

AUDIT COMMITTEE – 31 JULY 2017

For approval

Minutes of the seventy-ninth meeting of the Audit Committee held on Monday 22 May 2017 at 12.45pm in Esk/Forth, Optima

Redacted - section 38(1)(b)

Members	Officers	In attendance
* Mr H McKay (Convenor)	* Ms J Blair	*
* Ms E Craig	* Dr J Brown	*
* Dr W Mayne	* Ms M Cahill	*
* Mr R O'Hare	* Ms L Ellison	*
* Mr R Stewart	* Mr J McMorris	* <u>Mr A Dickson, SQA</u>
* Ms C Wilkinson	* Dr G Stewart	*
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		* Mrs J Ross, SQA

* indicates present

79/1 WELCOME AND APOLOGIES

Redacted - section 38(1)(b)

The Convenor welcomed members to the seventy-ninth meeting, including

rom Scott-Moncrieff

from Agent Occurrence

_____ from
Audit Scotland.

Declaring a conflict of interest around PFN 1 Regulatory Audit Update, Ms Wilkinson advised that she was Chair of the Accreditation Committee.

There were no further conflicts of interest declared.

79/2 MINUTES OF THE PREVIOUS MEETING

i **Approval of minutes from previous meeting**

The minutes of the seventy-eighth meeting of the Audit Committee held on 1 March 2017 were approved as an accurate record of the meeting.

ii Action Grid

The Committee noted the contents of the Action Grid.

iii Workplan

It was highlighted that a number of annual reports had been deferred until the next meeting to allow the Committee to consider annual assurance reports alongside the Annual Report and Accounts. The Accountable Officer's Governance Statement was being presented to the Committee that day for consideration, because of the requirement to submit it to the Scottish Government in May.

The Committee noted the alignment of annual assurance reports, however, agreed that next year, the Information Governance Annual Report and the Annual Fraud Report should be presented to the Committee along with the Accountable Officer's Governance Statement.

The Committee noted the contents of the workplan.

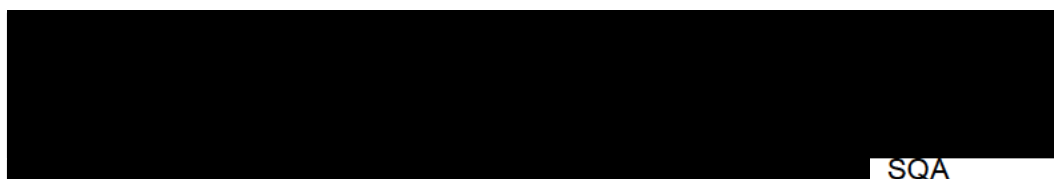
79/3 **MATTERS ARISING**

There were no matters arising.

79/4 **QUARTERLY PERFORMANCE REVIEW**

The Chief Executive led on presenting the executive summary and the following areas were covered in the course of discussion:

- Strategic Goal 1 Redacted - section 25(1)



SQA continued to scope the changes to National 5 and work through their operational impact. The Executive Management Team (EMT) continued to monitor the programme closely.

It should be noted that SQA continued to deliver across the rest of its product types and markets, with 96% completed against the plan.

All other aspects of Strategic Goal 1 were at green.

- Strategic Goal 2

The Quality Assurance (QA) KPI was reported at amber with the current approach to QA continuing to be reviewed and refined. Plans were in development to consider a new approach in 2018.

All other aspects of Strategic Goal 2 were at green.

- Strategic Goal 3

SQA international work continued to be supported by the Deputy First Minister, who recognised the contribution to Scottish Government's agenda.

- Strategic Goal 4

In the recent staff survey, there had been an 89% response rate and an engagement score of 80%, which was well above both the public and private sector average. This had been encouraging, particularly given the current challenges facing the organisation at present. Action plans were being developed to address topics raised in the responses at both corporate and local level.

- Strategic Goal 5

SQA continued to focus on reviewing and improving communication and engagement with its customers. Positive feedback had been received to date on a number of aspects.

- Strategic Goal 6

The Change Programme KPI was reported at amber as a result of some projects being behind schedule. Project plans were being reviewed in light of conflicting timescales and resource availability to ensure successful delivery.

All other aspects of Strategic Goal 6 were graded green.

- Strategic Goal 7

The overall RAG status remained at amber. This was due to the continued challenge of working with Scottish Government to develop a financial model that would ensure SQA's financial sustainability. The costs associated with the ongoing level of change in National Qualifications (NQ), and the Scottish Government's decision to maintain the NQ fixed charge to Local Authorities and the prices in Scotland at 2010 levels remained a financial challenge. Discussions continued with the Scottish Government on the financial position and the additional grant requirements for 2017/18.

All other aspects of Strategic Goal 7 were graded green.

- Strategic Goal 8

There continued to be a gap in the funding for SQA Accreditation. The Accreditation function would continue to ensure that SQA delivered the requirements set out by statute. EMT was closely monitoring the situation.

Corporate Risk Register (CRR)

- 14CRR6 - The Committee approved the closure of the risk due to a change in the Scottish Government's approach in redundancy payments. Redacted - section 25(1)
- 14CRR7 - [REDACTED]
[REDACTED] but that the net score would be reduced to reflect the Saudi receipt.
- 16CRR33 - The Committee received an update on one of SQA's suppliers.

79/5 SQA INTERNAL AUDIT WORK REPORT

Mr Dickson presented the report that detailed the progress of SQA's Internal Audit in the last quarter and outlined the work scheduled for next quarter. He was pleased to report that all audits for the 2016/17 Audit Plan had been completed. A new KPI had been included to analyse the time lapsed on Management Actions with missed or revised target dates. It was noted that going forward the KPI would be reported on a 12-month rolling basis.

The Committee noted the contents of the report.

Redacted - section 38(1)(b)

i Internal and External Audit Tracking Reports

██████████ presented the internal and external audit tracking reports, as at May 2017.

It was highlighted that added to the Internal Audit Tracker report was the grading of risks and details of the time overdue for amber actions, as per the Committee's request from the last meeting.

The Committee noted the contents of both audit tracking reports.

ii ISO 27001

Redacted - section 38(1)(b)

██████████ presented the findings of the recent surveillance visit that had been conducted on 25 April 2017 to verify the continued compliance to ISO 27001:2013.

During the visit, three of the five non-conformities (NCs) from the re-certification visit in September 2016 had been closed. Of the two remaining, the assessor intimated that progress must be demonstrated concerning the NC relating to business continuity of information to avoid triggering a major non-conformity, which could put the certificate at risk. Actions had been put in place to address the NCs.

Two new minor NCs had been identified and these would be added to the External Audit Tracker.

At the conclusion of the visit, the assessor had recommended re-certification to the standard.

The Committee noted the contents of the report.

iii ISO 9001

Redacted - section 38(1)(b)

██████████ presented the findings of the recent certificate renewal that had been conducted on 22 April 2017, to verify the continued compliance to ISO 9001:2008.

During the visit, the assessor identified one new minor NC and this would be added to the External Audit Tracker. Two existing open NCs had been closed.

At the conclusion of the visit, the assessor had recommended re-certification to the standard.

The Committee noted the contents of the report.

iv SQA's Internal Audit Annual Report to 31.03.17

Mr Dickson presented the Internal Audit Annual Report, which provided an annual assurance statement from the Finance Directorate on the internal audit activity during 2016/17. A total of 45 Management Actions had been implemented to strengthen further SQA's controls.

Referring back to the earlier discussion (A79/2 iii) it was agreed that EMT would review all the annual assurance reports and decide when these would be presented to the Committee each year.

It was noted that the 2016/17 Audit Summary and the 2017/18 Audit Plan would be shared with SQA's Management Team.

It was highlighted that Scott-Moncrieff had commented positively on the improvements that SQA had implemented to the planning process to allow the process to run more effectively i.e. meeting with the Audit Sponsors prior to the onset of audits.

The Committee noted the contents of the report.

79/7 INTERNAL AUDIT ACTIVITY - SCOTT-MONCRIEFF

i Follow Up Q4 2016/17

Redacted - section 38(1)(b)

██████████ presented the Internal Audit Quarterly Follow Up that reported on the status of actions that had been assessed as closed by SQA during the period February to May 2017 along with Scott-Moncrieff's validation of those.

There had been a decrease in the number of overdue actions and sufficient evidence had been received to validate and close 13 actions. There were no outstanding high risk actions.

The Committee noted the positive contents of the report.

ii Internal Audit Progress Report

Redacted - section 38(1)(b)

██████████ presented a summary of internal audit activity as at May 2017. He was pleased to report that all audit work had been completed against the 2016/17 annual process improvement plan.

It was highlighted that C9. Quality Assurance of New National Qualifications had been reported as deferred rather than cancelled. It was explained that EMT had decided to cancel the audit as a result of the Scottish Government's decision to remove units from National 4.

The Committee approved the plan for the next quarter.

Redacted - section 38(1)(b)

iii Process Improvement Report – Management of Organisational Change

██████████ presented the report that reviewed the systems and procedures in place for managing changes in the structure of SQA.

The SQA Change Programme approved a revised change management process in February 2017 and work was on-going to ensure that the revised process was fully aligned with project management process. As a result, Scott-Moncrieff had been unable to test fully the operation of the new controls, and so the review had focused on how SQA managed and communicated the impact of the changes on its people and their skills.

Overall, a positive report with a number of areas of good practice identified. Four areas where further improvement could be made to improve the controls in place were identified.

The Committee noted the contents of the report.

iv **Process Improvement Report – IT Strategy** Redacted - section 38(1)(b)

██████ presented the report that assessed the adequacy of the IT strategic planning within SQA, focussing on how SQA sought to deliver technology for business improvement and to support transformation and change in a manner which was consistent with strategic objectives.

The reassuring report revealed that significant improvement had been made since the last audit. The findings had revealed that SQA had a defined vision that was linked to its Corporate Goals with a clear shift from solution-orientated and more to address business requirements and priorities. Three areas for improvement had been identified, that if addressed, would strengthen SQA's control framework.

The Committee noted how valuable an independent auditor could be to move forward on known issues with organisations.

The Committee commended the contents of the report.

v **Process Improvement Report – IT Security** Redacted - section 38(1)(b)

██████ presented the report that sought to provide assurance that there were sufficient logical security controls in place to protect SQA's network. The review focused on end point controls to provide assurance on the adequacy of arrangements to protect the network from external and internal threats to data.

Overall a positive report, it was highlighted that SQA had been proactive in building IT Security capability within the organisation, and several areas of good practice were identified. If the areas for improvement were addressed, these would strengthen the controls in place.

Discussion took place around strengthening the management and control of privileged accounts and it was agreed that ██████ would investigate and report back to the Committee.

The Committee noted the contents of the report.

vi **Process Improvement Report – CBS Implementation** Redacted - section 38(1)(b)

██████ presented the report that sought to provide assurance that appropriate project governance was in place to manage the delivery of Phase 1 of the project. Additionally, the review had sought to verify that all Phase 1 project deliverables had been successfully fulfilled, together with appropriate controls in place to verify expected benefits.

The report had provided assurance that SQA's procedures reflected good practice in a number of areas and the areas for improvement identified, if addressed, would strengthen SQA's control framework.

A detailed explanation of project delays was provided and the Committee was reassured by the close monitoring in place to manage the overall project plan. A Lessons Learned exercise would be carried out in due course, and would be presented to the SQA Board when available.

The Committee noted the contents of the report.

vii **Process Improvement Report – Review of Governance of SQA’s CfE Programme** Redacted - section 38(1)(b)

██████████ presented the report that reviewed SQA’s governance arrangements put in place to design, develop and implement the CfE programme and to ensure that any Lessons Learned could be implemented in the next phase of the revision to assessments of National Qualifications (RNQ).

Overall, a positive report and several areas of good practice were identified. Two areas for minor improvement were identified that could strengthen the control framework in place.

The Committee commented on the wider CfE Programme across Scottish Government and the requirement for strong programme management at that level. SQA had successfully delivered the CfE Programme, with appropriate project methodology in place.

The Committee noted the contents of the report.

viii **Process Improvement Report – Review of Governance of Qualifications Material** Redacted - section 38(1)(b)

██████████ presented the report that reviewed the controls in place over the development of papers once the questions had been selected from the question bank.

She was pleased to report that no issues had been identified during the audit and that SQA had effective processes and controls in place for managing the development and production of NQ question papers to meet the defined standards.

The Committee welcomed the reassurances provided from the review and requested that the outcomes of the report were shared with the team.

ix **Internal Audit Annual Report 2016/17** Redacted - section 38(1)(b)

██████████ presented the Internal Audit Annual Report for 2016/17 that summarised Scott-Moncrieff’s key findings and conclusions from the internal audit work undertaken at SQA during the year to 31 March 2017.

The Committee was pleased to note that no control objectives had been assessed at red and that no grade four actions had been raised during the year.

It was noted that the report would be amended to ensure that C9. Quality Assurance of New National Qualifications was reported as cancelled (previously noted at A79/7 ii Internal Audit Progress Report).

The Committee suggested that for future reports, it would be helpful to differentiate between 'critical / very high risks' and 'not yet due actions'.

The Committee noted the contents of the report, and the overall audit opinion, which was that SQA had a framework of controls in place that provided reasonable assurance regarding the achievement of its objectives and the management of key risks.

Redacted - section 38(1)(b)

79/8 AUDIT SCOTLAND – REVIEW OF SYSTEM OF INTERNAL CONTROLS

██████████ presented the review that Audit Scotland had conducted to evaluate whether the controls operating within SQA's main financial system were sufficient to allow reliance on forming an opinion on the 2016/17 financial statements.

Overall the key controls within SQA's main financial systems were operating satisfactorily. Two minor weaknesses had been identified and actions had been put in place to address these. There were no areas exposed to significant risk.

The Committee noted the review of system of internal controls.

79/9 ACCOUNTABLE OFFICER'S GOVERNANCE STATEMENT 2016/17

Dr Brown presented the Accountable Officer's Governance Statement for 2016/17 based on the Directors' Certificates of Assurance.

The Committee engaged in discussion and the following points were noted:

- A number of typographical errors would be amended accordingly.
- A review of the narrative around the opportunity to highlight action within the Governance Statement section would be undertaken.
- The narrative within the Board of Management section would be amended to ensure that it reflected the Standing Orders.

The Committee agreed that subject to the above corrections, the Statement would satisfy the requirements of the Governance Statement. The Committee was satisfied for the revised Statement to be included in the 2016/17 draft Annual Report for submission to the SQA Board in August.

79/10 AUDIT SCOTLAND NATIONAL REPORTS

Redacted - section 38(1)(b)

██████████ presented the update on SQA's activity and responses to Audit Scotland National Reports to April 2017 and the Committee noted the contents of the report.

79/11 ANY OTHER BUSINESS

There was no further business raised.

79/12 DATE OF NEXT MEETING

Monday 31 July 2017, the Optima Building, Glasgow.

PAPER FOR NOTING

PFN 1 Regulatory Update

It was noted that in terms of governance, a report on Regulated Qualification Activity with respect to SQA Awarding Body should be seen by the Committee to provide an assurance that regulatory audit actions were being managed.

The Qualifications Committee also received updates in its capacity as the Governing Body for Rest of UK Regulatory Activity, keeping that activity separate from SQA Accreditation reporting.

PRIVATE SESSION WITH THE AUDITORS

Following the meeting, members of the Committee met with the Internal and External Auditors (in the absence of the Accountable Officer, members of the Executive Management Team and SQA officers). The members also discussed the effectiveness of the Audit Committee and reviewed the way in which it discharged its functions.