the meeting.

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

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

The report was noted.

14. 3D Review Report

The HR & OD Manager submitted the 3D review report, which had been previously circulated. David provided an overview of 3D completion rates compared to the previous PAD process and the quarterly engagement with each business group about progress in conducting 3D reviews.

The Chair welcomed the update report and further discussion took place on:

- The benefit of the new system in freeing up staff and manager time as a result of the streamlined approach of the 3D process.
- The expectations of staff from the 3D process and how staff and managers were empowered to support development and make 3D work for all.

The Audit Committee noted the report.

David Blattman, HR & OD Manager left the meeting.

15. Corporate Governance Policies Update

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

The Chair invited comments from the members on the:

- Financial regulations.
- Scheme of delegation.
- Members' code of conduct.
- Staff code of conduct.

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

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

Action(s):

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

16. Data Incident/Loss

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

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

17. File and Records Management Update

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

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

The Chair of the Audit Committee asked whether there was a technical solution to quantify any data losses, should they occur in the future. The Assistant Director, Corporate Performance and Risk agreed to look at this with the Digital Services Manager.

The members noted the report.

Action(s):

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

18. Q1 Financial Performance 2017/18

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

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

19. Any other business

There was no other business raised.

20. Review of meeting

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

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

21. Date of next meeting

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

Minutes

Audit Committee Meeting

Wednesday 15 November 2017, 10.00am

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

Present:

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

In attendance:

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

1. Private meeting

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

There were no issues raised from the private meeting.

2. Welcome and apologies

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

There were no apologies.

3. Declarations of interest

There were no declarations of interest.

4. Minutes of meeting 13 September 2017

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

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

5. Review of actions tracker

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

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

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

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

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

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

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

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

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

The members welcomed and noted the update.

6. Audit Committee terms of reference

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

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

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

7. Internal audit progress report

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

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

The members noted the report.

8. Internal audit reports

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

Procurement and contract management

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

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

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

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

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

Audit efficiency

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

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

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

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

A discussion took place on the following points:

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

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

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

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

The members noted the two internal audit reports.

9.   Update on internal audit recommendations

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

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

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

The members noted the progress on outstanding internal audit recommendations.

10.   Internal audit procurement 2018

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

11.   Audit quality – first report 2017/18

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

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

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

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

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

A discussion took place which included the following points:

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

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

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

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

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

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

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

The members noted the report.

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

Elaine Boyd and John Gilchrist left the meeting.

12. Q2 financial performance report

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

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

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

The members noted the report.

13. Review of risk register

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

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

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

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

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

The Audit Committee noted the report.

14. Risk interrogation – failure of impact and influence

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

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

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

The Audit Committee noted the report.

15. Risk interrogation – 2018 schedule

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

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

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

16. Business continuity arrangements – annual review 2017

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

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

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

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

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

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

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

The members noted the report.

18. Standing orders – update

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

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

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

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

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

19. Data incident / loss

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

The members noted the report.

20. Proposed Audit Committee dates for 2018

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

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

The members approved the meeting dates for 2018.

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

21. Any other business

There was no other business raised.

22. Review of meeting

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

23. Date of next meeting

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

The internal and external auditors left the meeting

The Chair returned to items 5 and 10 on the agenda

Item 5 - Actions tracker item 35AC:

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

Item 10 - Internal Audit Procurement 2018

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

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

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