



Minutes of the Audit Committee

2016

Minutes of meeting of the **Audit Committee** of
Audit Scotland held in the offices of
Audit Scotland, at 102 West Port, Edinburgh on
26 February 2016 at 10:00hrs.

PRESENT: H Logan (Chair)
D Sinclair
R Griggs

APOLOGIES: None

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

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1. Welcome and apologies

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

There were no apologies.

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

2. Declarations of Interest

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

3. Minutes

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

The minutes were approved as an accurate record.

4. Review of Actions Tracker

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

The Audit Committee members noted progress on outstanding actions.

5. Audit Committee Terms of Reference

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

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

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

The Audit Committee approved the changes and noted the report.

Action(s):

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

6. Internal Audit Progress and Reports

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

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

(a) Internal audit progress report

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

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

The Audit Committee noted the report.

(b) Procurement of audit firms audit report

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

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

Following discussion the Committee noted the report.

(c) Communications and stakeholder engagement audit report

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

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

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

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

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

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

The Committee noted the report.

Action(s):

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

PABV programme development

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

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

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

The Committee noted the report.

Action(s):

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

Claire Sweeney, Assistant Director, PABV left the meeting.

7. Internal Audit Plan 2016/17

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

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

The members raised the following points:

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

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

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

Action(s):

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

8. Co-operation between internal and external audit

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

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

The Audit Committee noted the report.

9. Update on Internal Audit Recommendations

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

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

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

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

Following the discussion the Audit Committee noted the report.

10. Correspondence Handling Arrangements

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

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

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

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

The Audit Committee welcomed the update.

Action(s):

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

11. Overview of FRC Report on Audit Systems

The Chair of the Audit Committee brought forward this item.

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

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

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

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

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

The Audit Committee noted the report.

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

12. Q3 Financial Performance Report 2015/16

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

The Chair invited comments and questions from the members.

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

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

The Audit Committee noted the report.

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

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

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

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

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

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

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

The Audit Committee noted the report.

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

15. Review of Risk Register

There was submitted a report by the Assistant Director, Corporate Performance and Risk, on the review of Audit Scotland's risk register, which had been previously circulated. The members were informed that there was one 'red' risk and that it would be covered under agenda item 15.

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

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

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

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

Action(s):

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

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

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

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

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

The Audit Committee noted the report.

17. External Audit Plan 2015/16

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

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

The Audit Committee noted the report.

18. Business Continuity Arrangements Annual Review

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

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

The members noted the report.

19. Data Incident/Loss

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

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

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

20. Evaluation of Audit Committee Effectiveness

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

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

Action(s):

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

21. Any Other Business

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

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

Action(s):

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

22. Date of Next Meeting

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

Minutes of meeting of the **Audit Committee** of
Audit Scotland held in the offices of
Audit Scotland, at 102 West Port, Edinburgh on
3 May 2016 at 10:00hrs.

PRESENT: H Logan (Chair)
D Sinclair
R Griggs

APOLOGIES: None

IN ATTENDANCE: I Leitch, Chair of Audit Scotland Board
C Gardner, Auditor General for Scotland/Accountable Officer
D McGiffen, Chief Operating Officer
R Frith, Assistant Auditor General
M Walker, Assistant Director, Corporate Performance and Risk
A Devlin, Corporate Governance Manager
C Robertson, BDO LLP Internal Auditors
A O'Donnell, BDO LLP Internal Auditors
S Cunningham, Alexander Sloan External Auditors

<u>Item No</u>	<u>Subject</u>
1.	Private meeting of Audit Committee and BDO
2.	Welcome and apologies
3.	Declarations of interest
4.	Minutes
5.	Review of actions tracker
6.	Audit Committee terms of reference
7.	Internal audit reports
8.	Internal audit annual report 2015/16
9.	Update on internal audit recommendations
10.	Review of risk management framework
11.	Review of risk register
12.	Risk Interrogation – Failure of reputation
13.	2015/16 annual report on bribery and fraud
14.	2015/16 annual report on whistleblowing
15.	2015/16 annual report on information governance and security
16.	2015/16 annual report on the register of hospitality and gifts
17.	Data incident/loss
18.	Audit Committee effectiveness report
19.	AOB
20.	Date of next meeting

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

The Chair advised that a private meeting between the Audit Committee and the internal auditors was held prior to the start of the meeting and that nothing contentious had been noted.

2. **Welcome and apologies**

There were no apologies.

3. **Declarations of Interest**

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

4. **Minutes**

The Audit Committee members reviewed the minutes of the meeting of 26 February 2016, which had been previously circulated.

The Chair of the Accounts Commission highlighted the following corrections:

- The word 'may' in the second last paragraph on page three should be amended to 'will'.
- The last sentence in the last paragraph of item six on page four that reads – '*He also suggested that consideration should be given to interviewing the Secretary to the Accounts Commission in future audits where the Commission's arrangements should also be covered*', be amended to read '*He also suggested that consideration must be given to interviewing the Secretary to the Accounts Commission in future audits where the Commission's arrangements are being covered*'.

Subject to the above amendments 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 Chief Operating Officer updated the members on the action for holding meetings in Glasgow and suggested the Board meeting of 27 October. Members were requested to confirm its suitability to the Chief Operating Officer.

The Audit Committee members noted progress on outstanding actions.

6. **Audit Committee Terms of Reference**

The Chair invited comments from members on the paper submitted by the Corporate Governance Manager, which had been previously circulated. The paper advised that no changes to the Audit Committee's Terms of Reference were required.

The members noted the report.

7. Internal Audit Progress and Reports

Claire Robertson, BDO introduced internal audit reports, which had been previously circulated.

(a) Cost of audit/fees and funding

Claire Robertson provided an overview of the work undertaken during the audit and the reason that they had arrived at a reasonable level of assurance. Claire informed the members that the assurance level had been subject to extensive discussions with Audit Scotland.

The Chief Operating Officer informed the members that Management Team had a good discussion around the assurance level and that due to the work that had been done and that was also on-going on audit fees Management Team were comfortable with the assurance level.

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

Russel Griggs asked if it had always been the intention to review the process for setting fees. He was informed that this was the case.

The Chair of the Board informed the members that he had been pursuing the process for fee setting for some time and noted that the Board had considered a number of reports on this. He sought clarification on the statement that previous decisions to apply uniform fee changes within and across sectors and formulae apportionments and adjustments over a number of years had resulted in the fee setting process having become more complex and less transparent. Claire Robertson advised that past Board papers had been used to inform the conclusion reached.

Russel Griggs asked when the new fee model would be available. The Assistant Auditor General informed the members that it would be ready for the first audits of the new audit appointments.

The Chair of the Audit Committee asked for an update at the next meeting on the implementation of recommendation two within the report.

The Audit Committee noted the report.

Action(s):

- **The Finance Manager to provide an update on the implementation of recommendation two at the next Audit Committee. (June 2016)**

(b) IT Strategy

Claire Robertson provided an overview of the work undertaken during the audit and that it had achieved a substantial assurance rating.

The Chair of the Audit Committee queried how this report achieved substantial assurance when it had similar findings to the cost of audit/fees and funding report. Claire Robertson informed the Chair that the two recommendations were low level and therefore not significant enough for a lower assurance level to reasonable assurance.

Following discussion the Committee noted the report.

(c) Financial planning

Claire Robertson informed the members that the audit achieved substantial assurance and that there were no recommendations. The Committee were further informed that Audit Scotland's processes in this area were very strong and clear and that they had not seen a better way of financial planning.

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

As there were no comments or queries the Committee noted the report and commended the Finance Team on the findings.

(d) Follow-up report

Claire Robertson provided the members with an overview of the progress of implementation of previous recommendations. The members were informed that 16 of the 17 recommendations that were due to be implemented had been and that the outstanding recommendation was to be discussed today at agenda item 18.

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

Russel Griggs asked if internal audit set time limits for implementation of High, Medium and Low recommendations as he had seen in other organisations. Claire Robertson advised that they did not set time limits for each category of recommendation, and it was for the organisation to set the implementation date based on the seriousness of the recommendation.

The Audit Committee noted the report.

8. Internal audit annual report 2015/16

Claire Robertson, BDO introduced the internal audit annual report for 2015/16 which had been previously circulated.

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

There were no questions or queries from the members on the report.

The Audit Committee noted the report

9. Update on internal audit recommendations

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

The Corporate Governance Manager advised the members that the purpose of this short report was to inform the members that Audit Scotland managers continued to implement recommendations made by internal audit and that a full report on progress would be submitted at the next meeting.

The Audit Committee noted the report.

10. Review of risk management framework

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

The Assistant Director, Corporate Performance and Risk, gave an overview of the changes made to the framework as a result of the review.

The Chair invited comments and questions from the members in relation to the changes proposed in the revised risk management framework, and asked Steven Cunningham and Claire Robertson how Audit Scotland's framework compared to others that they had seen and whether they could suggest any best practice improvements.

Steven Cunningham informed the Chair that it was comparable with others he had seen and Claire Robertson informed the members that as a result of a recent audit on risk management in Audit Scotland she had a few minor changes to suggest.

Russel Griggs asked if all staff would know of the risk management framework. The Assistant Director, Corporate Performance and Risk said that he believed they would. The Chief Operating Officer informed the members that staff are actively engaged in this area on an on-going basis through declarations on ethics, conflict of interests, etc.

The Chair informed the members that she was supportive of the changes proposed in the revised framework.

The Chair of the Accounts Commission asked if there was a more suitable name for exhibit 3 the risk management universe and if the diagram fully reflected the responsibilities as described in appendix 1 on page 18.

The Assistant Director, Corporate Performance and Risk agreed to change exhibit 3 to more closely match appendix 1, however it had been difficult to find a more suitable name.

The Audit Committee recommended the risk management framework be submitted to the Board for approval subject to the changes discussed.

Action(s):

- **The Assistant Director, Corporate Performance and Risk to amend the risk management framework as discussed.**

11. 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 provided an overview of the changes to the risks within the register.

The Chair invited comments from the members on the risk register.

The members discussed the risks on the register and in particular the gross risk scores for risk 13, 6 and 4. This was in part due to the uncertainties of future work resulting from changes to legislation, and the risk to our reputation of getting judgements wrong and/or a failure of quality. The Accountable Officer agreed that there was an increased risk in the short term to the quality of our work especially during the appointment process but

queried whether it was sufficient to raise the net risk score for risk 6 and the subsequent impact on risk 4. The Accountable Officer also recognised that there were risks around future work when the scope and volume were generally unknown however the score in the register reflected the risks around engagement with the other parties to establish the scale of future work and that this would be an actively managed risk going forward.

The Chair of the Audit Committee asked if the team would review these risks and their impact. The Chief Operating Officer gave a commitment to review these risks.

The Chair noted that paragraph three of the report showed a reduction in the risk score for the audit recording software. However, the Chair queried whether there was still a performance issue with it. The Assistant Director, Corporate Performance and Risk informed the Chair a number of actions had been taken and there had been an improvement but until the system was stress tested during the upcoming final accounts period he could not ensure that all the issues had been resolved and that this will continue to be actively monitored. The members were also informed that Audit Services Group Management Team were happier with the impact of the recent improvements.

The Audit Committee welcomed the update and noted the report.

12. Risk interrogation: failure of reputation

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

The Chair invited comments from the members. The Chair of the Accounts Commission stated that he had raised his issues on failure of reputation under agenda item 11 discussion on the risk register.

Russel Griggs asked how Audit Scotland managed its reputation and the expectations of us as an organisation. He was informed that we give careful consideration to the information we provide in both written and verbal formats to the public and to how we engaged with stakeholders. An example was given of our correspondence process for providing information and managing expectations.

The Chief Operating Officer reminded the members of the advances we had been making in promoting our work and what we do through social media.

The Audit Committee noted the report.

13. 2015/16 annual report on bribery and fraud

The Corporate Governance Manager submitted the 2015/16 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 noted the report.

14. 2015/16 annual report on whistleblowing

The Corporate Governance Manager submitted the 2015/16 annual report on whistleblowing, which had been previously circulated and which indicated no whistleblowing reports by staff of Audit Scotland.

The Chair asked whether the new legislation required reporting of whistleblowing by people in respect of other public bodies would be required in future. She was advised that this would need to be included in either the Audit Scotland Annual Report or a stand-alone report.

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

15. 2015/16 annual report on information governance and security

The Assistant Director, Corporate Performance and Risk submitted the 2016/16 annual report on information governance and security, which had been previously circulated.

The Assistant Director, Corporate Performance and Risk informed the Committee about the process for the escalation of operational risks to the strategic risk register.

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

The Audit Committee noted the report.

16. 2015/16 annual review on the register of hospitality and gifts

The Corporate Governance Manager submitted the 2015/16 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.

Russel Griggs asked how gifts were classified as high value and did Audit Scotland ever get high value gifts. He was informed that, in accordance with the Code of Conduct, any gift over £50 was classed as high value and that on occasion a few gifts exceeded the threshold, for example book tokens for speaking at external events.

The Audit Committee noted the report.

17. Data incident/loss

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

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

18. Audit Committee effectiveness report

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 highlighted the areas the Committee may wish to focus on for action over the coming year.

The Audit Committee approved the actions and noted the report.

At the conclusion of the formal reporting the Chair of the Audit Committee invited comments from the members on the quality of the reports presented to the Committee for the meeting. All expressed satisfaction with the papers provided.

19. Any Other Business

There was no other business.

20. Date of Next Meeting

The next meeting will be held at 10.00 a.m. on **2 June 2016** in the offices of Audit Scotland, 102 West Port, Edinburgh.

Minutes of meeting of the **Audit Committee** of
Audit Scotland held in the offices of
Audit Scotland, at 102 West Port, Edinburgh on
2 June 2016 at 10:00hrs.

PRESENT: H Logan (Chair)
D Sinclair
R Griggs

APOLOGIES: None

IN ATTENDANCE: I Leitch, Chair of Audit Scotland Board
C Gardner, Auditor General for Scotland/Accountable Officer
D McGiffen, Chief Operating Officer
R Frith, Assistant Auditor General
F McKinlay, Director of PABV and Controller of Audit
A Canning, Assistant Director of PABV
M Walker, Assistant Director, Corporate Performance and Risk
D Hanlon, Corporate Finance Manager
D Blattman, HR & OD Manager
J Gillies, Corporate Communications Manager
A Devlin, Corporate Governance Manager
C Robertson, BDO LLP Internal Auditors
S Cunningham, Alexander Sloan External Auditors
D Jeffcoat, Alexander Sloan External Auditors

<u>Item No</u>	<u>Subject</u>
1.	Private meeting of Audit Committee, BDO and Alexander Sloan
2.	Welcome and apologies
3.	Declarations of interest
4.	Minutes
5.	Review of actions tracker
6.	Audit Committee terms of reference
7.	Internal audit progress report 2016/17
8.	Internal audit report – Risk management
9.	Internal audit recommendations - update
10.	Corporate risk register
11.	2015/16 annual report on transparency and quality
12.	2015/16 annual report on health and safety
13.	2015/16 annual report on correspondence
14.	2015/16 governance statement on internal control and certificate of assurance
15.	Q4 financial performance report
16.	Audit management letter
17.	Draft annual report and accounts
18.	Data incident/loss
19.	2015/16 annual report from the Chair of the Audit Committee to the Board
20.	AOB
21.	Date of next meeting

1. Private meeting of the Audit Committee BDO and Alexander Sloan

The Chair advised that private meetings between the Audit Committee and the internal and external auditors were held prior to the start of the meeting and that no issues had arisen. The Chair thanked those in attendance for their efforts during the year.

2. Welcome and apologies

There were no apologies.

3. Declarations of Interest

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

4. Minutes

The Audit Committee members reviewed the minutes of the meeting of 3 May 2016, which had been previously circulated.

The members were informed that the meeting date in section four of the minutes should read 26 February 2016. This mistake had been noticed and amended prior to the meeting and updated copies of the minutes were available for the members, if required.

The Chair noted that the text of the minute, at section 11, included a reference to an action relating to gross risk scores but that this had not been highlighted as an action at the end of that section. The Assistant Director – Corporate Performance and Risk advised that the action would be incorporated into the action tracker.

The updated minutes were approved as an accurate record subject to the above.

5. Review of Actions Tracker

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

The Audit Committee members noted progress on outstanding actions.

6. Audit Committee Terms of Reference

The Chair invited comments from members on the report submitted by the Corporate Governance Manager, which had been previously circulated. The report advised that no changes to the Audit Committee's Terms of Reference were required.

The members noted the report.

7. Internal Audit Progress Report 2016/17

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

Claire advised the members that one audit had been completed, one was in progress and the terms of reference (TOR) for the next one had been agreed all in line with the 2016/17 audit plan.

The Chair asked how long before an audit commenced was the TOR available; she was informed approximately four weeks. Russel Griggs commented that it was normal practice with other Audit Committees that they receive and comment on TOR's before the audit field work commenced. After discussion the Audit Committee requested that audit TOR's be distributed to members for comment as part of the TOR agreement process.

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

Action(s):

- **The Assistant Director, Corporate Performance and Risk to distribute and seek feedback from Audit Committee members on future internal audit TOR's. (August 2016)**

8. Internal Audit Report – Risk Management

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

Claire advised the members that it had been two years since this area had been last audited and that there was strong evidence that Audit Scotland's risk management arrangements had been strengthened and were now embedded in the organisation and that this resulted in an overall categorisation of 'enabled'. Claire also advised that substantial assurance had been achieved and that there were a few relatively minor recommendations for further improvement.

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

The Chair of the Accounts Commission sought clarification on the recommendations around categorising risks and controls and the practicalities of implementing these. The Assistant Director – Corporate Performance and Risk advised that the Performance and Risk Group were comfortable with the recommendations and would monitor how they worked in practice following implementation.

The Audit Committee noted the report

9. Internal Audit Recommendations - Update

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

The Corporate Finance Manager was invited to and provided an update to the members on the timescale and actions for implementing a system for coding general expenses to client audit codes. The Chair asked if this work was being treated as a formal project with the associated project management and documentation. She was advised that the approach was proportionate to the size of the project and that the project is being coordinated and delivered by him and the Corporate Accountant. The Chair of the Accounts Commission asked if there was logic to the implementation date of 1 April 2017 and if this was to align it with the new financial year. He was advised that the implementation date was informed by accounting timescales, dependencies on external system suppliers and the timescales for the time recording system project.

On the communications audit recommendations Russel Griggs asked if putting social media high-level objectives in the communications strategy was sufficient to fully address the recommendation. The Assistant Director, Corporate Performance and Risk

advised that this formed part of the broader communications and engagement strategy which would be considered by the Board at its meeting in August.

The members also sought further information on the additional work required to create a fully integrated approach to cluster planning for the next five years. The members were informed that the plan and underpinning process was now well defined but further work was required for it to span the full five years. The Auditor General advised the members that she had asked that cluster planning became a normal part of business rather than a cyclical event.

The Audit Committee noted the report.

10. Corporate Risk Register

There was submitted a report by the Assistant Director, Corporate Performance and Risk, on the review of Audit Scotland's risk register, which had been previously circulated. The Committee were informed that this was a holding report in accordance with the Committee's terms of reference. The members were informed that there was no change to the report provided to the Committee on 3 May 2016.

The Chair asked for an update on the work to address system performance issues with MKI; she was informed that the system was performing better and that final testing should be completed in June. It was hoped that this risk would be removed from the risk register after the final testing.

Russel Griggs asked for clarification behind the increase in the risk score for risk 6 – failure of quality. The member was informed that this was due to the risks associated with the audit rotation and the appointment of the firms and that, after evaluation of the 2016/17 audit work, it was hoped that this score would come back down.

The Audit Committee noted the report.

11. 2015/16 Annual Report on Transparency and Quality

The Assistant Auditor General submitted the 2015/16 annual report on Transparency and quality, which had been previously circulated.

The Assistant Auditor General informed the members that feedback had been provided to him outwith the meeting and that feedback on consistency of style/tone/language and the sequencing of the positive messages earlier in the report would be addressed prior to publication.

The Chair, in referring to content of paragraph 77 of the report, noted the areas for improvement and asked if there was a systemic problem that would undermine the quality of the audits. The Assistant Auditor General informed the members that the quality of audits was high overall but some issues were identified in some audits. He advised that this degree of disclosure was consistent with that now provided publicly by the FRC from their reviews of private firms. He also advised that ICAS had provided positive assurance on many aspects of our auditing as identified in paragraph 79 and that this had a balancing affect on paragraph 77. He thought that this was therefore more of a presentational issue and agreed to revisit paragraphs 77 and 79 prior to publication.

The Chair noted the quality assessments on the firms in the report and asked for clarification on quality assessment arrangements for the next appointment period. The Assistant Auditor General informed the Chair that Audit Scotland received the firm's own reviews and that we are considering including the firms in the independent checks on the audits that Audit Scotland has in place.

The Chair also asked if quality was driven by the vision or by regulatory practice. She was informed that the focus on quality was much wider than regulatory compliance and that is a core part of our vision.

The Chair of the Accounts Commission asked if the report should have a section on what we could do better, and regarding paragraph 94 the arrangements for Audit Scotland to review, with the Accounts Commission and the Auditor General, quality of the audits/reports; the Assistant Auditor General agreed to look at this.

The Chair of the Audit Committee asked about the quality assurance arrangements for the housing benefit work. The Assistant Auditor General informed the Chair that this was done through a combination of internal review and audited body involvement in commenting on draft reports.

The Audit Committee noted the report.

Action(s):

- **The Assistant Auditor General to amend the report prior to publication with regard to feedback and the above points. (Prior to publication of the T&Q report June 2016)**

12. 2015/16 Annual Report on Health and Safety

David Blattman, HR & OD Manager, joined the meeting.

The Chief Operating Officer submitted the 2015/16 annual report on health and safety, which had been previously circulated.

The Chief Operating Officer informed the members that Audit Scotland was benefiting from the wider role of the Health & Safety Committee by including Wellbeing into its responsibilities. The Chief Operating Officer gave examples of wellbeing initiatives such as the availability of fresh fruit in the offices and lunchtime walking and running events.

The Chair invited comments from the members on the report.

Russel Griggs noted that absence rates had increased in general as had instances of stress related absence and enquired whether this was work or home life related. The HR & OD Manager informed the members that management are aware of the circumstances behind each stress related absence. For some it related to a combination of events occurring outside of work and others were related to work issues, including the working practices and coping strategies deployed by the individuals. The Chair of the Accounts Commission asked if the move to the new open plan office in Edinburgh had an impact on stress related instances. He was advised by the HR & OD Manager that the new environment represented a significant change, much of which was welcomed and positive. As is normally the case with change, some colleagues had found certain aspects of the new office environment a little challenging. The members were informed that the absence data was not a cause for concern. The Chief Operating Officer confirmed that the recent results of the occupancy survey of our new office had been very positive.

The Chair of the Audit Committee noted that the report still showed that some staff were not taking all their leave entitlement and this could be an issue for their wellbeing as well as having financial implications for the organisation. The HR & OD Manager informed the members that his team were working with local management to try and reduce the surpluses which in some cases had built up over a number of years. The Chair also asked what the actual figure was for the staff that had carried over 21+ day's holiday; the

HR&OD manager advised that he did not have that information to hand and agreed to provide it outwith the meeting.

The Chair of the Accounts Commission asked if we could compare the excessive carryover of leave and associated policies with other public bodies; the HR & OD manager agreed to do this and report back.

The Audit Committee noted the report.

David Blattman, HR & OD Manager left the meeting.

Action(s):

- **The HR & OD Manager to compare the carry over of leave against other public bodies. (August 2016)**
- **Provide the actual numbers for the staff in excess of 21+ days of leave carried over at the end of the leave year. (August 2016)**

13. 2015/16 Annual Report on Correspondence

Fraser McKinlay, Director of PABV and Controller of Audit and Angela Canning, Assistant Director of PABV joined the meeting.

The Director of Performance Audit and Best Value and Controller of Audit submitted the 2015/16 annual report on correspondence, which had been previously circulated.

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

The Chair of the Accounts Commission referred to Exhibit 3 in the report and enquired if there were any trends regarding local government. The Chair was informed that trend analysis was something that the correspondence team were working on to draw out themes for future reports.

The Chair of the Audit Committee asked if the report included complaints; she was informed it included complaints and whistleblowing disclosures about other public bodies and that complaints about Audit Scotland were reported separately to the Board.

The Chair asked if Audit Scotland passed information on to other bodies or regulators who were better placed to help. She was advised that our new website contained more information to guide the public to the correct organisation, and that we pass on concerns (with their permission) to another public body where appropriate, or provide them with their details in order that they contact other organisations themselves. She was also advised that 'whistleblowing' cases about audited bodies were handled very carefully and in keeping with the relevant legislation and guidance..

The Audit Committee commended the positive progress that had been made in this area and noted the report.

Fraser McKinlay, Director of PABV and Controller of Audit and Angela Canning, Assistant Director of PABV left the meeting.

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

The Chief Operating Officer submitted Audit Scotland's 2015/16 governance statement on internal control and certificate of assurance, which had been previously circulated.

The Chair of the Audit Committee commented that the inclusion of the checklist which supports the signing of the certificate of assurance was helpful for information. She enquired whether there were any issues that should be brought to the Committee's attention; she was informed that there were none.

The Audit Committee noted the certificate of assurance.

15. Q4 Financial Performance Report

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

The Corporate Finance Manager drew the members' attention to appendix 1 which showed a number of adjustments that have been made to the statutory accounts since preparing the management accounts.

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

The Chair of the Board commented that the business group summary for Audit Services Group may be misinterpreted and that consideration should be given to re-articulating parts of the report to improve clarity. The Corporate Finance Manager informed the Chair of the Board and the members that the net operating surplus figure represented a contribution to corporate overheads and did not indicate a profit on audit activity. The Corporate Finance Manager agreed to revise this section to avoid any misinterpretation.

The Audit Committee noted the report.

Action(s):

- **The Corporate Finance Manager to review paragraph 6.1 on page seven of the Q4 report to remove any risk of misinterpretation of the figures. (August 2016)**

16. Audit Management Letter

Steven Cunningham, Alexander Sloan submitted the draft external audit Management Letter for the year ended 31 March 2016, which had been previously circulated.

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

As there were no comments; the Audit Committee noted the report.

17. Draft Annual Report and Accounts

James Gillies, Corporate Communications Manager joined the meeting.

The Corporate Finance Manager, introduced the draft Audit Scotland annual report and accounts for 2015/16, which had been previously circulated.

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

The Chair of the Board requested that his welcome text to the annual report include a reference to the Accounts Commission in relation to the new approach to auditing Best Value in local government; the Chair of the Accounts Commission supported this change.

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

The members and attendees thanked the team for their efforts in preparing the accounts and annual report.

James Gillies, Corporate Communications Manager, left the meeting.

18. Data incident/loss

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

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

19. 2015/16 Annual Report from the Chair of the Audit Committee to the Board

The Chair of the Audit Committee introduced the 2015/16 Audit Committee annual report to the Board, which had been previously circulated.

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

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

20. Any Other Business

The Chair of the Audit Committee invited members to comment on the standard of the papers submitted to them. There were no issues raised.

There was no other business and the meeting was closed at 11.10.

21. Date of Next Meeting

The next meeting will be held at 10.00am on **18 August 2016** in the offices of Audit Scotland, 102 West Port, Edinburgh.

Minutes of meeting of the **Audit Committee** of
Audit Scotland held in the offices of
Audit Scotland, at 102 West Port, Edinburgh on
18 August 2016 at 10:00hrs.

PRESENT: H Logan (Chair)
D Sinclair
R Griggs

APOLOGIES: None

IN ATTENDANCE: I Leitch, Chair of Audit Scotland Board
C Gardner, Auditor General for Scotland/Accountable Officer
D McGiffen, Chief Operating Officer
R Frith, Assistant Auditor General
M Taylor, Assistant Director, ASG
G Smail, Senior Manager, PABV
M Walker, Assistant Director, Corporate Performance and Risk
D Hanlon, Corporate Finance Manager
A Devlin, Corporate Governance Manager
C Robertson, BDO LLP Internal Auditors
S Cunningham, Alexander Sloan External Auditors

<u>Item No</u>	<u>Subject</u>
1.	Welcome and apologies
2.	Declarations of interest
3.	Minutes
4.	Review of actions tracker
5.	Audit Committee terms of reference
6.	Internal audit progress report 2016/17
7.	Internal audit report – Business performance management
8.	Internal audit draft terms of reference – Staff recruitment and induction
9.	Internal audit recommendations - update
10.	Review of risk register
11.	Risk interrogation – New financial powers and fiscal framework
12.	Q1 Financial performance report 2016/17
13.	Corporate governance policies and codes of conduct review
14.	Policy on provision of non-audit services review
15.	Whistleblowing and Counter Fraud policies review
16.	Data incident/loss
17.	Proposed Audit Committee dates for 2017
18.	AOB and review of standard of reports
19.	Date of next meeting

1. **Welcome and apologies**

There were no apologies.

2. **Declarations of Interest**

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

3. **Minutes**

The Audit Committee members reviewed the minutes of the meeting of 2 June 2016, which had been previously circulated.

The minutes were approved as an accurate record.

4. **Review of Actions Tracker**

The Audit Committee reviewed progress made on outstanding actions and the dates for implementation of the actions. The Chair noted that some of the actions were coming to a close.

The Assistant Director, Corporate Performance and Risk informed the members that the stage 2 ISO 27001 audit had been completed and that the auditor was recommending that Audit Scotland achieve certification.

The Audit Committee agreed to take information relating to the carry forward of annual leave (actions 5AC and 6AC) via e-mail out-with the meeting.

The Audit Committee members noted progress on outstanding actions and achievement of ISO 27001 certification.

5. **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 one change to the Audit Committee's Terms of Reference was required on the timing of the report on co-operation between internal and external audit.

Russel Griggs queried if Audit Scotland was involved in procuring and appointing external audit; he was informed that this was a matter solely for the SCPA. The Chief Operating Officer informed the members that the Assistant Auditor General had discussions with SCPA on our external auditors and that Audit Scotland provided feedback on their performance.

The Chair requested that the Chief Operating Officer circulate feedback on external audit performance to the members for comment before it is submitted to SCPA.

The Chair asked about external audit recommendations. The Corporate Finance Manager advised that there had been no recommendations in recent years and that any recommendations would be reported to the Committee and tracked accordingly.

The members noted the report and approved the change.

Action(s):

- **The Chief Operating Officer to circulate feedback on external audit performance to the members for comment before it is submitted to SCPA. (On-going)**

6. 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 two audits had now been completed, one was in progress and the terms of reference (TOR) for the next one starting September was on the agenda; all in line with the 2016/17 audit plan.

The Chair asked who appointed the auditor for the ISO 27001 audit; Russel Griggs informed the Chair that ISO have independent auditors for conducting these audits.

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

7. Internal Audit Report – Business Performance Management

Claire Robertson, BDO introduced the business performance management internal audit report, which had been previously circulated.

Claire advised the members that substantial assurance had been achieved and that there was only one recommendation and one observation made for further improvement. The Chief Operating Officer advised that this would be addressed as part of the on-going review of the performance management framework.

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

A discussion ensued around staff awareness of their contribution to the achievement of the organisations objectives, the audit recommendation within the audit report and the linkage between the corporate plan and the corporate performance report. Russel Griggs suggested that Audit Scotland should contact Visit Scotland to see their reporting system.

The Audit Committee noted the report

Action(s):

- **The Assistant Director, Corporate Performance and Risk to contact Visit Scotland to view their reporting system. (December 2016)**

8. Internal Audit Draft Terms of Reference – Staff Recruitment and Induction

Claire Robertson, BDO introduced the draft terms of reference for the audit of staff recruitment and induction, which had been previously circulated.

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

Russel Griggs asked if Audit Scotland's recruitment processes could cope and scale-up to meet any future demands resulting from Scotland's new financial powers and the EU

referendum outcome. The Chief Operating Officer replied that our Building a Better Organisation initiative, which has been on-going for about 18 months, was changing and improving the way we did things including our recruitment process, and that she welcomed this audit at this time. She also noted changes that had been made to the recruitment and selection process and to Audit Scotland's on-line presence in terms of recruitment.

The Chair of the Accounts Commission asked if the recruitment process was dynamic and continually evolving through feedback from recent recruits. The Chief Operating Officer confirmed that the process was constantly evolving and improving. Claire Robertson indicated that the audit would focus on processes, documentation and be informed by interviews and that interviewing recent recruits would be considered.

The Audit Committee noted the audit terms of reference.

9. Internal Audit Recommendations – Update

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

The Chair asked if the post tender paper had been considered by Management Team at its meeting on the 16 August as planned. The Chair was informed, by the Assistant Auditor General, that the report was rescheduled to a slightly later date as a result of holiday arrangements.

The Audit Committee noted the report.

10. Review of Risk Register

M Taylor, Assistant Director, ASG and G Smail, Senior Manager, PABV joined the meeting.

There was submitted a report by the Assistant Director, Corporate Performance and Risk, on the review of Audit Scotland's risk register, which had been previously circulated. The members were informed that there was a slight text formatting issue with preventative and remedial controls on the register and this would be addressed going forward.

The Chair made an observation that some of the planned actions had very long implementation timescales. The Assistant Director, Corporate Performance and Risk advised that this reflected the timelines in the Becoming World Class improvement programme and that he would consider how milestones within the workstreams might be reported to monitor progress.

The Chair of the Accounts Commission noted external engagement as an active control for risk 7 – *Failure of Impact and Influence, Audits do not lead to improvement*. He suggested that it was more than just external engagement as the Commission, the Controller of Audit, the Auditor General and Audit Scotland had statutory powers such as holding public hearings to influence bodies. The Assistant Director, Corporate Performance and Risk informed the member that he would amend this control accordingly.

The Chair asked for an update on the MKI performance issues for risk 12 – *Failure to maintain efficient access to core systems for ASG*. The Assistant Director, Corporate Performance and Risk informed the members that performance had improved significantly, but will remain on the register until it is 'stress tested' during the high

system processing requirements needed for the upcoming local government audits. If the system performs well then the risk will be removed from the register.

The Audit Committee noted the report.

Action(s):

- **The Assistant Director, Corporate Performance and Risk to address the text formatting of preventative and remedial controls within the risk register. (December 2016)**
- **The Assistant Director, Corporate Performance and Risk to consider how milestones can be added to report on progress for actions which have long implementation timescales. (December 2016)**
- **The Assistant Director, Corporate Performance and Risk to report back to the committee on the stress testing of the MKI system. (December 2016)**

11. Risk Interrogation – New Financial Powers and Fiscal Framework

There was submitted a joint report by the Assistant Director, Audit Services Group, and Assistant Director, Corporate Performance and Risk, on the risk interrogation of new financial powers and fiscal framework, which had been previously circulated. The Assistant Directors informed the members that this report covered two linked corporate risks on influence and capacity.

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

A discussion took place on a wide range of issues including:

- The timetable for introduction of the new financial powers.
- How Audit Scotland monitors and responds to issues in an environment where there is considerable uncertainty and which is changing rapidly.
- How effectively we can inform the discussion and influence the wider scrutiny framework.
- How we maintain our independence while informing the process, for example the Auditor General's involvement in the tri-partite working group to review the Scottish Parliament's budget process.
- The Scottish Government's capacity to effectively resource the work associated with the new financial powers and in the context of the EU referendum outcome.

The members thanked the team for the report and clear responses to the discussion topics above.

The Audit Committee agreed that the next risk interrogation should be risk 10 – *Failure to achieve value for money*.

The Audit Committee noted the report.

M Taylor, Assistant Director, ASG and G Smail, Senior Manager, PABV left the meeting.

12. Q1 Financial Performance Report 2016/17

There was submitted a report by the Corporate Finance Manager on Audit Scotland's Q1 Financial Performance, which had been previously circulated.

The Chair invited comments from the members on the report and a discussion took place on Q1 income against budget and staff costs/numbers regarding establishment/actual/budget.

After discussion the Audit Committee noted the report.

13. Corporate Governance Policies and Codes of Conduct Review

The Corporate Governance Manager submitted a report on the review of the Corporate Governance policies and Codes of Conduct, which had been previously circulated.

The Audit Committee noted the reviews and agreed to recommend the policies and codes of conduct to the Board for re-approval at its meeting directly after the Audit Committee meeting.

14. Policy on Provision of Non-Audit Services Review

The Assistant Auditor General submitted a report on the review of the policy on the provision of non-audit services, which had been previously circulated.

The Chair of the Audit Committee invited comments from the members on the report.

The Audit Committee noted the review and recommended it to the Board for approval.

15. Whistleblowing and Counter Fraud Policies Review

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

The Corporate Governance Manager advised the members that this was an interim review to support the 2016/17 annual assurance process and a formal review will take place next year leading to the re-approval of the policies.

The Chair invited comments and questions from the members in relation to the report and asked that if any changes were necessary to the policies before the next formal review would they come back to the Audit Committee; she was informed they would.

The Audit Committee noted the report.

16. Data incident/loss

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

The report was noted.

17. Proposed Audit Committee Dates for 2017

The Chief Operating Officer informed the Audit Committee members that she would like to return to the arrangements for meetings and dates for 2017 outwith the meeting so that the scheduling can take account of the discussion at the Board development workshop on 30 August and the fact that parliamentary committee dates have yet to be finalised.

18. Any Other Business and Review of Standard of Reports

The Chair of the Audit Committee invited members to comment on the standard of the papers submitted to them. There were no issues raised.

There was no other business and the meeting closed at 10.55.

19. Date of Next Meeting

The next meeting will be held at 10.00am on **01 December 2016** in the offices of Audit Scotland, 102 West Port, Edinburgh.

Minutes of meeting of the **Audit Committee** of
Audit Scotland held in the offices of
Audit Scotland, at 102 West Port, Edinburgh on
9 December 2016 at 11:30hrs.

PRESENT: H Logan (Chair)
D Sinclair
R Griggs

APOLOGIES: None

IN ATTENDANCE: I Leitch, Chair of Audit Scotland Board
C Gardner, Auditor General for Scotland/Accountable Officer
D McGiffen, Chief Operating Officer
R Frith, Assistant Auditor General
M Walker, Assistant Director, Corporate Performance and Risk
S Murray, Corporate Accountant
A Devlin, Corporate Governance Manager
C Robertson, BDO LLP Internal Auditors
D Jeffcoat, Alexander Sloan External Auditors

<u>Item No</u>	<u>Subject</u>
1.	Private meeting of Audit Committee members and BDO
2.	Welcome and apologies
3.	Declarations of interest
4.	Minutes of meeting 18 August 2016
5.	Review of actions tracker
6.	Audit Committee terms of reference
7.	Standing Orders annual review
8.	Internal audit progress report 2016/17
9.	Internal audit reports – Value for Money, Recruitment and Induction, Core Financials – Purchasing System
10.	Internal audit recommendations - update
11.	Review of risk register
12.	Risk interrogation – Value for Money
13.	Risk interrogations – 2017 schedule
14.	Q2 Financial performance report 2016/17
15.	Business continuity arrangements – annual review 2016
16.	Review of the external auditor’s independence and objectivity
17.	Data incident/loss
18.	Proposed Audit Committee dates for 2017
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

There were no apologies.

3. Declarations of Interest

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

4. Minutes

The Audit Committee members reviewed the minutes of the meeting of 18 August 2016, which had been previously circulated.

The Chair asked for an update on item nine in the minutes on the post tender paper to Management Team for consideration. The Assistant Director, Corporate Performance and Risk agreed to provide an update to the Chair outwith the meeting.

The minutes were approved as an accurate record.

Action(s):

- **The Assistant Director, Corporate Performance and Risk to provide an update to the Chair outwith the meeting on the post tender paper. (December 2016)**

5. Review of Actions Tracker

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

The members asked for and received an update from the Assistant Director, Corporate Performance and Risk on his visit to Visit Scotland to view their Corporate Performance and Risk System. Russel Griggs suggested that Visit Scotland could be invited to Audit Scotland to demonstrate their system to the other members of the Board and to Management Team. It was agreed that this would be taken forward through the Audit Scotland Board or Human Resources and Remuneration Committee.

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. Standing Orders annual review

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

The Audit Committee noted the report.

8. 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 three audits had now been completed, one was in progress and one at the draft report stage; all in line with the 2016/17 audit plan.

The members asked if the terms of reference for the Best Value audit had been finalised; they were informed that it had, having incorporated the suggestions of the members and audit field work was underway.

The Chair of the Accounts Commission commented that the style of the report was very clear and helpful.

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

9. Internal Audit Report – Business Performance Management

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

Value for Money

Claire advised the members that substantial assurance had been achieved and that there was only one recommendation made for further improvement. The Chief Operating Office welcomed the report and informed the members that the Leadership Group had recently discussed value for money and that the recommendation would help us going forward.

The Chair invited comments and questions from the members in relation to the audit report. Russel Griggs raised the issue of value for money being related to, but also distinct from efficiencies and savings. The Assistant Director, Corporate Performance and Risk explained that this issue was covered more fully as part of the value for money risk interrogation being considered later in the meeting at item 12.

The Audit Committee noted the report.

Recruitment and Induction

Claire advised the members that substantial assurance had been achieved and that there were two recommendations and one observation made for further improvement. Claire also informed the members that the Human Resources team had been given additional information on current recruitment practices from BDO's knowledge bank.

The Chair invited comments and questions from the members in relation to the audit report. Russel Griggs queried whether the assurance level was correct given the importance of gaining candidate feedback for improving the recruitment process as detailed in one of the recommendations. Claire advised the member that feedback is important but it was not a substantive risk in Audit Scotland's processes and therefore

the Audit Committee members could take comfort that the substantial level of assurance was correct.

The members also queried the extent of the feedback sought from a range of external candidates. The Chief Operating Officer agreed to discuss this with the Human Resources team and report back.

The members noted the report.

Action(s):

- **The Chief Operating Officer to report back to the members on the extent of the feedback sought from external candidates. (February 2017)**

Core Financials – Purchasing System

Claire advised the members that substantial assurance had been achieved and that there was only one recommendation made for further improvement.

The Audit Committee noted the report

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 Assistant Director, Corporate Performance and Risk informed the members that the remaining PABV programme development recommendation on page three of the report was now also complete.

The Chair invited questions from the members on the report. Russel Griggs asked if the business performance management recommendation that was due to be implemented by 31 December was going to be completed on schedule. The Assistant Director, Corporate Performance and Risk advised that this action would be delayed to early 2017 due to competing priorities and pressure on resources. The Chair queried if the problem with progress was down to the development of new performance objectives or the software development. The members were informed that it was a small team that was developing both performance measures and software tool and that external consultancy support was being considered to move it forward. The Chief Operating Officer informed the members and that an update would be provided on progress early in 2017 to coincide with the refresh of the Corporate Plan in April 2017. It was agreed that this would be considered by the Board and the VisitScotland methodology mentioned earlier at item 5 would be incorporated within that update.

The Audit Committee noted the report.

Action(s):

The Assistant Director, Corporate Performance and Risk to report back on progress on implementation of the business performance management recommendation. (February 2017)

11. 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 invited comments on the report from the members. Russel Griggs queried if 2018 for achieving the target risk score of six for Failure of Capacity could be done more quickly and whether there should be interim dates for reducing the score and tracking progress. The Assistant Director, Corporate Performance and Risk informed the members that he expected the risk score to reduce over the next two years as elements of the improvement programme progressed and that progress was reported quarterly in the Becoming World Class update reports.

The Chair of the Accounts Commission queried whether the wording of the risk – Failure of Capacity also covered skills and capability as Audit Scotland could have numeric capacity but not the right skills and experience in some areas. The Assistant Director, Corporate Performance and Risk agreed to review the wording of the risk to ensure that both aspects were captured.

The Chair of the Audit Committee, referring to the target scores in appendix one in the report, highlighted the interdependences between a number of the risks. The Assistant Director, Corporate Performance and Risk agreed and noted that interdependencies were highlighted in the risk interrogations and that some of the previous and proposed interrogations considered more than one risk.

The Audit Committee noted the report.

Action(s):

- **The Assistant Director, Corporate Performance and Risk to review the wording of risk 13 Failure of Capacity to ensure that both aspects of capacity and capability are covered. (February 2017)**

12. Risk Interrogation – Value for Money

There was submitted a report by the Assistant Director, Corporate Performance and Risk, on the risk interrogation of risk 12 - Failure to achieve value for money, 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 noted it.

13. Risk Interrogations – 2017 schedule

There was submitted a report by the Assistant Director, Corporate Performance and Risk, on the proposed schedule of risk interrogations for 2017, which had been previously circulated.

The Chair requested that the proposed risk interrogation for May on the Failure to assess the impact of and respond to the EU referendum result be substituted with the Failure of Reputation. The committee noted that the Board would receive frequent update reports on the impact of EU departure negotiations and the new financial powers and fiscal framework and could ensure risk management was in place during those discussions.

The Chair reflected on the fact that risk management had to be considered a live and evolving responsibility and that perhaps, given the extent of interlinked risks now at play, the pattern of interrogations needed to be developed in a different way. She noted that the proposed schedule included addressing linked risks and encouraged the

Management Team to consider developing the risk reporting in a way which best assisted them in successfully meeting the Corporate plan objectives.

The Audit Committee approved the 2017 schedule of risk interrogation subject the above amendment.

Action(s):

- **The Assistant Director, Corporate Performance and Risk to amend the May risk interrogation to Failure of Reputation. (February 2017)**

14. Q2 Financial Performance Report 2016/17

Steve Murray, Corporate Accountant joined the meeting.

There was submitted a report by the Corporate Finance Manager on Audit Scotland's Q2 Financial Performance, which had been previously circulated.

The Chair informed the members that she had raised a number of questions and had received answers on the report outwith the meeting and that all members had been copied into the correspondence. The Chair invited comments and questions on the report.

The Chair of the Board requested clarification on the fee income, which was higher than budget and whether previous years' budget forecasting could help ensure that income and budget remained aligned. The Corporate Accountant, the Auditor General and the Assistant Auditor General provided an explanation on the reason for the variances which included the earlier than phased completion of 2015/16 audits by firms and the agreement of fees above budgeted levels. The Audit Committee were advised that the increased income was offset by payments to firms for the work leaving a net positive variance of £42,000 against budget.

The Chair of the Audit Committee asked whether, given the new audit appointments were now in place, the report could show payments to individual firms against the schedule of charges The Chief Operating Officer suggested that the finance team consider how the information need might be met.

A discussion also took place on the contingency amount in the budget forecast and the cost of secretarial support.

After discussion the Audit Committee noted the report.

Action(s):

- **The Corporate Finance Manager to consider how a comparison between scheduled payments and charges at firm level be shared. (February 2017)**

Steve Murray, Corporate Accountant left the meeting.

15. Business Continuity Arrangements – Annual Review 2016

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

The Audit Committee noted the review.

16. Review of the External Auditor's Independence and Objectivity

The Chief Operating Officer submitted a report on the review of the external auditor's independence, objectivity and value for money, which had been previously circulated.

The Chair of the Audit Committee invited comments from the members on the report.

The Audit Committee members noted the review.

17. Data incident/loss

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

There were no comments on the report and it was noted.

18. Proposed Audit Committee Dates for 2017

The Chief Operating Officer submitted a report on Audit Committee meeting dates for 2017, which had been previously circulated. The Audit Committee members were invited to approve the 2017 meeting dates.

The Audit Committee approved their meeting dates for 2017.

19. Any Other Business

There was no other business.

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 **1 February 2017** in the offices of Audit Scotland, 102 West Port, Edinburgh.