

Minutes of the eightieth meeting of the Audit Committee held on Monday 31 July 2017 at 12.45pm in Esk/Forth, Optima.

Members	Officers	In attendance
* Mr H McKay (Convenor)	Ms J Blair	[REDACTED]
* Ms E Craig	* Dr J Brown	[REDACTED]
Dr W Mayne	* Ms M Cahill	Mr S Borley, SQA
* Mr R O'Hare	* Ms L Ellison	[REDACTED]
* Mr R Stewart	* Mr J McMorris	Mr A Dickson, SQA
* Ms C Wilkinson	* Dr G Stewart	[REDACTED]
		Mr G Houston, Chairman, SQA
		[REDACTED]
* indicates present		Ms J Ross, SQA

Redacted - section 38(1)(b)

80/1 WELCOME AND APOLOGIES

Redacted - section 38(1)(b)

The Convenor welcomed members to the eightieth meeting, including Mr Borley, Head of Strategic Planning and Governance, [REDACTED]

[REDACTED] Scott-Moncrieff, [REDACTED] from Audit Scotland. A welcome was also extended to Mr Houston, Chairman. Apologies were recorded from Dr Mayne and Ms Blair.

There were no conflicts of interest declared.

80/2 MINUTES OF THE PREVIOUS MEETING

i Approval of minutes from previous meeting

The minutes of the seventy-ninth meeting of the Audit Committee held on 22 May 2017 were approved as an accurate record of the meeting.

ii Action Grid

The Committee noted the content of the Action Grid and that an update on the one reported matter would be provided under Matters Arising.

iii Workplan

The Committee noted the content of the workplan

80/3 MATTERS ARISING

79/7 v Process Improvement Report – IT Security

As recorded in the minute, further clarification had been sought on the potential for those with privileged accounts to edit audit trails or perhaps delete any suspicious activity.

It was reported that as part of SQA's recent improvements to IT security arrangements, there had been significant improvement to the management of privilege accounts for the network. An important change had been the reduction in accounts which had administrator-equivalent access to the network, and only those IT staff with a valid reason were provided with such access to enable them to perform their roles. The auditor's view was that with the work completed to date in restricting access and other security management controls in place, the risk to SQA was low.

The Committee noted the update and also commented on the significant improvements that had been made to IT security arrangements within SQA over the past few years.

Any matters arising would be covered in the course of the agenda.

80/4 **QUARTERLY PERFORMANCE REVIEW**

The Chief Executive led on presenting the executive summary, confirming that draft high level measures had been included in response to the request of the Committee. Still in its early stages, officers would work through refining them further. It was suggested that it might be useful to include public body benchmarking, to get a feel for how SQA delivers in comparison.

Receiving updates on those indicators reporting at amber, the Committee was pleased to note the overall position at green in Quarter 1.

During discussion it was clarified that in order to address the impact of industrial action in Scottish Colleges, close working arrangements remained in place with the affected centres to support candidates requiring certification in 2017. It was noted also that whilst the Employment Engagement index had dropped slightly, there was no cause for concern.

Corporate Risk Register (CRR)

Accepting the reasons behind the recommendations, the Committee approved the de-escalation of the following risks to be monitored at directorate level:

- 14CRR25, relating to the DVSA contract, which had now been extended.
- 15CRR7, relating to a resolved issue around outstanding debt.
- 15CRR26, relating to compliance with legal and tax legislation, where procedures had been put in place to manage the risk.
- 14CRR13, relating to Apprenticeships in England, the details of which had now been specified.

The Audit Committee also endorsed the proposals to reduce probability ratings associated with:

- 15CRR32, where the risk associated with the appointment of appointees had now been resolved for 2017.
- 15CRR30, where it was felt appropriate to reduce scoring in light of the fact that no further additional requests for activity had been received from the Scottish Government.
- 16CRR35, to reflect that SQA continued to deliver to schedule on documentation to support RNQ.

The Audit Committee also endorsed the addition of a new risk, prompted by the recent Taylor Review on modern working practices, and the impact this could have on Appointee terms, conditions and payments.

On other risk matters, it was reported that:

- funding discussions continued with the Scottish Government, who had assured SQA verbally that financial requirements would be honoured, including the additional funding required at year end;
- discussions in relation to a key supplier were being taken forward with the Scottish Government, and it was hoped to reach resolution very soon; and
- the pressure on staff workload continued to feature highly in Executive discussions, and was being monitored very closely.

The Committee noted the content of the QPR pack and ensuing discussions.

80/5 **AUDIT WORK REPORT**

Mr Dickson, Head of Finance, presented the report that detailed the progress of SQA's Internal Audit in the last quarter, and outlined the work scheduled to take place in the next quarter.

He was pleased to report the effective working relationship in place with Scott-Moncrieff in taking forward delivery of the annual audit plan.

For the Committee's information, it was reported that the current contract with Scott-Moncrieff would conclude at the end of March 2018, and a procurement exercise for the provision of a new internal audit service was already underway.

80/6 **SQA INTERNAL AUDIT ACTIVITY**

Redacted - section 38(1)(b)

Internal and External Audit Tracking Reports

██████████ presented the internal and external audit tracking reports as at end May 2017. A full update was provided on those items reported at amber, and included:

- Medium to long term workforce planning (Ref 119.1)

This remained a challenging area for HR address, and there were very few examples of good practice to be found elsewhere in the public sector.

- Documenting the approach to Quality Assurance (QA) in different markets (Ref 123.2)

The approach to QA in different markets continued to be actively progressed, and it was intended to draw a close to these actions soon.

- Specific Quality Assurance approach for each market (Ref 123.3)

A team was now in place, and QA modelling was being developed and was on track for completion by December 2017.

The Committee noted the Internal and External Audit Tracking Reports.

80/7 SCOTT-MONCRIEFF INTERNAL AUDIT ACTIVITY

i Follow Up Q2 2017/18 Redacted - section 38(1)(b)

██████████ presented the Internal Audit Quarterly Follow Up for the period May to July 2017, which reported on the status of actions that had been assessed as closed by SQA and Scott-Moncrieff's validation of those.

She reported that the number of open actions had increased from nine to eighteen as a result of adding audit actions from completed reviews. The number of outstanding actions had remained at four.

██████████ was pleased to report that updates provided by management on all overdue recommendations had provided an assurance and comfort to the auditors that progress was being made to address the matters in hand. In closing, it was noted that sufficient evidence had been provided to validate and close ten actions.

The Committee noted the contents of the report.

ii Internal Audit Progress Report Redacted - section 38(1)(b)

██████████ presented a summary of internal audit activity as at July 2017 and was pleased to report that four reviews had been completed in the last quarter, with a number of others in train.

It was highlighted that the audit review on the security of qualification material had been deferred for presentation to the next meeting of the Committee in order that the associated Director could be present for discussion.

The Committee noted the contents of the report and the audit reviews proposed for consideration at the next meeting of the Committee.

iii Process Improvement Report - Income Generation Redacted - section 38(1)(b)

██████████ presented the report on the review of the strategy and plan for income generation, and was pleased to report that SQA had robust controls in place, inter alia, sales strategies that were regularly monitored and due diligence checks on new centres and contracts

Overall a very positive report, which had highlighted a number of areas of good practice, only some very minor areas had been recommended for improvement in relation to process mapping and international customer engagement plans.

The Committee reviewed and noted the findings of the report.

80/8 AUDIT SCOTLAND – ANNUAL AUDIT REPORT 2016-17 Redacted - section 38(1)(b)

██████████ presented the draft report that summarised Audit Scotland's work in relation to the financial statements for the year ended March 2017. On finalisation, the report would be submitted to the SQA Board of Management and Auditor General for Scotland.

██████████ presented the report in detail and drew particular attention to the positivity of the key messages at the introduction of the report, and then the various action points within the action plan at appendix one.

In discussion, the Committee highlighted the references around financial planning, emphasising that the process for budget allocation, along with finding a sustainable financial model, were matters for the Board of Management and Executive to continue pressing on. It was agreed that Audit Scotland would revisit the text to clarify SQA's funding needs, and that any increase in requirement was as a consequence of the increasing costs of delivering the Scottish qualifications system.

Subject to the receipt of a revised Annual Report and Accounts for final review, Audit Scotland anticipated issuing an unqualified and unmodified independent auditor's report following approval of the Annual Report and Accounts by the Board of Management in August.

In concluding his report, ██████████ recorded his thanks to SQA officers for their cooperation and support in reaching completion of the final report. In response to Audit Scotland, it was agreed that the whole annual accounts process and the relevant supporting assurance arrangements would be shorter from next year. This would have a significant bearing upon the scheduling of many assurance exercises and submission of the associated reports to the Audit Committee.

As convenor of the Audit Committee, Mr McKay recorded his assurances on the audit rigour and standards that had taken place, and commended the report for submission to the Board of Management.

80/9 ANNUAL REPORT AND FINANCIAL ACCOUNTS

Ms Cahill introduced the Annual Report to the Committee, followed by Ms Ellison, who provided a full and comprehensive overview of the Annual Accounts.

In discussion, it was agreed to amend references in the Annual Report from "the company's auditor" to "Audit Scotland".

The Committee had also been provided with a comprehensive cover paper for the latter, which had highlighted the key points and explained any amounts beyond that covered in the notes to the accounts.

Specifically, Ms Ellison had drawn attention to the prior year restatements and the requirement to include the movement in actuarial gain/ (loss) in relation to SQA's share of the movement in the pension deficit.

This movement in assumptions and actuarial loss had had a subsequent impact on net expenditure, reporting a negative equity position in SQA's Statement of Financial position. In discussion with Audit Scotland, it had been agreed prudent to report a note to the accounts indicating that SQA was a going concern. This was acknowledged by the Committee.

The Audit Committee approved the Annual Report and Accounts for remit to the Board of Management prior to submission to Ministers and the Scottish Parliament.

80/10 **SQA AUDIT COMMITTEE ANNUAL REPORT 2016-17**

Mr McKay, Convenor of the Audit Committee, presented the Annual Report that summarised the main activities of the Audit Committee for 2016-17. This report provided an assurance to the Board of Management that SQA's governance, risk management and control environment were satisfactory in 2016-17, and would be considered by the Board of Management to support its approval of the Annual Report and Accounts.

Previously these assurances had taken the form of a letter from the Convenor of the Audit Committee to the Board of Management, and for the first time, took the form of an annual report, prepared in accordance with the Audit Committee Handbook guidance.

As Accountable Officer, the Chief Executive confirmed to the Committee that she was comfortable with the content of the Report.

The Committee endorsed the positive assurances and conclusions of the report, approving it for remit to the Board of Management in August.

80/11 **INFORMATION GOVERNANCE ANNUAL REPORT**

Mr Borley presented the report that was provided to the Audit Committee to provide assurances that information governance was being well managed within SQA. It was noted that the report covered a fifteen month period, but in order to align all reporting, in the future it would be based on the April to March planning cycle.

It was explained that the Information Governance team covered all areas of information governance – data protection, freedom of information, information security and records management. Mr Borley was pleased to comment on the positive maturity that was growing across the business in terms of information governance and how to manage it effectively.

Discussion took place around the General Data Protection Regulations (GDPR) that would apply across the UK from May 2018 onwards, and it was confirmed that there would be a focus on delivering training to staff from the autumn and into spring 2018. This would cover decisions around factoring privacy into SQA contracts, and ensuring compliancy where large volumes of data about employees, appointees, candidates etc were processed.

The Committee noted the comprehensive update and commented on the worthy work being undertaken in this area.

80/12 **ANNUAL FRAUD REPORT – 2016-17**

In line with SQA's Anti-Fraud Policy, a fraud report was submitted annually to the Audit Committee.

Mr Borley presented the current position and the Committee noted that there had been no instances of fraud identified by internal or external audit, or by monitoring of internal controls during financial year 2016-17.

80/13 **CORPORATE PARENTING PLAN – ANNUAL PROGRESS REPORT**

Ms Cahill presented the report covering SQA's wide ranging activities in achieving its commitments and meeting its corporate parenting responsibilities during 2015-17.

The Audit Committee noted the extensive and very significant work that continued to take place in SQA and commended the enthusiasm of staff.

80/14 **ANY OTHER BUSINESS**

There was no further business raised.

80/15 **DATE OF NEXT MEETING**

Monday 20 November 2017, Arrol, Lowden

PAPERS 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. This was acknowledged by the Convenor.

It was noted that 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.

PFN 2 Public Service Reform (Scotland) Act 2010 – 2016-17 Report

The Public Services Reform (Scotland) Act 2010 part 3 required public bodies, including the SQA, to publish certain information as soon as practical following the end of each financial year.

The Committee noted the information to be published under the Act for the 2016-17 financial year.

PFN 3 SQA Gaelic Language Plan

This paper provided the Committee with an update on SQA's Gaelic Language Plan activity, summarising the recent work of SQA in relation to its Draft Gaelic Language Plan 2015-2020 and provided an outline of the key commitments under the plan.

The Committee noted the update and that SQA afforded a lot of time and effort in delivering the Plan.