



Minutes of the Audit Committee

2019

Audit Committee Meeting

Wednesday 27 February 2018, 10.00

Audit Scotland offices, Nelson Mandela Place, Glasgow

Present:

H Logan (Chair)
A Alexander
G Sharp

In attendance:

C Gardner, Auditor General for Scotland
I Leitch, Chair of the Audit Scotland Board
D McGiffen, Chief Operating Officer
M Walker, Associate Director, Corporate Performance and Risk
G Fitzpatrick, Corporate Governance Manager
S Peterson, BDO
S Dennis, Corporate Finance Manager
S Cunningham, Alexander Sloan
J So, Alexander Sloan
R Seidel, Audit Manager, Performance Audit and Best Value (item 7)
D Robertson, Digital Services Manager (item 17)

1. Private meeting

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

There were no issues or questions arising from the private meeting.

2. Welcome and apologies

The Chair opened the meeting, welcomed everyone and stated that there were no concerns arising from the private meeting.

There were no apologies.

The Chair offered her thanks for the information provided in response to the questions and clarifications.

3. Declarations of interest

There were no declarations of interest.

4. Minutes of meeting 14 November 2018

The Audit Committee members reviewed the minutes of the meeting of 14 November 2018, which had previously been circulated.

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

5. Review of actions tracker

The Audit Committee members reviewed the actions tracker and noted progress.

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 updated terms of reference.

7. Internal audit reports

Rebecca Seidel, Audit Manager, Performance Audit and Best Value, joined the meeting.

Scott Peterson, BDO submitted a series of reports which had been previously circulated.

Preparedness audit – new audit responsibilities and EU withdrawal

Scott Peterson, BDO, introduced the report and advised the audit had found substantial assurance in terms of design and operational effectiveness and indicated that two recommendations had been made. He advised that it was evident that a substantial amount of preparation work has been, and continues to be, undertaken in respect of being prepared for the new audit responsibilities and EU withdrawal.

Alan Alexander indicated that he was satisfied with the report and queried whether any Audit Scotland staff were impacted by residency issues resulting from EU withdrawal. Diane McGiffen advised there was no impact on staff based on the current understanding of residency requirements, and that time had been invested in holding meetings with any staff with concerns around this issue.

Alan Alexander and Heather Logan enquired about EAFA work and whether staff were concerned about the imminent changes. Diane McGiffen indicated that internal vigilance and regular dialogue with the PCS union ensured that Audit Scotland remained responsive to the changing situation and updated colleagues affected accordingly.

Martin Walker advised that Management Team considered the issue on a weekly basis and that a short life working group had been set up to assess the potential scenarios arising which could impact on business at Audit Scotland, building on the existing business continuity arrangements. Communications and ICT were identified as key areas to ensure staff are equipped and flexible to respond in the various potential circumstances. As details around EU withdrawal continue to emerge and change daily, the working group is linking in on a weekly basis to plan accordingly.

The members noted the internal audit report.

Core Financial Controls

Scott Peterson, BDO, introduced the report and advised the audit had found substantial assurance in terms of design and operational effectiveness.

The Chair invited questions and comments from members.

In response to questions Stuart Dennis provided clarification on controls and procedures in response to recommendation two in the report, advising that Audit Scotland reconciles the bank accounts everyday, with formal sign off taking place every month. He also advised that the payroll procedure had been changed to respond to the recommendation in the report.

A discussion took place on recommendation three regarding segregation of duties. Stuart Dennis advised that given the size of the team, staff are required to be flexible around their roles and responsibilities while preserving the proper segregation of duties. Discussions had been held with Scott Peterson and Gemma Rickman around a matrix management scenario to cover the action point. Martin Walker advised that the wording of the management response was confusing to readers and proposed that it be clarified and resolved at a separate meeting.

The members agreed to this proposal and noted the internal audit report.

Action AC78: Stuart Dennis and Martin Walker to meet with Scott Peterson to clarify the position with regard to recommendation three.

Data protection

Scott Peterson, BDO, introduced the report and advised the audit had found substantial assurance in terms of design and operational effectiveness.

He advised it was evident that there are substantial controls in place around Data Protection and therefore had made no recommendations in respect of the design and effectiveness of the systems and controls in place.

The members noted the internal audit report.

Assurance Audit - Risk Management

Scott Peterson, BDO, introduced the assurance audit report and advised the audit had found Audit Scotland's risk management arrangements to have a high level of maturity.

The members noted the internal audit report.

8. Internal audit progress report 2018/19

Scott Peterson, BDO submitted a report on internal audit progress, which had been previously circulated.

Scott Peterson, BDO, introduced the report and provided an overview of progress on the 2018/19 internal audits. He indicated that the general trend coming from the audits was substantial assurance on the systems and controls in place and that the audit work was progressing to schedule.

The members noted the progress report and no further comments were received.

9. Internal audit recommendations progress report

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

The Chair queried the limited progress with the Performance Management Framework project. Martin Walker advised that the project was not progressing as originally planned due to a number of complex interdependencies, some of which are outwith the control of Audit Scotland. Martin advised that the project context has altered significantly in recent months, that rescheduling was required for some parts of the project and the next update to Management Team will take place on 13 March 2019. Caroline Gardiner provided assurance that Management Team had been sighted on the project on a regular basis and were aware of the challenges associated with the project.

Heather Logan and Alan Alexander asked that this be discussed in further detail and asked those present which forum would be best placed to do this. Diane McGiffen advised that the discussion could take place at the next meeting of the Board on 18 March 2019 where the quarterly strategic improvement programme update report would be considered.

The members noted the internal audit recommendations update report.

Action AC79: To discuss the progress of the Performance Management Framework as part of Item 11 at Audit Board on 18 March 2019.

10. Co-operation between internal and external auditors

Scott Peterson, BDO and Steven Cunningham, Alexander Sloan, introduced the report on co-operation between internal and external audit, which had been previously circulated.

Alan Alexander asked that the spelling mistakes on page 2 be rectified. Scott Peterson advised that these would be amended.

The members noted the report.

Rebecca Seidel left the meeting.

11. Draft Internal Audit Plan 2019/20

BDO submitted a reported on the Draft Internal Audit Plan 2019/20, which had previously been circulated.

Scott Peterson discussed the rationale for the areas and phasing of the proposed internal audit workplan for 2019/20. He indicated that certain subjects such as governance, risk and internal controls required to be covered over the period of the appointed. Martin Walker highlighted that the workplan had been developed in accordance with internal consultation with the Management Team.

Discussion took place about the proposed workplan. Heather Logan asked that the Professional Support audit be expanded to include the work of the Audit Quality and Appointments Team work such that there was an overall report on the holistic quality framework and its direction of travel. Various amendments were considered in terms of scope and timing in relation to Professional Support, Corporate Governance and Communications and Stakeholder Engagement. It was agreed that an offline discussion would take place and a revised version of the plan be circulated to members by correspondence.

Action AC80: Martin Walker and Gayle Fitzpatrick to liaise with BDO and arrange for an updated draft plan to be circulated via correspondence.

12. 2018/2019-year end statutory accounts timetable

The 2018/2019 year end statutory accounts timetable was introduced by the Corporate Finance Manager, a copy of which was previously circulated.

The Audit Committee welcomed the report.

The Chair asked if the members were satisfied to proceed with the date of 5 June 2019 to ensure that the meeting is quorate for signing off of the accounts. All members indicated they were available and satisfied with the dates for both Audit Committee and Audit Board.

The members noted the report.

13. External auditors plan 2018/2019

The report by Steven Cunningham, Alexander Sloan was presented to the Audit Committee in paper form on the day due to recent revisions.

Alan Alexander noted minor typographical issues with the report and Steven Cunningham, Alexander Sloan advised he would amend the plan accordingly.

The members noted the report.

14. Q2 financial performance report

A report was submitted by the Corporate Finance Manager, on the Quarter 3 financial performance, which had been previously circulated.

The Chair thanked Stuart Dennis for the clarification on virement within the Questions and Clarifications document provided to Audit Committee prior to the meeting.

Graham Sharp questioned what was meant by cost variance. Stuart Dennis explained that the volume variance is the projected time, and if we are ahead of schedule or behind, this is reflected in the variance.

The Chair queried the total price figures in local government and asked if extra work is having to be undertaken due to the increasing pressures on public services and the implications this would have on resources. Stuart Dennis outlined specific issues in certain councils, and Graham Sharp indicated that this was not a wider thematic local government problem. Diane McGiffen indicated that Audit Scotland have a clear view on what is driving audit fees with auditors consistently reporting that this has been a tough year for public bodies to deliver accounts timeously, given the level of challenges in the system.

Discussion also took place about budget pressures for Audit Scotland. Stuart Dennis indicated that the budget was very tight due to pressures, but despite this a modest underspend is projected, with no concerns that this will change materially before the financial year end. He also advised that agency and secondment costs have been well managed this year and within budget.

Alan Alexander requested more detail on paragraph six and the review of business rates for office premises. Stuart Dennis advised that there has been a change in rateable values resulting from a review and that the cost of external consultancy to support the review provided good value.

The members noted the report.

15. Review of Risk Register

A report was submitted by Martin Walker Associate Director, Corporate Performance and Risk, on the review of Audit Scotland's risk register, which had been previously circulated.

Martin Walker drew the members' attention to risk five around Brexit and preparedness. This risk, in light of unresolved EU and Parliamentary negotiations has increased from a net score of 17.5 to 20. Martin Walker advised of the short life working group discussed earlier in the meeting to assure members that efforts have been stepped up to mitigate this risk.

Martin Walker also drew the members attention to risk 13 in respect of Audit Scotland's capacity, and in particular its capacity to deal with additional audit demand. He highlighted that the net risk score has increased, but this issue is monitored closely by Management Team so that responses are proportionate and managed proactively. Members noted that Audit Scotland recently received positive results in the Best Company survey results – the most positive results to date, and Management are keen to build on this.

Martin Walker indicated that the report also highlighted an increase in risk score for digital security and that this matter would be explored in more depth at the update paper tabled later the agenda at Item 17.

The Chair thanked Martin Walker for the report and invited comments and queries.

Graham Sharp initiated a conversation around non-devolved services and how these can influence the outcomes experienced by citizens and the potential risks associated with this. Caroline Gardiner advised that the audit responsibility was primarily in respect of devolved areas but the development of the five-year rolling work programme considered the broader context. Diane McGiffen advised that the risks relating to Audit Scotland around this area were located in risks on the focus and scope of the audit work (risk six) and impact and influence (risk eight).

The members noted the report.

16. Risk interrogation: Innovation

A report was submitted by Martin Walker, Associate Director, Corporate Performance and Risk, a risk interrogation on innovation, which had been previously circulated.

Martin Walker introduced the report stating that it covers a wide range of areas including various active controls, monitoring controls and improvement actions to ensure continued innovation. The Chair indicated that the report was of a high quality and invited questions from the members.

Alan Alexander questioned whether the organisational issue of 'running hot' posed a risk to supporting innovation within Audit Scotland. Martin Walker advised that a broad range of different mechanisms were being deployed to expand skills and experience and mitigate the risk as far as possible.

Discussion took place about the pattern and spread of resource pressures as well as staff perceptions around whether Audit Scotland was organisationally innovative. Diane McGiffen referred to the Best Companies Survey which provided evidence that there are mixed views from staff, but objectively Audit has improved significantly over the past 10 years and cited feedback arising from work done with other audit agencies done through the International Strategy.

The Chair noted that the report indicated that risks are being managed effectively. The members echoed this view and welcomed the report with no further comments.

The members noted the report.

David Robertson, Digital Services Manager joined the meeting.

17. Digital security update

A report was submitted by David Robertson, Digital Services Manager, which had been previously circulated.

David Robertson provided an overview of the current issues relating to digital security. He outlined the increasing digital threats and risks and how the team regularly calibrated its risk responses while maintaining business as usual. He advised this was a continuous challenge given the increasing level of the risks and resource required to manage this.

The Chair thanked David Robertson for the clarity of his report and opened the discussion out to all present. Ian Leitch enquired about the monetary cost of managing the digital threat. David Robertson indicated that this equated to approximately 20% of the digital services team development resource.

Further discussion covered a wide range of risk mitigation arrangements in place including enhancing staff awareness and resilience, the origins of digital attacks, the types of attempts that are being made to breach digital security and how these threats are being managed. David Robertson indicated that moving to the cloud would further enhance digital security. Discussion then turned to the cost implications of this in the context of an already tight budget. Caroline Gardiner assured members that Digital Security was a priority area for the Management Team.

The members noted the report.

18. Data incident/loss

A report was submitted by Gayle Fitzpatrick, the Corporate Governance Manager, on data incidents and loss, which had been previously circulated.

Gayle Fitzpatrick provided a verbal summary of the report and provided assurance that the data incidents/losses reported were assessed as low risk and had been addressed appropriately.

The members noted the report.

19. Annual assurance and statement of control process 2019

A report was submitted by Gayle Fitzpatrick, the Corporate Governance Manager, on the annual assurance and statement of control process, which had been previously circulated.

Gayle Fitzpatrick advised that the process would follow that used in previous years.

The members noted the report.

20. Any other business

Alan Alexander raised the subject of how agenda items were categorised and clustered on the agenda.

Discussion took place on the relative merits of different approaches and the committee agreed to keep this under review as part of its standing review of meeting agenda item.

There were no other items of other business.

21. Review of meeting

The Chair invited those present to comment on the standard of the papers submitted to them and on the meeting itself. Ian Leitch noted that the papers were well ordered, clear and concise.

The Audit Committee were satisfied with the papers, focus and pace of the meeting.

22. Date of next meeting: 22 May 2019

The next meeting will be held at 10.00am on 22 May 2019 in the offices of Audit Scotland, Nelson Mandela Place, Glasgow.

Audit Committee Meeting

Wednesday 22 May 2019, 10.00 am

Audit Scotland offices, Nelson Mandela Place, Glasgow

Present:

H Logan (Chair)
A Alexander

In attendance:

C Gardner, Auditor General for Scotland
I Leitch, Chair of the Audit Scotland Board
D McGiffen, Chief Operating Officer
C Robertson, BDO
S Morrison, BDO
S Cunningham, Alexander Sloan
J So, Alexander Sloan
M Walker, Associate Director, Corporate Performance and Risk
G Fitzpatrick, Corporate Governance Manager
S Dennis, Corporate Finance Manager
E Boyd, Associate Director, Audit Quality and Appointments (Items 16 – 18)
J Gilchrist, Manager - Procurement, QA, NFI and Risk (Items 16 – 18)
O Smith, Senior Manager, Audit Quality and Appointments (Items 17 and 18)
F McKinlay, Controller of Audit and Director of PABV (Item 24)
C Young, Correspondence Manager (Item 24)

1. Private meeting

A private meeting was held with Audit Committee members and internal auditors (BDO) and external auditors (Alexander Sloan).

There were no issues or questions arising from the private meeting.

2. Welcome and apologies

The Chair opened the meeting, welcomed everyone and stated that there were no concerns arising from the private meeting.

Apologies were received from Graham Sharp, Chair of the Accounts Commission. The Chair confirmed that the meeting was quorate in accordance with its Terms of Reference.

3. Declarations of interest

There were no declarations of interest.

4. Minutes of meeting 18 March 2019

The Audit Committee members reviewed the minutes of the meeting of 18 March 2019, which had previously been circulated.

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

5. Review of actions tracker

The Audit Committee members reviewed the actions tracker and noted progress.

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.

Following the self-assessment exercise undertaken with Audit Committee members during March – April 2019, it was proposed that the terms of reference (TOR) be updated to reflect the ‘three lines of defence model.’ In addition, the Martin Walker, Associate Director, Corporate Performance and Risk indicated that the TOR be updated to reflect that there is no longer a post of Assistant Auditor General.

The members noted and approved the updated terms of reference.

7. Internal Audit report: Costs of audit

BDO submitted the internal audit report: costs of audit which had been previously circulated.

Claire Robertson, BDO indicated that the fee model was found to be transparent, robust and effective, that the arrangements were reasonable in terms of design and operational effectiveness. She advised there were three low level recommendations and invited questions.

Alan Alexander asked for clarification on the narrative in relation to the Time Recording System (TRS). Martin Walker advised that plans to address the TRS issue within the year are progressing well.

Alan Alexander queried whether population was an appropriate proxy in respect of pricing audit. Diane McGiffen, Chief Operating Office advised that this is used only in respect of Best Value (BV) audits and reflects the Scottish Government funding to local authorities for BV audit work.

The members queried the wording on page 4 of the report on the ‘negotiation’ of rates and the composition of direct and indirect costs. Claire Robertson, BDO agreed to amend the wording in the report for clarification.

The Chair sought clarification on any potential risks associated with any corruption of the fee model spreadsheet in the absence of a separate procedures manual. Martin Walker advised of the information governance arrangements, including system back ups which mitigate this risk.

The Chair enquired about the level of assurance obtained and what it would have taken for this to have been assessed as substantial assurance. Claire Robertson, BDO explained that the assessments were a matter of professional judgement, that the definitions were used to summarise assurance levels, and that given the potential for a single point of failure around the fee model, reasonable assurance was appropriate at this stage.

The members noted the internal audit report.

Action AC81: Claire Robertson, BDO to refine the report for clarification based on the discussion. (June 2019)

8. Internal Audit report: Follow up review

BDO submitted the internal audit report: follow up review, a copy of which had been previously circulated.

Claire Robertson, BDO advised that good progress had been made and that all recommendations were low level.

Members discussed the outstanding action in relation to time recording (TR), noting its connection with the Performance Management Framework (PMF), which had been the subject of an update report to

the Board on 1 May 2019. Members requested further information on the objectives, costs and benefits and the timeline for the projects.

The Chair requested clarification on the management response to recommendation 2 on procurement activity. Stuart Dennis, Corporate Finance Manager advised that the information is all stored on iShare and held by the lead for each procurement exercise but access restricted to other users unless the lead provided authorisation. Stuart advised that, for example, the car lease procurement information was stored within a restricted area of the Corporate Finance section of iShare.

The Chair sought clarification on how BDO are appropriately challenging the basis for any implementation dates provided by Management in response to internal audit recommendations. Claire Robertson, BDO advised that in some areas circumstances do change, and that Audit Scotland are undertaking the right approach in managing timelines.

The members noted the progress report and no further comments were received.

Action AC82: Martin Walker to provide additional information on the Time Recording and Performance Management Framework projects. (June 2019)

9. Internal Audit: Annual report 2018/19

BDO submitted the internal audit: annual report 2018/19, which had been previously distributed.

Claire Robertson, BDO advised that the 2018/19 audit work concluded good progress was being made in respect of recommendations and provided positive assurance overall.

The members noted the internal audit: annual report.

10. Internal audit plan 2019/20

BDO submitted a report on the internal audit plan 2019/20, which had previously been circulated.

Claire Robertson, BDO advised that the scope for the audit quality framework had been amended in accordance with the feedback received on the draft plan considered by the committee at its meeting on 27 February 2019.

Alan Alexander enquired about the criteria for the selection of areas for audit. Claire Robertson, BDO advised that these are informed by a review of the risk register, the risk interrogation schedule, consultation with Management and the Committee and BDO's own assessment of risks.

The members noted the internal audit plan 2019/20

11. Internal Audit report: Financial planning

BDO submitted the internal audit: financial planning report, a copy of which had previously been circulated.

The members did not have any questions and noted report.

In closing off the Internal Audit section of the meeting, the Chair thanked BDO for their reports and input during the year.

12. 2018/19 Q4 financial performance

Stuart Dennis, Corporate Finance Manager, introduced the 2018/19 Q4 financial performance report, a copy of which had been previously circulated.

Stuart advised that the report been prepared prior to completion of the 2018/19 audit, and so provided a caveat that it may be subject to amendment. The Chair asked whether there would be much change, and Stuart stated that any changes would be minor, and this was likely the final outcome.

A discussion took place on the very tight financial position at year end. Caroline Gardner, Accountable Officer and Auditor General for Scotland noted that whilst the budgets had been managed well it was indeed extremely tight. Caroline referenced the Medium-Term Financial Strategy, the budget development process and annual proposal to the Scottish Commission for Public Audit (SCPA) and the procurement strategy for the next round of audit appointments and being important elements of the financial management process.

Considerations are being given to the future position and sustainability of Audit Scotland, in terms of procurement of audit and fee setting, and discussions will be held with the SCPA. The Chair suggested there be further discussion of this matter at the risk register item on the agenda.

Alan Alexander enquired as to whether further financial costs might arise at this stage, and Stuart Dennis advised this would not likely be an issue. He further clarified that the management contingency has been increased from £150k in 2018/19 to £300k in 2019/20 given the statutory position that Audit Scotland cannot carry reserves forward.

Stuart Dennis advised there are robust controls in place including regular meetings with business groups and monthly financial analysis which includes detailed forecasts across the various business group areas.

The members noted the report.

13. Review of risk register

Martin Walker, Associate Director, Corporate Performance and Risk introduced the risk register which had previously been circulated.

Martin advised that the register had been reviewed by the Management Team on 30 April 2019, that the risk profile remained largely consistent with that reported to the Audit Committee in February 2019 and that the controls and actions had been updated where appropriate.

The Chair, referencing the previous item on quarter four financial performance, enquired about the risk rating on capacity. Martin advised members that this risk was monitored very carefully, and discussions have been held at meetings of the Management Team and of the Audit Directors which had considered demand and supply side capacity challenges and the work under way to address these. Martin advised that a future review of the risk register would consider how best to cover the broad capacity risk and its component parts, including financial risks. Diane McGiffen, Chief Operating Officer provided an update on the recent recruitment programmes which had ensured that the organisation is at establishment.

Diane also spoke of the importance of having a clear focus on the most important risks while monitoring other risks which are strategically significant, but where the risk assessment indicates these are within acceptable ranges. The Chair was supportive of this.

The members noted the report.

Action AC83: Martin Walker to review and refine the content of the risk register. (July 2019)

14. Risk interrogation: Focus and scope

Martin Walker introduced the risk interrogation: focus and scope report, a copy of which had been previously circulated.

The Chair thanked Martin Walker for the paper which she considered to be comprehensive and invited questions and comments from members. Members sought and received clarification on the role of the Strategic Scrutiny Group and its relationship with Audit Scotland.

The members noted the report.

15. Review of performance management arrangements

Martin Walker introduced the review of performance management arrangements report, a copy of which had been previously circulated.

Martin outlined the extensive performance management and reporting arrangements in place at a corporate, thematic and business group level.

The Chair thanked Martin for the report and there were no further comments.

The members noted the report.

16. Policy review: Provision of non-audit services by Audit Scotland's external auditor

Elaine Boyd, Associate Director, Audit Quality and Appointments, and John Gilchrist, Manager - Audit Quality and Appointments joined the meeting.

Elaine Boyd introduced the policy review: provision of non-audit services by Audit Scotland's external auditor report, a copy of which had been previously circulated.

Ian Leitch enquired about the imposition of contractual restrictions in respect of paragraph 3 in the covering paper. S Cunningham, Alexander Sloan stated that the SCPA can request this, but had not done so to date.

The members had no further questions or comments and approved the policy.

17. Audit Quality: Monitoring report Q3/4 2018/19

Owen Smith, Senior Manager, Audit Quality and Appointments, joined the meeting.

Elaine Boyd introduced the audit quality: monitoring report Q3/4 2018/19, a copy of which had been previously circulated.

Elaine advised that the Audit Quality Framework (AQF) was providing more analysis of audit quality than ever before and that audit quality reports were providing positive assurance over all.

Discussion by members centred on the scope of the AQF and role of the Audit Quality and Appointments (AQA) in reporting on and monitoring improvement actions.

The Chair sought clarification on how closely the implementation of improvement actions was monitored and Elaine advised that this is done regularly as part of the process.

The Chair and Ian Leitch also enquired about how the appointed auditors had responded to the findings of quality reviews and if there was any 'pushback'. Elaine advised that the responses had been positive overall and of a recent workshop session where ICAS had fed back directly to auditors on the findings of the reviews. Elaine also explained how action plans have had a positive impact and how auditors were taking a proactive approach to sharing learning points.

Members agreed the report provided positive assurance and noted the report.

18. Audit Quality: Annual report 2018/19

Elaine Boyd introduced the audit quality: annual report 2018/19, a copy of which had been previously circulated, and indicated that the report had been updated to reflect amendments following its consideration by the Auditor General and the Accounts Commission.

Elaine advised that the AQF was the most extensive in the UK and the annual report provided positive assurance on the quality of audit.

The members noted the progress that had been made in the last two years and the significant levels of assurance the quality regime provides. Caroline Gardner noted that this was the second annual report under the AQF and provides vital information in providing assurance to the commissioners of public audit in Scotland.

The members welcomed the report.

Elaine Boyd, John Gilchrist and Owen Smith left the meeting.

19. 2018/19 Annual report on information governance and security

Gayle Fitzpatrick, Corporate Governance Manager, introduced the 2018/19 annual report on information governance and security, a copy of which had been previously circulated.

The Chair sought clarification on the reason for changing ISO auditors and the pool of suppliers available to carry out this work. Martin Walker advised that the periodic change of ISO audit suppliers was good practice, followed the same logic as the rotation of audit appointments and that there was a wide range of potential suppliers in the market place.

Alan Alexander queried the response rate of 68% for the previous Your Business at Risk survey suggesting that there was a point at which the results of any survey and therefore its value became meaningless dependent on the response rate. Martin advised that this was a strong response rate and provided a sound basis for analysis and identifying any improvement actions. He also advised that he would monitor the response rate of the current survey and compare that with other surveys.

The members noted the report.

Action AC84: Martin Walker to monitor the YB@R response rate and compare it to other surveys. (June 2019)

20. 2018/19 Annual report on data incidents

Gayle Fitzpatrick introduced the 2018/19 annual report on data incidents, a copy of which had been previously circulated.

Gayle highlighted the reduction in data incidents, advised that these were relatively low level and that actions had been taken where required.

The members noted the report.

21. 2018/19 Annual report on hospitality and gifts

Gayle Fitzpatrick introduced the 2018/19 annual report on hospitality and gifts, a copy of which had been previously circulated.

The members noted the report.

22. 2018/19 Annual report on bribery and fraud

Gayle Fitzpatrick introduced the 2018/19 annual report on bribery and fraud, a copy of which had been previously circulated.

The members noted the report.

23. 2018/19 Annual report on whistleblowing

Gayle Fitzpatrick introduced the 2018/19 annual report on whistleblowing, a copy of which had been previously circulated.

The members noted the report.

24. 2018/19 Annual report on correspondence and whistleblowing

Fraser McKinlay, Director of Performance Audit and Best Value and Catherine Young, Correspondence Manager, Performance Audit and Best Value, joined the meeting.

Fraser McKinlay introduced the 2018/19 annual report on correspondence and whistleblowing, a copy of which had been previously circulated.

The Chair enquired as to whether the whistleblowing had provided value to the scrutiny of public bodies in general. Catherine Young advised that some cases resulted in specific audit and investigation work, some cases provided useful audit intelligence and that in other cases whistleblowers were signposted to other organisation who would be better placed to address the issues being raised.

Fraser McKinlay also advised that the correspondence process was an important service in providing a way for citizens to raise concerns and who may have exhausted other routes. He advised that all cases were considered carefully on their merits.

A discussion also took place about the potential for vexatious correspondents and how these are handled.

The members noted the report.

Fraser McKinlay and Catherine Young left the meeting.

25. Review of Audit Committee effectiveness

The Chair introduced the report on the review of Audit Committee effectiveness, which had been previously circulated.

The Chair advised that the self-evaluation formed part of the process to inform her Annual Report to the Board, which would be considered at the next meeting.

Alan Alexander noted that he felt the questionnaire could be tailored to better reflect Audit Scotland's organisational structure and the nature of the appointments process. The Chair requested that the self-assessment questionnaire be revised and brought back to Audit Committee for approval before the next self-evaluation process.

The members noted the report.

Action AC85: Gayle Fitzpatrick to update self-assessment form for Audit Committee members. (November 2019)

26. Review of meeting

The Chair invited those present to comment on the standard of the papers submitted and on the meeting itself. Ian Leitch noted that the papers were well ordered, clear and concise. This was echoed by Alan Alexander the other members present.

Members expressed satisfaction with the focus and of the meeting and how business had been conducted.

27. Date of next meeting: 5 June 2019

The next meeting will be held at 10.00am on 5 June 2019 in the offices of Audit Scotland, 102 West Port, Edinburgh.

Audit Committee Meeting

Wednesday 5 June 2019, 10.00

Audit Scotland offices, 102 West Port, Edinburgh

Present:

H Logan (Chair)
A Alexander
G Sharp

In attendance:

I Leitch, Chair of the Audit Scotland Board
C Gardner, Auditor General for Scotland
D McGiffen, Chief Operating Officer
G Fitzpatrick, Corporate Governance Manager
M Walker, Associate Director, Corporate Performance and Risk
S Cunningham, Alexander Sloan
J So, Alexander Sloan
C Robertson, BDO
F McKinlay, Director of Performance Audit and Best Value (items 8 and 9)
F Kordiak, Director, Audit Services (items 8 and 9)
G Smail, Audit Director, Performance Audit and Best Value (items 8 and 9)
D Blattman, Human Resources and Organisational Development Manager (item 11)
S Dennis, Corporate Finance Manager (items 14 and 15)
S Ebbett, Communications Manager (item 15)

1. Private meeting

A private meeting was held with Audit Committee members and internal auditors (BDO) and external auditors (Alexander Sloan).

There were no issues or questions arising from the private meeting.

2. Welcome and apologies

The Chair opened the meeting, welcomed everyone and stated that there were no concerns arising from the private meeting.

There were no apologies.

3. Declarations of interest

There were no declarations of interest.

4. Minutes of meeting 22 May 2019

The Audit Committee members reviewed the minutes of the meeting of 22 May 2019, which had previously been circulated.

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

5. Review of actions tracker

The Audit Committee members reviewed the actions tracker and noted progress.

Alan Alexander requested a verbal update on the current response rate for the 'Your Business at Risk' survey. Gayle Fitzpatrick, Corporate Governance Manager advised that it was approximately 70%, and that the survey would be open until Monday 10 June to encourage a higher response rate.

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.

Gayle Fitzpatrick, Corporate Governance Manager advised that Terms of Reference had been updated to reflect amendments agreed at the meeting held on 22 May. These included:

- the inclusion of the 'three lines of defence' model
- removal of the residual reference to Assistant Auditor General.

The members noted and approved the updated terms of reference.

7. Internal audit recommendations progress report

Gayle Fitzpatrick, Corporate Governance Manager, introduced the internal audit recommendations progress report, a copy of which had been previously circulated.

Gayle indicated that there were 12 recommendations contained within the report, of which five are complete and seven are in progress.

The Chair asked Claire Robertson, BDO whether she was content with the progress that has been made with the audit recommendations. Claire advised that based on the annual check of recommendations, she was satisfied with the progress. The next annual check will be in February 2020.

A discussion took place about how the recommendations were formatted within the report. It was agreed that the report format be amended to focus on the 'live' recommendations, with closed actions recorded at summary level.

The members noted the report.

Action 86AC: Formatting of the progress report to be amended to reflect discussion. Gayle Fitzpatrick to progress for next report. (September 2019)

8. Audit Quality: 2018/19 Audit Scotland Transparency report

Fraser McKinlay, Director of Performance Audit and Best Value Fiona Kordiak, Director, Audit Services and Gordon Smail, Audit Director, Performance Audit and Best Value joined the meeting.

Gordon Smail introduced the 2018/19 Audit Scotland Transparency report, a copy of which had been previously circulated. Gordon advised that this report was the first of its type and that the process had been both challenging and helpful. Gordon advised that the intention is to remove exhibits six and seven from the published report.

The Chair invited the members to comment on the report.

The members sought clarification on the logic for the removal of the exhibits. Gordon advised that this was to maintain consistency with reporting by other audit providers.

Diane McGiffen, Chief Operating Officer, indicated that the Audit Quality Framework (AQF) would be reviewed in the Autumn, and as part of this there would be discussion with stakeholders, including ICAS who undertake the reviews. Diane explained that more detailed reporting would form part of that review.

Alan Alexander asked whether, if a Freedom of Information (FOI) request was received for scores, this information would be provided. Fiona Kordiak and Gordon Smail advised that, given Audit Scotland's commitment to openness and transparency, this information would be released.

The Chair questioned whether the audit scores had raised any issues over audit judgements. Diane and Gordon confirmed there were no issues, and the Chair advised that this point should be emphasised within the report.

There was a discussion about the drivers for any interim management reporting. Fraser McKinlay, Director of Public Audit and Best Value, and Fiona Kordiak, Director of Audit Services, advised that interim reporting is more likely in larger organisations and informed by the significance of any issues identified through the audit work, and that the level of work required to produce this report assists in the finalisation of the annual audit report.

The Chair thanked the team for the report and expressed her view that it was well presented.

The members noted the report.

9. Audit Quality: Improvement actions

Gordon Smail introduced the Audit Quality: Improvement actions report, a copy of which had been previously circulated.

The Chair asked whether, in the absence of theoretical testing, there was organisational confidence that training was being absorbed and could be applied in practice. Gordon advised that training was informed by the results of hot and cold reviews, that it was well received by auditors and was proving beneficial.

Alan Alexander asked about proportionality and whether, given the demands on resources, there was a risk of too much review work. Gordon advised that this was something that is monitored carefully.

Caroline Gardiner, Auditor General for Scotland, highlighted that the Transparency report and the improvement actions were important elements in the quality framework, illustrated the organisation's commitment to high quality audit work and helped to support confidence in the public audit model in Scotland.

The Chair thanked the team for the report.

The members noted the report.

Fraser McKinlay, Fiona Kordiak and Gordon Smail left the meeting.

10. Review of risk register

A report was submitted by Martin Walker, Associate Director, Corporate Performance and Risk, on the review of Audit Scotland's risk register, which had been previously circulated.

Martin highlighted that the risk register is considered at every Audit Committee meeting and that there were no significant changes to the risk profile since the last meeting on 22 May 2019.

In answer to a question from the Chair on the risk around a failure of capacity, given feedback on the pressures of work, Martin advised that this risk score currently sits at the top end of the amber assessment and that this was appropriate given the other performance indicators around audit delivery, publications and sickness absence and staff engagement.

Martin also advised that the Performance, Risk and Management Group (PRMG) would be reviewing the structure of the register in June and July to help ensure that the most focus is applied to the risks with the higher net scores, while ensuring that the strategic risks assessed as green continue to be monitored appropriately.

The members noted the report.

11. 2018/19 Annual report on Health, safety and wellbeing

David Blattman, Human Resources and Organisational Development Manager, joined the meeting.

Diane McGiffen introduced the 2018/19 Annual report on Health, Safety and Wellbeing report, a copy of which had been previously circulated.

The Chair asked whether the increase in stress levels and mental health issues was as a result of workloads or, in the latter case, whether it was becoming less of a stigma to admit to mental health problems. David Blattman advised that he could not be definitive in his response regarding this as for some colleagues home and work could both be contributing factors. David highlighted examples of Audit Scotland's commitment to the wellbeing of employees as illustrated by the work with Wellness International.

Diane highlighted that mental health was a real area of focus for Audit Scotland. She advised that Audit Scotland's corporate charity, chosen by employees, is the Scottish Association for Mental Health (SAMH) and that SAMH have held workshops with colleagues. Diane also noted that it is encouraging that this a subject area that many staff are comfortable in talking about and that a range of individual support is available to staff should they need it.

Members noted that there had been discussion at the last Human Resources and Remuneration Committee on how technology supports flexible working, but also risks an 'always switched on' culture.

The members noted the report and the positive work being undertaken by the organisation to protect and support employees.

David Blattman left the meeting.

12. 2018/19 Governance statement on internal control and certificate of assurance

Diane McGiffen introduced the 2018/19 Governance statement on internal control and certificate of assurance, a copy of which had been previously circulated.

Given there was a minor date error within the paperwork circulated, Diane advised that fresh copies of the revised papers were available for members, and that the file copies had been corrected.

The members noted the report and recommended it to the Board.

13. 2018/19 Annual report from the Chair of the Audit Committee to the Board

The Chair introduced the 2018/19 Annual report of the Audit Committee to the Board, which had been previously circulated.

The Chair invited any questions or comments on the report.

The members noted the report and stated that they were satisfied with the content.

14. 2018/19 Audit management letter

Stuart Dennis, Corporate Finance Manager and Steven Cunningham, Alexander Sloan, joined the meeting.

Stuart introduced the 2018/19 Audit management letter, a copy of which had been previously circulated.

Steven Cunningham, Alexander Sloan, indicated that he was content with how proceedings had been undertaken, and had no points to raise or further actions.

The members noted the management letter.

15. 2018/19 Draft annual report and accounts

Simon Ebbett, Communications Manager joined the meeting.

Stuart Dennis introduced the 2018/19 Draft annual report and accounts, a copy of which had been previously circulated.

The Chair asked Steven Cunningham and Jillian So, Alexander Sloan whether they were content with the report and supplementary paper, and they confirmed that they were.

The Chair asked whether there was concern about the rising internal and external costs. Stuart advised that this was expected, given the increase in work due to the new audit responsibilities around devolved financial powers and social security. Diane McGiffen added that this was in line with the budget forecasts over the last three years.

The Chair referenced the fee income and expenditure issue covered in paragraph 43, and asked about the context for this. Stuart advised that this relates to the sector analysis, chargeable and non-chargeable work and that this further analysis aims to identify opportunities to match the fee income generated with the total expenditure in these sectors more closely. Diane McGiffen added that the fee model was pitched at the current level to protect smaller bodies, and this has been a UK wide issue for a number of years.

Alan Alexander asked whether this implied Audit Scotland was undertaking work that it was not being remunerated for. Caroline Gardner advised that this was not the whole picture, and that this particular issue related to the Further Education sector in particular. The next step will be to review the fee model, which is complex due to a number of factors.

Stuart Dennis offered to meet with Alan to talk through the funding and fees strategy in more detail.

The members also discussed the updating and captioning of some photos and sought clarification on references to Board members.

The members noted they were happy with the annual report and accounts and content for them to be recommended to the Board.

Stuart Dennis left the meeting.

Action 87AC: The Communications team would refine the wording of the Annual report to reflect the distinction between Board members and employees in some areas. (June 2019)

Action 88AC: Stuart Dennis to meet with Alan Alexander to talk through the funding and fees strategy in more detail. (June/July 2019)

16. Review of meeting

The Chair invited those present to comment on the standard of the papers submitted to them and on the meeting itself.

The Audit Committee were satisfied with the papers, focus and pace of the meeting.

17. Date of next meeting: 4 September 2019

The next meeting will be held at 10.00am on 4 September 2019.

The Chair asked members whether the meeting should be held in the Edinburgh or Glasgow office. It was agreed that this would be decided via correspondence.

Action 89AC: Gayle Fitzpatrick to consult with members on the location of the next meeting. (July 2019)