

## AUDIT COMMITTEE – 21 MAY 2018

For approval

Minutes of the eighty-second meeting of the Audit Committee held on Monday 5 March 2018 at 12.45pm in Arrol, Lowden.

Redacted - section 38(1)(b)

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

\* indicates present

## 82/1 WELCOME AND APOLOGIES

The Convenor welcomed members to the eighty-second meeting, including [REDACTED] from Audit Scotland and from Scott-Moncrieff, [REDACTED].

A welcome was also extended to Mr David Middleton, SQA Chair, to his first Audit Committee meeting.

Apologies were recorded for Ms Craig, Mr O'Hare, [REDACTED] from Scott-Moncrieff.

There were no conflicts of interest declared.

## 82/2 MINUTES OF THE PREVIOUS MEETING

## i Approval of minutes from previous meeting

The minutes of the eighty-first meeting of the Committee held on 20 November 2017 were approved as an accurate record of the meeting.

## ii Action Grid

## 81/7 iii Scott-Moncrieff Internal Audit Activity - Process Improvement Report - Appointee Payments and Expenses

The Committee noted that a number of actions were underway to complete the Management Actions from the report, including establishing a review group to rationalise the number of claim forms used across SQA and the development of Management Information reports that would be presented to the Executive Management Team (EMT).

The Committee noted the content of the Action Grid.

### iii **Workplan**

In January the SQA Board had held a private session that included discussion around the remits and structures of SQA's Committees. It was agreed that performance monitoring, including a number of annual reports, would be reviewed by the SQA Board and no longer reported to the Committee.

Ms Ellison highlighted to the Committee the necessary adjustments that would be made to the workplan. It was noted that the Quarterly Performance Review would not be reported to the SQA Board until the start of the 2018-19 reporting cycle.

Redacted - section 38(1)(b)

██████████ concurred that performance reporting should be considered by the Board and that the focus of the Audit Committee should be on audit and governance.

The Committee noted the adjustments to the workplan.

### 82/3 **MATTERS ARISING**

There were no matters arising.

### 82/4 **QUARTERLY PERFORMANCE REVIEW**

The Chief Executive advised that management continued to define the Key Performance Measures (KPM). Leading on presenting the executive summary she was pleased to advise that the overall position was at green and the following areas were covered in the course of discussion:

#### Strategic Goal 4

The Committee suggested that in order to assist with monitoring the KPM on absence levels it would be useful to include trends on variations in year and on previous years.

#### Strategic Goal 7

The RAG status was assessed at green to reflect that the initial additional grant requirements for 2017-18 had been agreed with Scottish Government, however it was highlighted that this was not a long term solution. Discussions continued with the Scottish Government to develop a financial model that would ensure SQA's financial sustainability.

The SQA Board would hold a Strategy Session in March where the approach to potential financial models would be discussed.

Mr Middleton, SQA Chair, advised that the Deputy First Minister would be attending the SQA Board meeting in May and this would provide an opportunity to highlight longer term issues in terms of a financial model for SQA.

#### Strategic Goal 8

As with previous years, it was anticipated that there would be a number of late entries submitted from Awarding Bodies to SQA Accreditation, with a potential to add

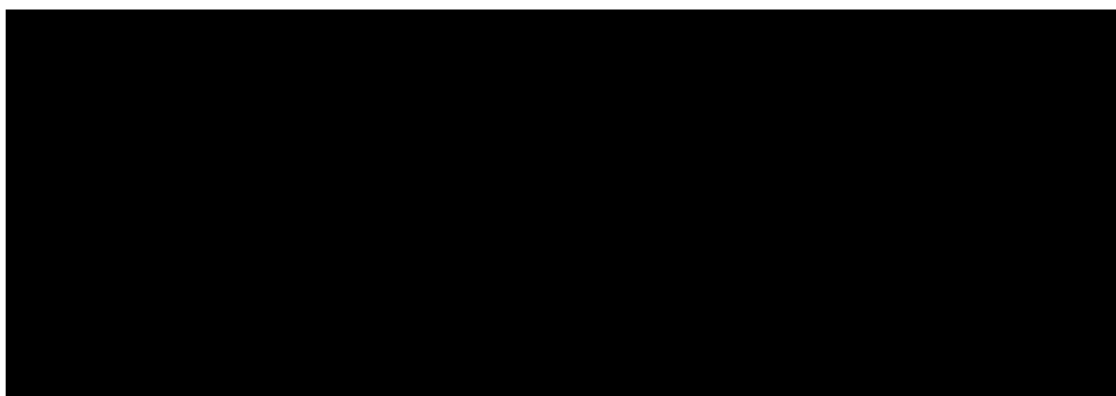
pressure to staff. The Accreditation function would continue to ensure that SQA delivered the requirements set out by statute.

### **Format of QPR**

As previously agreed by the Committee, the format of the QPR pack was changed from the detailed breakdown of the KPMs to high level outputs. EMT would discuss and agree the level of detail required for discussion by the SQA Board for future reporting cycles.

### **Corporate Risk Register (CRR)**

Redacted - section 36(1)



The Committee endorsed the increase to the probability ratings for the risk.

- 16CRR35 - The risk was associated with SQA's commitment to deliver RNQ commitments.

Dr Brown explained that there would be further discussions around National 4, and it was anticipated that there would be no signification revisions.

Redaction - section 36(1)

The Committee endorsed the reduction of the probability rating for the risk.



On other risk matters, discussion lead to viability on suppliers after the recent collapse of Carillion. Dr Brown advised that this had been investigated and she was pleased to report that there were no direct concerns for SQA. There was however, a small number of contracts procured through the Scottish Government Framework with another large scale supplier and these would be subject to close management. The Committee was reassured that this would be monitored locally through the Finance Directorate Risk Register.

## **82/5 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 to take place in the next quarter, and the following was highlighted:

- KPI of agreed management actions remaining outstanding for more than three months over a rolling 12-month period had dropped from 20% in November 2017

to 9.7%, below the target threshold, demonstrating an encouraging downward trend.

- Scott-Moncrieff had been appointed as SQA's Internal Auditors for a three-year period. An internal audit strategy had been developed and this would be discussed later in the meeting (A82/8 i refers).
- With recent changes affecting Awarding Organisation Software (AOS) major project, EMT proposed the cancellation of the related Q4 planned audit C8. Review of AOS.

The Committee approved the cancellation and noted that the inclusion of this audit in the 2018-19 Internal Audit Plan would be reviewed as and when project progress was determined.

- In place of the C8. Review of AOS audit, EMT proposed to review SQA's GDPR readiness. The Committee endorsed the addition to the 2017-18 Internal Audit Plan.
- Due to the delayed implementation of the CBS Phase 1 Project, EMT proposed to defer A4. Financial systems health-check and Income / Receivables into 2018-19 Internal Audit Plan in order to ensure that the operation of the new system could be fully assessed; the review would not impact year end Finance activity.

The Committee endorsed the postponement.

Ms Ellison advised that 5.4 days remained unallocated in the 2017-18 Internal Audit Plan and EMT was in discussion with Scott-Moncrieff regarding this. The Committee provided approval for EMT to determine the most appropriate area(s) for focus.

## 82/6 **INTERNAL AUDIT ACTIVITY - SQA - INTERNAL AND EXTERNAL AUDIT TRACKING REPORTS**

Redacted - section 38(1)(b)

██████████ presented the internal and external audit tracking reports as at March 2018.

### ***Internal Tracking Report***

- 119.1 (1.1 Medium to long term workforce planning)

Ms Cahill advised that some progress had been made, however, it remained challenging. SQA would continue working with Scott-Moncrieff to re-define the action to reflect what SQA could actively complete and to reflect this in terms of policy management.

The Committee noted the contents of the report.

### ***External Tracking Report***

The Committee noted that a number of actions had been completed and were awaiting review by Audit Scotland. It was clarified that Audit Scotland would carry out the review as part of the Interim Report to Management, and this would be presented to the Committee in May 2018.

The Committee noted the contents of the report.

Discussion on the recommendation from Audit Scotland around the openness and transparency of the SQA Board took place and the following points were noted:

- There was no clear evidence to indicate that SQA was not operating in an open and transparent way.
- Should the action incorporate all of SQA, and not just the SQA Board?
- SQA regularly carried out independent surveys with stakeholders - both for SQA and SQA Accreditation. Active steps were taken to address feedback, for example, a field study on access to scripts was currently underway.
- Opening SQA Board meetings to the public brought with it a number of logistical issues. There was a suggestion that perhaps selected stakeholder groups could be invited to attend different meetings?
- It was noted that the SQA Advisory Council was made up of stakeholders and this could help address the recommendation.

The Chair advised that the SQA Board would be holding a Strategy Session in March, when Audit Scotland's recommendation would be considered and discussed further.

Redacted - section 38(1)(b)

██████████ advised that Audit Scotland acknowledged that some recommendations had been challenging and guidance would be revised to allow a more flexible approach to transparency. Although there were no timescales, the guidance should be available in time for the final accounts.

## 82/7 INTERNAL AUDIT ACTIVITY - SCOTT-MONCRIEFF

### i Follow Up Report

Redacted - section 38(1)(b)

██████████ presented the Internal Audit Quarterly Follow Up for the period November 2017 to February 2018, which reported on the status of actions that had been assessed as closed by SQA and Scott-Moncrieff's validation of those.

There had been sufficient evidence received to validate and close 13 actions. It was noted that open actions had increased from seven to 13; eleven of which were not yet due. Outstanding actions had also increased from one to two, but still remained low; none of which were high risk actions.

It was highlighted that SQA continued to make good progress, particularly with the high number of actions raised and the promptness that they were completed.

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 March 2018 and reported that three reviews had been completed in the last quarter.

As previously mentioned (A82/5 refers), once it was decided how to deploy the unallocated days in 2017-18 Internal Audit Plan, the outcome would be reported to the Committee in due course.

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

iii **Internal Audit Report – Financial Systems Data Migration**

Highlighted to the Committee was an error in the title of the cover paper that had been carried over from the last meeting. Redacted - section 38(1)(b)

██████████ presented the report that reviewed the processes and controls in place for the migration of financial data to Agresso (SQA's new financial system that went live in October 2017), and had included the accuracy of opening balances.

She was pleased to report that no issues had been identified during the audit and that the controls for financial systems data migration were well designed and operating effectively. The SAP system would remain operational until Agresso was fully implemented and a detailed multi-stage plan had been developed to minimise risks related to migrating data during this period, with a series of checks carried out at a number of levels to ensure data integrity.

The Committee noted the contents of the positive report.

iv **Internal Audit Report – eRecruitment Process** Redacted - section 38(1)(b)

██████████ presented the report that reviewed the eRecruitment system, to identify any lessons learned prior to the implementation of Phase 3 of the Corporate Business System (CBS) project. The review considered the recruitment process for appointees as well as for other members of SQA staff, with a focus on the manual workarounds in place, given that the current system does not interface with any other systems.

Overall, a positive report and several areas of good practice were identified. Four areas for minor improvement were identified and once implemented, would allow SQA to further strengthen the control environment in this area and provide increased mitigation against identified risks.

Two of the actions had target dates that had passed and the Committee noted that these had been completed in the time since conclusion of the report and would be reviewed by Scott-Moncrieff prior to the next meeting.

Discussion took place around action 2.1 that identified a risk that SQA could not comply with the Data Protection (DP) policy, in respect of job applicants' personal data. It was highlighted that no issues had been identified by Scott-Moncrieff and SQA's DP policy would be updated to reflect the new General Data Protection Regulations (GDPR). As previously reported (A82/5 refers), a review on SQA's GDPR readiness would be presented to the next meeting of the Committee.

The Committee noted the contents of the report.

82/8 **INTERNAL AUDIT ACTIVITY – SQA AND SCOTT-MONCRIEFF**

i **SQA Internal Audit Strategy 2018-21** Redacted - section 38(1)(b)

██████████ presented a detailed overview of the three-year strategy for SQA's internal audit requirements and highlighted that Scott-Moncrieff would:

- Distinguish more clearly between the types of audits, allocating them to

Assurance reviews and Consultancy reviews. This would allow the design and delivery reviews to be more aligned to expectations and more effective and focused on SQA's needs.

- Move towards quality rather than quantity, with more targeted and in-depth audits undertaken.
- Assign a small experienced, core audit team to SQA to carry out the majority of SQA's audit work. This would allow closer working relationship with SQA's staff and the development of a deeper understanding of SQA.
- Improved methodology to plan and implement audits and follow up, using an agile audit approach. It was highlighted that this approach had been successfully piloted at other central government bodies.

The Committee welcomed the new approach by Scott-Moncrieff, particularly the formalised engagement process that should provide a better end product.

Concern was noted regarding the independence of a dedicated core audit team from Scott-Moncrieff. In discussion, the Committee acknowledged that given the complex nature of SQA's operations, having a dedicated core audit team that was more informed about the business processes was also essential to achieving successful execution of the audit strategy.

Redacted - section 38(1)(b)

██████████ took the opportunity to reassure the Committee that the audit team would be managed to assure independence.

The Committee approved SQA's Internal Audit Strategy for 2018-21.

ii **Internal Audit Plan 2018-19** Redacted - section 38(1)(b)

██████████ presented the Internal Audit Plan 2018-19, highlighting that, as in the previous year, SQA Finance and Scott-Moncrieff had jointly undertaken the planning process and this had been prepared in conjunction with EMT. SQA's External Auditors, Audit Scotland, had also provided input. ██████████ confirmed that she was content, and agreed, with the changes introduced to the initial draft audit plan.

The Committee considered the audit areas for review across SQA, noting the spread across all audit areas.

The Committee was reminded that assurance on the management of risk was provided from a number of other sources, including regulatory audits undertaken by a number of accreditation bodies which extensively cover operation in Qualifications Development and Operations. The Committee agreed that it would be helpful to receive an overview of SQA's integrated audited assurance universe.

The Committee approved the Internal Audit Plan for implementation by Scott-Moncrieff in 2018-19.

Redacted - section 38(1)(b)

82/9 **EXTERNAL AUDIT ACTIVITY - AUDIT SCOTLAND - ANNUAL AUDIT PLAN**

██████████ presented in detail the Annual Audit Plan 2017-18 to the Committee, that summarised Audit Scotland's responsibilities, as external auditors, for the year ending 31 March 2018 and the intended approach to issues impacting SQA's activities in that year.

The Committee reviewed the plan and highlighted No.23 regarding financial sustainability. [REDACTED] reiterated what he had advised at the last meeting, that SQA was not unique in its funding arrangements and that the situation was common in a number of central government bodies.

Ms Ellison highlighted that there was a change to the financial statements timetable, and the unaudited annual accounts would be presented to the May meeting of the Committee. This would also be the first year end on the new financial system.

The Committee noted Audit Scotland's Annual Audit Plan 2017-18.

#### **82/10 ANY OTHER BUSINESS**

There was no further business raised.

#### **82/11 DATE OF NEXT MEETING**

Monday 21 May 2018, the Optima building, Glasgow.