



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.