

SAAS AUDIT AND RISK COMMITTEE

MINUTES OF MEETING HELD ON 17 February 2016
BOARDROOM, G SPUR, SAUGHTON HOUSE

Present

Derek Smeall	Non- Executive Board Member (Chair)
Ed McGrachan	Non- Executive Board Member
Kathy Patterson	Non- Executive Board Member

Attending

Keith Jenkinson	Director of Corporate Services (Interim Accountable Officer)
Roz McCracken	Head of Governance
Audrey Shimmons	Director of Finance
Tony Forteza	Internal Audit
Myra Binnie	Internal Audit
Rachel Browne	Audit Scotland
Mahrouf Shafi	Audit Scotland
Trudi Packman	Secretary

Apologies

Nicola Bennett	Independent Audit Member
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1. Minutes of previous meeting and matters arising

- 1.1 The minutes of the previous meeting were approved.
- 1.2 The issue log has now been incorporated into the risk register and the next step would be to identify content.
- 1.3 The Terms of Reference for the committee had been included in the agenda (item 13).
- 1.4 The Audit Committee Annual Report had now been finalised and published on the SAAS website.
- 1.5 The issues log would be discussed at the SMT and content agreed.
- 1.6 All other action points from the previous minutes were complete.

Action Point: previous minutes to be issued to Management Board via Sharepoint - Secretary

2. Register/Conflicts of Interest

2.1 No conflicts of interest were raised.

3. Finance Report Q3 - 2015-16

3.1 The report was before the Committee for information.

3.2 Additional budget had been received but due to the lateness in receiving it, it was doubtful that this would be completely spent prior by the end of the financial year, meaning SAAS may have a slight underspend. This had given some relief to the recruitment of new permanent staff and the modern apprentices.

3.3 There was some confusion around the extra budget and the statement that the Agency was still at risk from 'lack of budget'. The extra budget had been received, but very late in the financial year. This meant that it would not all be spent. This money would not be available for the financial year 2016-17 and therefore the lack of budget was still a risk to the Agency in the coming year. This explanation would be added to the finance paper prior to being tabled at the Strategic Board Meeting in February.

Action Point: Budget explanation to be added to finance paper about the extra budget not being fully spent prior to being tabled at Strategic Board – Director of Finance

4. Fraud Report Q3 - 2015-16

4.1 The fraud report was before the Committee for information.

4.2 During the quarter, work was on-going clearing legacy cases, continued development of relationships with partner organisations and putting best practice lessons learned to good use. Framework documents have been completed to support the Agency's Counter Fraud Strategy and work was continuing on membership of CIFAS.

4.3 There had been an increase in cases over the quarter, with a subsequent rise in referrals to front line staff. New cases received brought the total active cases to 127. This was now 34% higher than last year. SAAS were successful in conviction of a student who misrepresented himself as a British National and lied on his application form. Three students were investigated and identified as not fit for support. Members asked how many students were now on the SAAS 'not fit for support' register. Director of Finance would pass this number onto members.

4.4 The Counter Fraud Task Force met twice during the quarter. The focus of the meetings was on the recent reports produced by the Fraud Analysis Team. The Team was from across the agency and work would concentrate on evidence

gathering.

4.5 Two Key Performance Indicators show red and staff would be rearranged to address this and concentrate on the more complicated cases. Members confirmed that the KPIs would be revisited if they couldn't be moved forward.

4.6 Members asked if the increase in cases was due to new fraud, or did members think that the ways of detecting were just better. Director of Finance suggested that the fraud had always been around, but that SAAS were in a much better position to detect it. Staff were being made more aware the circumstances that attract fraud and if any particular trends appeared, these would be reported to the Committee.

Action Point: Information to be provided on the number of students on the 'not fit for support' register – Director of Finance

5. Framework Documents

5.1 The documents were before the Committee for discussion.

5.2 The Communications and Engagement document would be kept in-house and used as an internal document only. The Fraud Policy and Response Plan would be publicised on the SAAS website.

6. Corporate Risk Register

6.1 Members were happy with the format of the register. It seemed capture all the information needed, and with the inclusion of the issues log, it would give a complete picture.

6.2 They noted that three risks had risen over the last two quarters and correctly reflected the status of the agency. Risk 5 reflected the lack of budget and members queried this after it being reported tha the Agency had gained extra budget this year. It was explained that although monies had been found, they would not be available after 31 March and therefore the threat of lack of budget would still be present going into the next financial year. The register would be updated to clarify the situation before being submitted to Strategic Board.

6.3 It was suggested that the risk appetite would need to be looked at, the tolerance of risk that the Agency was willing to accept. The Chair suggested that as the Risk Matrix had a natural split between green/yellow risks and amber/red risks, which indicate distinct levels of tolerance, then this would be a good place to agree and represent levels of tolerance.. The Committee agreed in principle and discussed how the ideas of tolerance levels and risk appetite could be used by the Audit and Risk committee and Management Board.

6.4 The Chair would bring the subject of risk appetite to the attention of the

Management Board at its next meeting.

**Action Point: update risk 5 with an explanation of lack of budget – Secretary
Action Point: Risk appetite to be raised at next Management Board meeting –
Chair**

**Action Point: Investigate implications of not having the updated BCP in place –
look at tolerances and decide whether BCP should be added to risk register -
SMT**

7. Audit Recommendations

7.1 The report was before the Committee for discussion.

7.2 Any recommendation of high priority or those that were overdue are now brought to the attention of the Committee. The report contained details of 9 recommendations and also submitted was a copy of the recommendation tracker so Members could see a complete picture of the status of the current recommendations.

7.3 Members agreed that the tracker was in a good user friendly format and contained all relevant information.

7.4 The one section of the tracker that did need updating was the target dates. These would be looked at by SMT. When new targets are identified, they must be approved by Internal/External Audit. Until this can happen, the dates will sit as overdue on the tracker. A meeting has now been put in place prior to each ARC meeting and the Secretary and internal audit will review the tracker and update as necessary.

7.5 It was noted that a number of the recommendations had been outstanding for some time. Internal Audit commented that historically, SAAS accepted recommendations in isolation rather than across the wider agency. This meant that the Agency was attempting to move forward with recommendations where restrictions in place had not been realised. SMT would discuss these outstanding recommendations and suggest a way forward.

7.6 Business continuity and disaster recovery was a subject that needed to be investigated. These recommendations had been outstanding for some time. It was reported to Members that the Agency had recognised the lack of work involved in this area and had decided to take on, on a temporary basis, someone with BCP and project experience to carry the work forward.

7.7 Members commented on recommendations that were beyond the control of the Agency and that SMT should consider this implication. Implications regarding risk tolerance would have to be discussed.

7.8 The tracker would need to be updated with the relevant owners. Internal Audit suggested that the owners should be designations, rather than people so that changes in staff would not mean having to continuously amend the information in the tracker and work could be easily transferred.

Action Point: Remove the IT Security recommendations from earlier audits – Secretary

Action Point: Audit Recommendation target dates to be discussed - SMT

Action Point: Outstanding recommendations to be discussed to identify way forward – SMT

Action Point: Tracker to be updated with appropriate owners – Secretary

Action Point: Revised target dates to be added to tracker – Secretary

Action Point: Cross reference any recommendations that concern the same activity - Secretary

8. Internal Audit Progress Report

8.1 The report was before the Committee for comment.

8.2 It was reported that the two IT reviews had now been finalised and the reports issue. Internal Audit were pleased to announce that the reviews had attracted a Reasonable and Substantial recommendation.

8.3 The fieldwork on the SAAS Assurance Mapping exercise was underway and the follow-up work on the previous years' reviews was on-going.

8.4 Planning for the Disabled Students Awards (DSA) review had begun and the Internal Audit Programme planning for 2016/17 had commenced.

8.5 The Committee asked that formal recognition was given to Keigh-Lee Paroz, the SAAS Information Manager, for her work on the Data Interchange Policy. Scottish Government were so impressed with the work that they, too, have adopted this policy.

8.6 The Chair mentioned that one of the audit reports couldn't be opened as it had corrupted. It was agreed that future reports would be formatted as PDF documents before issuing to solve the problem of corruption.

Action Point: all future reports to be formatted to PDF before issue - Secretary

9. Internal Audit Draft Plan

9.1 The draft plan was before the Committee for comment.

9.2 Members were asked to note that the plan was indicative at this point in time and could be subject to change.

9.3 It was suggested that the new Chief Executive should be given the opportunity to comment and input to what should be included in the plan. The timing of the plan had been amended so that, instead of four audits over 12 months, there would be three audits over 10 month. A request was made by the Director of Finance that the Fraud Audit not take place between January and March as this was when

one of their main exercises took place – Internal Audit agreed.

9.4 The ILA audit was taken out of this year's programme and so will be done in 2016/17. Although this was a Skills Development Scotland process, the former Chief Executive wanted to ensure that it was running successfully. There had been a lot of work invested in this support and audit were hopeful to have this effort recognised.

9.5 The plan would be finalised once discussion had taken place with the Chief Executive and would be re-submitted to members for ratification.

10. Internal Audit Strategic Review

10.1 The report was before the Committee for comment.

10.2 The review had been completed by the Interim Head of Internal Audit and final approval was given by Scottish Government Audit and Risk Committee (SGARC).

10.3 The key areas for improvement were:

- The appointment of a Director level Head of Internal Audit (IA)
- The need to address the structure and resourcing of the team
- To professionalise the Internal Audit approach, methodology and quality assurance processes to consistently perform quality audits.

10.4 On-going work included potential coursing arrangements, more emphasis on the benefits of auditing and the continuing good relationships with External Audit.

10.5 The current status was that recruitment of the Head of IA was on-going and a detailed plan was being developed to address the recommendations. Progress would be reported regularly to SGARC.

11. Audit Scotland – Work Plan for the Coming Year

11.1 Audit Scotland's work plan was before the committee for discussion.

11.2 The audit would focus on the identification and assessment of risk during the 2015/16 financial year. The report summarised the work to be undertaken, including an audit of the financial statements, review of the financial management arrangements and a review of SAAS's governance arrangements.

11.3 The plan contained the suggested timetable for the audit and members were asked to agree this.

11.4 The plan contained information on the auditing of risks and issues and the fee that would be charged by Audit Scotland. The Committee approved the level of the fee and Audit Scotland would commence their work in March 2016.

11.5 It was reported by Audit Scotland that 2015-16 was year 5 of their 5 year

tender to audit Scottish Government. SAAS should know by April 2016 if Audit Scotland will continue to play this role, or if it will be another organisation. In the case of the latter, Audit Scotland will ensure that a detailed handover was given.

12. Audit Scotland Code of Practice

12.1 The report was before the Committee to note the contents of the revised code of practice and the intention of Audit Scotland to publish all audit information in future and identify any concerns.

12.2 The code was being revised due to the recognition of the increasingly high expectations about the role of audit in the stewardship of public funds. The main change to the code from the current version is to define the 'wider scope' of public audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability. The revised code will therefore require auditors to also consider and reach conclusions on risks.

12.3 In addition to this extra consideration, Audit Scotland will now, not only publish their annual audit reports, but also add all their other significant outputs to provide a single location for all external audit work.

12.4 Members welcomed the revised code and agreed that SAAS would have no issues with the changes therein.

13. Terms of Reference

13.1 The Terms of Reference (TOR) was before the Committee for discussion and approval.

13.2 At its meeting in July 2015 the Committee had agreed that its duties would now include that of monitoring risk and that the risk register should be a standing item on the committee agendas. To formalise this arrangement, the Terms of Reference had to be amended to reflect these new duties.

13.3 The TOR had been amended, but before the Committee could approve/disprove the TOR, there were a number of questions it needed to ask itself, namely:

- How would the risk management be supported and both senior management and Ministerial level
- How well equipped were people to deal with risk and was the support in place to manage risk well
- Were effective arrangements in place for managing risk with partners
- Did the SG processes incorporate effective risk management
- Was risk handled accordingly
- Would the management of risk contribute to achieving the Agencies outcomes.

13.4 Members reported that they were happy with the new format and content. The questions listed within the Annex would be a very good to prompt conversation around risks. It was suggested that the reference to 'Ministers' within Annex 2 should be replaced with 'Fraser Figure' and that the phrase 'are risks handled well' should be replaced with 'are risks handled accordingly'.

13.5 With these amendments, the Terms of Reference was approved.

Action Point: Amendments to be made to the Annex 2 - Secretary

14. Any Other Business

14.1 Corporate Meeting Timetable

The timetable was before the Committee for consideration. Members were happy with the dates with one amendment, that the meeting on 6 July should be changed to the morning of Tuesday 5 July. It was also confirmed that minutes of ARC would be completed and issued to the Chair within 5 working days of the meeting.

14.2 Current Account Switch Service

It was reported that changes to be made to meet the recommendations of the Current Account Switch Service (CASS) were almost ready and would be submitted to Internal and External Audit for comment.

14.3 Audit Committee Minutes

It was requested that, once approved, Management Board should be given sight of all Audit Committee minutes. This will be done by posting the minutes on Sharepoint.

14.4 Audit Papers

It was noted that a number of papers before the Committee had already been submitted to the Management Board and therefore members were looking a papers twice, albeit with a different hat on. It was suggested that some indication should be added to the agenda/papers to indicate if the papers had been previously seen.

Action Point: Minutes of ARC to be issued to Chair within 5 working days of meeting – Secretary

Action Point: Minutes of ARC to be issue to Management Board once approved – Secretary

Action Point: Papers/agenda should indicate whether papers have previously been before Management Board – Secretary

Action Point: Change the July meeting from 6 July to 5 July – Secretary

Action Point: One to one meetings to be arranged between Chair and Internal and External Audit – Internal/External Audit to arrange

15. Date of Next Meeting

15.1 The next Audit and Risk Committee Meeting will take place on:

Wednesday 4 May 2016
Boardroom
G Spur
Saughton House
10.30 am to 12.30 pm