SCOTTISH QUALIFICATIONS AUTHORITY   **A88/2 i**

AUDIT COMMITTEE – 29 JULY 2019   **For approval**

Minutes of the eighty-seventh meeting of the Audit Committee held on Monday 3 June 2019 at 11 am in Esk/Forth, the Optima building, Glasgow.

Members	Officers	In attendance
* Mr H McKay (Convenor)	* Dr J Brown	Ms J Blair, SQA (A87/8 to A87/12)
* Ms E Craig	Ms M Cahill	Mr S Borley, SQA
* Ms A Davis	* Ms L Ellison	▮▮▮▮▮▮▮▮ Scott-Moncrieff
* Dr W Mayne	Dr G Stewart	Mr A Dickson, SQA
Dr K Thomson		Mr L Downie, SQA (A87/5 to A87/7 iv)
		▮▮▮▮▮▮▮ SQA
		▮▮▮▮▮▮ SQA
		▮▮▮▮ Audit Scotland (until A87/7)
		Mr D Middleton, SQA Chair (A87/5 to A87/12)
		Ms L McGrath, SQA (A87/6 iv to A87/7 iv)
		▮▮▮▮▮▮ Scott-Moncrieff
		▮▮▮▮▮▮ Audit Scotland

* indicates present

87/1   **WELCOME AND APOLOGIES**

The Convenor welcomed members to the eighty-seventh meeting, including colleagues from Audit Scotland and Scott-Moncrieff.

Apologies were recorded for Dr Thomson, Ms Cahill and Dr Stewart.

There were no conflicts of interest declared.

87/2   **MINUTES OF THE PREVIOUS MEETING**

i   **Approval of minutes from previous meeting**

The minutes of the eighty-sixth meeting of the Committee held on 18 March 2019 were approved as an accurate record of the meeting.

ii   **Action Grid**

The Committee noted the contents of the Action Grid.

iii   **Workplan**

The Committee noted the contents of the workplan.

87/3   **MATTERS ARISING**

Committees' effectiveness

The Convenor advised that following the formal business of the meeting non-executive members of the Committee would meet privately to conduct a self-

assessment of the Committees' effectiveness, as per the recommendation of the Audit and Assurance Committee Handbook.

87/4 **CORPORATE RISK REGISTER**

The Chief Executive led on presenting the current status of SQA's Corporate Risk Register (CRR) and the following risks were covered in the course of discussion:

▪ 14CRR22

The risk was associated with the proposed reduction of grant requirements, and at the last SQA Board meeting it was proposed to increase the Net score ('P' from 3 to 4).

The Committee endorsed the proposal.

▪ 16CRR35

The risk was associated with RNQ activity, and at the last SQA Board meeting it was proposed to decrease the et score ('P' from 3 to 2) since all deliverables were on target.

In addition, the Executive Management Team (EMT) proposed to de-escalate the risk to be monitored at the RNQ Programme Board.

The Committee endorsed both proposals.

▪ 19CRR37

The Chief Executive advised that SQA engaged ACAS to facilitate discussions between SQA management and Unite, and a number of meetings had taken place.

The outcome of the ACAS facilitation with Unite resulted in an agreed way forward to which SQA management is completely committed. Progress had been made in relation to the actions set out in the agreement, and meetings between SQA management and Unite continued to take place on a very regular basis.

▪ 19CRR38

The Committee noted that whilst progress was being made in resolving the college industrial dispute, SQA must continue to monitor and engage with colleges for the foreseeable future. Until SQA was assured that the backlog of results data had been addressed and quality assurance activities had been completed, the Net score would remain at 25.

Discussion took place around the scoring of risks and the mechanism for de-escalation from the CRR, given that there was a number of risks that were over a year old. The Committee were reassured that EMT, and SQA Management, regularly review the CRR and although risks were scored, philosophy was taken into consideration to determine whether a risk should be deescalated.

At this point, the Convenor welcomed Mr David Middleton, SQA Chair, and Mr Lee Downie, Director of Business Systems and Transformational Change to the meeting.

87/5 **SQA INTERNAL AUDIT WORK REPORT**

Mr Dickson presented the report that detailed progress of SQA's Internal Audit in the last quarter, and outlined the work scheduled to take place in the next quarter. The KPI monitoring progress to implement agreed recommendations over the preceding twelve months remained at amber due to the small number of Management Actions that were influenced by external factors out with SQA's control.

EMT proposed changes to the Internal Audit Plan for 2019-20 and 2020-21:

▪ Postpone the Review of ongoing maintenance and refreshment of NQs from the 2019-20 Internal Audit Plan into the 2020-21 Internal Audit Plan.

▪ Bring forward the Digital Assessment review from the 2020-21 Internal Audit Plan into the 2019-20 Internal Audit Plan.

▪ The addition of two new audits in the Internal Audit Plan for 2019-20:

  ❖ A review of information security management system (ISMS) controls related to ISO 27001:2013 (in response to LRQA ISO 27001 Surveillance Report - A87/6 iii refers).
  ❖ A review of appointee expenses authorisation processes (in response to Audit Scotland's Interim Management Letter 2018-19 - A87/11 refers).

The Committee noted the contents of the report and endorsed the changes to the Internal Audit Plan for 2019-20 and 2020-21.

87/6 **INTERNAL AUDIT ACTIVITY - SQA**   Redacted - section 38(1)(b)

i **Internal and External Audit Tracking Reports**

Internal Tracking Report

██████████ advised that the report did not currently include actions from the IT Disaster Recovery audit report that was presented at the last meeting. The report had been reviewed, as requested by the Committee, and the revised schedule of actions would be added to the tracker by next meeting.

▪ *Approach to monitor SQA Connect application – User activity logs (Ref 147.4) and Management of privileged access rights (Ref 148.1)*

Mr Downie reported progress with alternative arrangements for a Security Operating Centre (SOC) with SQA's Security Partner, NCC submitting a draft proposal to bridge the gap in our capability. The proposal was currently under review.

The Committee were reassured that the interim arrangements put in place, including random spot checks, would help identify any suspicious activity within SQA's systems.

▪ *Protection of test data (Ref 148.5)*

Mr Downie advised that a proposal to incorporate data anonymisation within the data virtualisation project had been submitted. The Data Virtualisation project was underway with the installation of technology.

Data modelling or configuration would then follow and it was anticipated that this would be well advanced by the end of the year.

- *Claim forms (Ref 144.1)*

It was reported at the last meeting that a solution was in place and that Scott-Moncrieff were to review evidence for this meeting.

However, since the Audit Scotland Interim Management letter (A87/11 refers) had highlighted an issue with claim forms, EMT had decided that it was appropriate to keep this action open until Scott-Moncrieff conduct a review in this area (as per the approval of the Committee at the previous item – A87/5).

The Committee noted the contents of the report.

External Tracking Report

The Committee noted the contents of the report and that three closed actions would be removed from the report.

ii **ISO 9001 Surveillance Report – 21 March 2019**

Mr Borley presented details of the surveillance visit that had been conducted on 21 March 2019, to ensure that compliance with existing certification to the management system standard had been maintained.

Two minor non-conformities (NC's) from previous visits were closed, and two new minor NC had been identified. At the conclusion of the visit, the assessor determined that the requirements of ISO 9001 were met and continued certification was recommended.

The Committee noted the contents of the report.

iii **ISO 27001 Surveillance Report – 8 & 9 May 2019**

Mr Borley presented details of the surveillance visit that had been conducted on 8 and 9 May 2019, to ensure that compliance with existing certification to the management system standard had been maintained.

One minor NC from a previous visit was closed. Three new minor NCs were identified, including one related to the information security management system (ISMS) controls. The Committee noted that SQA believed that an audit by SQA's Security Partner, NCC, would have been acceptable, however, LRQA had advised that this was not the case, and as such Scott-Moncrieff were requested to undertake an additional audit in this area (A87/5 refers).

At the conclusion of the visit, the assessor determined that the requirements of ISO 27001 were met and continued certification was recommended.

The Committee noted the contents of the report.

LRQA Reports

The Committee suggested that more detailed narrative within the LRQA Report

considerations section (within the Appendix) would be helpful, rather than yes/no responses. It was anticipated that the report was a standard template used for LRQA uses, however, it was agreed that management would feedback to LRQA.

Ms Liz McGrath, Head of Qualifications Portfolio Management, was welcomed to the meeting.

iv **Audit Scotland National Reports**   Redacted - section 38(1)(b)

██████████ presented the update on SQA's activity and responses to published Audit Scotland National Reports published between October 2018 and April 2019 and the Committee noted the contents of the report.

v **SQA's Internal Audit Annual Report to 31 March 2019**

Mr Dickson presented the report that provided an annual assurance statement from the Finance Directorate on the internal audit activity for the year ending 31 March 2019.

The Committee discussed the report and the following was raised:

▪ Section 2 (2.1 and 2.2)

To ensure clarity the Committee agreed that narrative should be included to explain that the Exam Paper Investigation was commissioned as an investigation, not an audit, and should be suitably referred to within the report.

The Committee noted that the findings of the investigation were reported to the Qualifications Committee in May 2019.

▪ Section 3 (3.1)

It was clarified that the one major NC identified in the in-house ISO audit was the one that was reported to the Committee last year; closure of the NC was reported to the Committee in May 2018.

The Committee noted the report.

87/7 **INTERNAL AUDIT ACTIVITY - SCOTT-MONCRIEFF**   Redacted - section 38(1)(b)

i **Follow Up Report**

██████████ presented the report for the period March to May 2019, which detailed 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 five actions. Open actions had decreased from eight to five, and outstanding actions had decreased from seven to five. None of the actions were high risk.

The Committee noted the contents of the report.

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

████████████ was pleased to report that all audit work had been completed against the 2018-19 Internal Audit Plan and progress with the 2019-20 Internal Audit Plan was on track.

Discussion led to the 2019-20 Internal Audit Plan and the following was raised:

▪ Change Programme

  A reference to 15CRR28 on the CRR had been included, that was associated with SQA Accreditation.

  It was clarified that although the area was referred to as the Change Programme, it was the portfolio of change within SQA, and as part of this SQA Accreditation had requested a new system. It was agreed that this was a tenuous link to the CRR and to avoid confusion it would be removed.

▪ Payroll and Succession planning

  It was enquired if it would be sensible to switch the timing of the audits (October 2019 and June 2020 respectively) given that in the coming months there would be changes within EMT.

  Ms Ellison clarified that the payroll audit was associated with the Corporate Business System (CBS), and was scheduled to provide assurance on the new system, following its rollout in April 2019.

  The Chief Executive suggested that it would be prudent to conduct the Succession planning audit once the new Chief Executive was in post, and the Committee concurred.

▪ Disaster recovery

  The recent audit had identified a number of significant weaknesses in relation to IT disaster recovery planning within SQA and the Committee questioned if it would be worthwhile to conduct another audit in this area.

  The Committee were reminded that following Scott-Moncrieff's recommendation SQA had taken a new approach to IT disaster recovery planning and were working towards ensuring that plans and supporting procedures were created for all critical infrastructure and business applications. It would take up to twelve months to implement all the actions and these would be validated by Scott-Moncrieff as and when each action was completed.

  Noting this, the Committee suggested that another audit in this area could be pencilled in towards the end of the 2020-21 (using some of the contingency days allocated).

  On validation and closure of the actions by Scott-Moncrieff, the Committee could then determine if another audit would be constructive.

- Trade unions and JNCC (Joint Negotiating and Consultative Committee)

The Chief Executive indicated that meetings between SQA management and Unite continued to take place on a very regular basis to progress the actions set out in the agreement facilitated by ACAS. An aspect of the agreement was the engagement of the Trade Unions and JNCC in SQA activities including the internal audit process.

It was clarified that Scott-Moncrieff had been asked to give consideration to the role of the trade unions and JNCC, as important stakeholders of SQA, in collecting evidence during internal audits. Redacted - section 38(1)(b)

█████████ assured the Committee that Scott-Moncrieff would continue to provide independent assurance to the Committee.

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

iii **Internal Audit Report – Change Programme** Redacted - section 38(1)(b)

█████████ presented the report that reviewed the overall arrangements in place governing SQA's Change Programme and its associated Projects including the implemented process/system changes, benefits realisation the business change plan and its communication to staff.

Overall, this was a positive report, with robust project methodology and governance controls found to be in place with several areas of good practice identified. Four minor improvement actions were identified and, once implemented, would allow SQA to further strengthen the control framework.

The Committee were encouraged by the findings, especially given the amount of change within SQA.

The Committee noted the contents of the positive report.

iv **Internal Audit Report – Qualifications Directorate Management Information Systems (QMIS)** Redacted - section 38(1)(b)

█████████ presented the report that reviewed design and operation of the processes in place for recruiting, appointing and monitoring Qualification Development Specialists (QDS), including the adequacy of current management information systems in providing SQA with oversight of QDS activity.

Overall, generally robust and effective controls were found to be in place with several areas of good practice identified. Three minor improvement actions were identified and, once implemented, would allow SQA to further strengthen the control framework.

The Committee noted the contents of the report.

Mr Downie and Ms McGrath left the meeting.

v   **SQA's Internal Audit Annual Report 2018-19**   Redacted - section 38(1)(b)

███████ presented the report that summarised Scott-Moncrieff's key findings and conclusions from the internal audit work undertaken at SQA during 2018-19. Scott-Moncrieff were able to provide reasonable assurance regarding SQA's governance framework, effective and efficient achievements of objectives and the management of key risks, except in the area of IT Disaster Recovery Planning.

The Committee were comfortable that SQA management were progressing the actions to address the IT Disaster Recovery Audit findings.

In addition, the Committee requested one minor amendment to the report regarding the narrative on the Exam Paper Investigation, to clarify that it was commissioned by management as an investigation, not an audit (as previously agreed by the Committee - A87/6v refers).

The Committee noted the contents of the report, and the overall audit opinion for 2018-19.
Redacted - section 38(1)(b)

Ms Jean Blair, Director of Operations, was welcomed to the meeting. ███████ left the meeting.

87/8   COMMITTEE STANDING ORDERS

The draft Standing Orders were distributed later than anticipated and the Committee agreed that, given their importance they would be brought back to the next meeting. The Committee acknowledged that the postponement would have an impact on closing an action in internal audit tracker (A87/6 i - 151.3 refers).

To ensure appropriate discussion at the next meeting, the Convenor suggested that he review the Standing Orders, highlighting suggested amendments and clarifications. This would then be circulated to members of the Committee (including Audit Scotland and Scott-Moncrieff) for review, before final presentation at the next meeting (for submission to the SQA Board for formal approval). The Committee endorsed the proposal.

87/9   ANNUAL FRAUD REPORT 2018-19

As Fraud Response Co-ordinator, Mr Borley, presented the 2018-19 Annual Fraud Report and explained that there was one instance of procurement fraud. This had resulted from a phishing e-mail purporting to be from a genuine SQA supplier.

He highlighted that the two instances of suspected financial irregularity from last year remained under investigation.

The Committee noted the report.

87/10   INFORMATION GOVERNANCE ANNUAL REPORT 2018-19

Mr Borley presented the report that provided the Committee with assurances that information governance was being well managed within SQA.

Discussion took place around Freedom of Information with regards to the recent press coverage of SQA's International Work. The Chief Executive assured the Committee that actions had been compliant with SQA policies.

The Committee noted the contents of the report and that SQA complied with legislation and had demonstrated a good performance in responding to requests for information in the required timescales.

87/11 EXTERNAL AUDIT ACTIVITY – AUDIT SCOTLAND SQA 2018-19 INTERIM MANAGEMENT LETTER Redacted - section 38(1)(b)

██████████ presented details from 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 2018-19 financial statements.

Overall, the key controls within SQA's main financial systems were operating satisfactorily. Four minor weaknesses in relation to marker claim forms had been identified. There were no areas exposed to significant risk.

Ms Blair went on to explain the weaknesses identified and highlighted that actions had been put in place to address these, including alternative arrangements for checking and authorising forms and the trialling of a new system for markers. To confirm that the authorisation controls fully meet audit requirements, a review of appointee expenses authorisation processes would be carried by Scott-Moncrieff (A87/5 refers).

Ms Blair and Mr Middleton left the meeting.

87/12 UNAUDITED ANNUAL REPORT AND ACCOUNTS 2018-19 - SECTION B AND C

The Committee were reminded following recommendations from Audit Scotland that the unaudited Annual Report and Annual Accounts should be presented to the May meeting, prior to approval of the audited Annual Report and Accounts at the July meeting for remit to the SQA Board in August.

The Annual Report and Accounts are divided into three sections, and the Committee noted that Section A (Performance Report) was discussed at the Performance Committee at its meeting in May.

Mr Borley introduced the draft Section B (Accountability Report) to the Committee and then Ms Ellison then provided an overview of Section C (the unaudited Annual Accounts 2018-19). Redacted - section 38(1)(b)

The Committee expressed some concern around the mechanism for securing an appropriate financial budget from the Scottish Government but accepted that it was part of ongoing discussions. ██████████ advised that some other public bodies were operating in similar circumstances to SQA.

The Committee suggested a number of minor changes to Section B and C of the unaudited Annual Report and Annual Accounts 2018-19.

87/13 **RISK APPETITE**

Mr Borley led on a presentation that outlined SQA's current approach to risk management, SQA's risk appetite and the plans for further improvement in risk management.

He went on to explain that the existing risk appetite matrix was difficult to integrate risks that were not particularly correlated to product/service offering. The Committee discussed the proposed new risk appetite matrix, and noted that it aligned with discussions at the Performance Committee in May.

The Committee welcomed the move to a risk environment approach and the necessary adaptations that would be required to the CRR.

Discussion led to a Risk and Opportunity Register that could assist SQA to identify opportunities, as well as monitor risks. Although this could be difficult to implement, especially if not kept at a high level, it was agreed that this approach should be developed further.

87/14 **ANY OTHER BUSINESS**

There was no further business raised.

87/15 **DATE OF NEXT MEETING**

The date of the next meeting would be Monday 29 July 2019 in Optima.