

Board meeting minute

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| Meeting: | Audit and Risk Committee |
| Date: | 27 June 2018 |
| Time: | 10.00 am |
| Venue: | Boardroom, Denholm House |

**Members:**

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| Linn Phipps | Non-executive Board Member (Chair) |
| Moi Ali | Non-executive Board Member |
| Mike Ewart | Non-executive Board Member |
| James Wallace | Independent Audit and Risk Member |

Attendees:

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| Alan Armstrong | Strategic Director |
| Iain Burns | Internal Audit |
| Euan Couperwhite | Acting Assistant Director |
| Patricia Dougan | Assistant Director (item 15 only) |
| Gayle Gorman | Chief Executive |
| Gillian Hamilton | Strategic Director |
| Roz McCracken | Head of Corporate Governance |
| Janie McManus | Interim Strategic Director |
| Kate Moffat | Internal Audit |
| Elizabeth Morrison | Interim Strategic Director |
| Michael Moynihan | IT (item 15 only) |
| Audrey Parfinowska | Interim Chief Financial Officer |
| Dave Richardson | Audit Scotland |
| Richard Smith | Audit Scotland |
| Brian Taylor | Interim Strategic Director |
| Lesley Macaulay | Secretary |

Apologies:

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| Maureen Gore | Assistant Director |
| Gillian Howells | Head of Finance and Procurement |
| Paul Johnston | Director General for Education, Communities and Justice |
| Stuart Robinson | Assistant Director |

1. Welcome and Apologies

1.1 The Chair welcomed everyone to the meeting and noted apologies from Paul Johnston, Director General, Education, Communities and Justice who was unable to attend due to the Cabinet re-shuffle. Apologies were also noted from Maureen Gore. The Chair welcomed James Wallace, Head of Finance, Social Security Directorate who was attending his first meeting since joining as an Independent Audit and Risk Member.

1.2 The Chair also welcomed Euan Couperwhite, Interim Assistant Director for Governance, Assurance and Corporate Performance and Audrey Parfinowska, Acting Chief Financial Officer who were also attending for the first time.

2. Minutes of meeting 10 April 2018 and Action Log

2.1 The Chair provided an update on Item 13 – she had shared an approach to risk interrogations and some examples of how this had previously been used by Education Scotland. She also advised the Minute did not fully capture all the actions raised at the last meeting. Some key new actions to be noted were:

Action Point 19 – Certificates of Assurance - A number of learning points had arisen during the Certificates of Assurance process. These should be captured and documented to improve the system for next year.

Action Point 20 – NXD suggestions which had been made on improving governance etc. were to be captured in a joint paper. Noted that this would be discussed by Brian Taylor and the ARC Interim Chair on 16 August.

Action Point 21 - Health, Safety and Sustainability Report – The Committee would be interested in the development of targets for this wider approach to this area of work. Brian Taylor agreed to provide a response and some context at the next meeting.

2.2 Moi Ali raised concerns that the Minute did not record all her comments regarding the recent appointment of the Independent Audit and Risk member. She asked that para 6 of the minute be amended to read: -

“...Moi Ali queried the lack of openness and transparency around the appointment. In particular the potential impact on diversity. Following best practice was not done in this case”.....

2.3 A brief discussion took place around agenda planning and it was agreed that a planning group, comprising the Chair, Roz McCracken and Lesley Macaulay should be established to enable early and timely planning for every meeting. In addition this would look at the roles and responsibilities of secretariat support, agenda planning and how to undertake risk interrogation.

Action Point 22: The Secretary to establish a date for the Planning Group meeting. By 20 July 2018.

2.4 It was noted that items 12-15 on the Action Log were now closed. Item 7, the Corporate Risk register would be covered under Agenda item 10. Item 17, Cyber Resilience would also be dealt with as a substantive item on the Agenda. The Chair suggested that there should be a strong preference for written updates both for clarity and to save time.

3. Declarations/Register of Interest

3.1 While it would not impact on his role on ARC, James Wallace asked for it to be recorded that he was a Civil Servant.

4. Internal Audit

4.1 Iain Burns acknowledged that Internal Audit had awarded the Agency a Limited Assurance which was a lower rating than last year.

4.2 The Chair sought assurance that the areas of weakness were addressed in the Action Plan. Mr Burns confirmed that the management response had been very positive and he was confident that the risk management controls and governance assurance being put in place would address the identified issues. Internal Audit would follow up at a later date to ensure that the agreed actions had indeed been taken and that these had addressed the identified issues.

4.3 Mike Ewart highlighted that the Executive Team still comprised a significant number of interim appointments. The Chief Executive confirmed that it had been a challenging 6 months but things were settling now and that the interviews for permanent Strategic Directors were due to take place the following week.

4.4 The Chair asked where responsibility for the monitoring of the audit recommendations would sit. It was confirmed that all audit recommendations would be tracked by the ARC Secretariat and the Executive Team had a role to play in this.

4.5 It was noted that Item 2 on the Internal Audit Action Plan contained an error. The correct action due date should be December 2018 (not December 2019 as stated).

4.6 Members were keen to understand if improvements were being felt across the Agency. Alan Armstrong confirmed that he was being sighted on much more and there appeared to be greater speed on intervention. He was therefore confident that the Agency was beginning to get a grip on the important issues.

4.7 The plans to create a performance dashboard and how this would allow the senior team to monitor progress much more easily was touched upon. It was noted that this would be a very positive improvement and that “hard” metrics could usefully be supplemented by “soft” measures such as “stories” of change which would tell the “story” of how things had improved.

Action Point 23: the Committee agreed that it was important to capture the direction of change, through a range of measures both “hard” and “soft” including the provision of stories of change. By 31 December 2018.

4.8 An update was also provided about the advisory work Internal Audit would be doing with the Agency. This would supplement their audit work.

5. Annual Certificates of Assurance

5.1 The Committee reviewed the assurances. It was noted that the lessons learned from the process needed to be shared across the Executive Team.

6. External Audit

6.1 There was one update since the external audit paper was issued, namely that the final version of the Internal Audit Annual Assurance Statement for 2017/18 had now been received. The draft Letter of Representation at Annex B could therefore now be signed by the Accountable Officer.

6.2 Auditors acknowledged the progress being made on previously reported issues and that the current management team had engaged in a more open and candid manner. The “unqualified” assurance was welcomed.

6.3 As someone new to the Agency, James Wallace acknowledged that there appeared to have been a lot of work going on with very few staff. He also highlighted an error in the report at para 39 namely that ES was not funded by the SG grant-in-aid budget but through the Vote budget. He was also concerned that para 45 of the report stated that the Advisory Board and Executive team have no role in holding the Chief Executive to account for the Agency’s performance. He was of the view that this statement was unbalanced without the role of the Fraser Figure (Paul Johnston, Director General, Education, Communities and Justice). Dave Richardson would consider amending the report accordingly.

Action Point 24: Secretariat to feed back that the Committee had been sorry not to see the DG at this meeting and to identify another date when he could be invited. By 20 July 2018.

6.4 Moi Ali advised that the recent SG financial training for Non-Executive Board members had been very disappointing. It was agreed that the training needs of the NEBMs should be established and taken forward.

Action Point 25: The Planning Group to consider the training needs of the Committee and a training plan to be established to address these needs. By 26 September 2018.

6.5 Brian Taylor advised that financial management support for the committee would be included in the medium and long term financial planning arrangements. This would look at language and the corporate planning process.

6.6 The Chair referred to para 49 of the report which had raised a concern about the lack of support to the Committee. She advised that the planning group would ensure that actions are fully captured in the Action Log, and discuss improvements suggested re Minutes, Numbering of papers etc. She asked members to flag up any further items they wished included.

Action Point 26: Members to inform the Secretary of any additional issues to be included. By 20 July 2018.

6.7 A discussion took place around recommendation 10 “Performance Management”. The Committee welcomed the fresh look at this and its scope, and noted that it needed to be established where responsibility for scrutiny of performance should sit. The NEBMs asked to be included in the process.

Action point 27: NEBMs to be consulted in the format/structure of the Performance Management Dashboard. By 31 July 2018.

7. Audit and Risk Committee Annual Report

7.1 James Wallace recommended that para 1.1 be amended to read “...and evidence of *the effectiveness of* internal controls supplied to the Committee ...” He agreed to provide some wording for inclusion in the report.

7.2 Members felt that the report hadn’t captured all of the issues facing the Committee over the last year and so didn’t give a full picture. It was therefore agreed that the report would require to be updated. It was noted that this additional work would not affect the Annual Accounts process.

7.3 There was also a query about whether the new Independent Audit and Risk Committee member should be included within the report given he was not appointed within the reporting year. The impact of late meeting date changes was also highlighted.

Action point 28: Secretariat to rework/edit the ARC Annual Report and circulate it to NEBMs by 12 July 2018.

8. Annual Accounts

8.1 It was noted that the cover paper attached to the Annual Accounts did not include a section on risk, and that a section on risk had previously been welcome in all cover papers.

Action point 29: Secretariat to ensure that every paper submitted for ARCs consideration includes a section on risk. Ongoing.

8.2 It was highlighted that the 17-18 outturn was significantly less than expected with a £4m underspend, a result of the £3m VAT refund and £1.7m underspend on the GLOW programme.

8.3 James Wallace noted that ES had achieved the earliest date amongst all the Agencies for signing the Accounts and congratulations were extended to Audrey and her team for pulling everything together in such a short timescale, as well as their wider work.

8.4 Given the range of assurances it had received the Committee was content to advise the Chief Executive to sign the accounts.

8.5 The Committee then reviewed the additional paper containing details of the ES budget for 2018/19. It noted that there was a shortfall of £0.815m.

8.6 The Chair asked for an assurance that the ES financial reporting system was improving. It was confirmed that the work was ongoing – budgets would be agreed with individual programme managers, finance training would be rolled out for all budget holders and there would be an improved system for flagging up underspends/ overspends. There were risks around the staffing levels in the finance team and it was confirmed that a temporary assistant accountant had been recruited for 4-6 months. Formal recruitment would follow once the Acting Chief Financial Officer had had the opportunity to fully assess the Agency's finance staffing requirements.

8.7 The CE confirmed that going forward, requests for ES to carry out significant additional pieces of work would need to be fully costed and funded. This would include staff costs.

8.8 Members recommended that the Agency should seek to reduce the number of in-year budget transfers. Brian Taylor advised that he would be meeting with the SG Finance Team the following week and this would be discussed.

9. External Audit – IT Review

9.1 This review was undertaken following the issues discussed at the December ARC meeting. It was noted that some of the issues and recommendations highlighted in the report had been raised two years previously and in particular, there was a concern that the Digital Strategy and Business Continuity Plan were not yet in place.

9.2 There was a discussion about Action Plan recommendation No 2 – Advisory Board Expertise and it was acknowledged how difficult it can be for non executives without IT experience to challenge assurances provided by IT experts. It was agreed that SG IT specialist colleagues could potentially assist and support the Agency in challenging IT providers.

9.3 Members were advised that digital teaching and corporate IT had now been joined together which would bring welcome improvements and efficiencies although it was confirmed that there were still capacity issues in the digital team.

Action point 30: ARC to give future reflection on how to get assurance/ process assurance in the IT area. By 30 September 2018.

10. Corporate Risk Register

10.1 The new style Corporate Risk Register (CRR) was tabled for comment/observation. This had been drafted following the risk management

sessions provided by Gordon Weir and reflected the updated guidance and revised template recently issued by SG.

10.2 Comments were received that the “Controls Summary” section could usefully be split into two or a line introduced to differentiate between the current position and future plans. In addition there was a need to develop clear escalation routes.

10.3 Members felt that the impact of risk 7 seemed too low. In addition, the impact that weak financial controls could have on the Agency was highlighted.

10.4 It was agreed that the ARC would undertake a periodic deep dive into a high risk on the risk register and there was a debate about which to review.

Action point 31: members to review the draft CRR and feedback any comments to Roz McCracken by 20 July 2018.

Action point 32: Planning Group to consider how ARC can gain assurance that risk management and the CRR is being used effectively? By 26 September 2018.

Action point 33: Planning Group to agree the deep-dive process to be used for the corporate risks and identify one of the higher scoring risks to be reviewed. By 26 September 2018.

Action Point 34: Internal audit to incorporate how risk management is working in practice into their future audit reports, or advice. Ongoing.

11. Portfolio Board Dashboard and Risk Register

11.1 The SAC risk score had moved from Red to Amber and the CLD risk score had increased to Red due to recruitment issues. However, it had just been agreed that all posts could now be advertised.

11.2 The programme reports previously prepared for Portfolio Board would now be sent to SLT following the review of the corporate governance committee structure. The reports provided useful information but they did not really demonstrate assurance. There was therefore a need to consider how ARC can gain the required assurance levels and the possibility of undertaking a deep dive on the programmes was raised for consideration.

Action Point 35: Planning Group to consider how best for programmes to demonstrate assurance to ARC. By 26 September 2018.

12. Performance Reporting Tool

12.1 An update was provided on the development of the Agency’s new Corporate Plan covering the next 3 years. As part of this process meaningful

KPIs would be developed and meetings would be taking place with Assistant Directors to identify performance indicators for their respective areas.

12.2 There would be a need to ensure that current systems can deliver the required performance data easily. The suite of KPIs would be available for the next ARC meeting.

12.3 The Chair welcomed this development and approach on behalf of the Committee, and again stressed the benefit of using both hard and soft measures.

13. Quarterly report from the Health, Safety and Sustainability Group (HSS)

13.1 There were plans to set baselines, targets and a prioritised improvement action plan for the coming year. Members commended the report as it clearly flagged up the areas of risk facing the Agency such as lone working. Given the need for strong controls around lone working, consideration should be given to a deep-dive in this area.

13.2 Gillian Hamilton advised that that HSS would be embedded in the induction programme for new staff.

Action Point 36: the Planning Group to consider interdependencies between items for future agendas. By 26 September 2018.

Action Point 37: ARC Planning Group to consider whether to deep-dive into lone working at the next ARC. By 26 September 2018.

14. Corporate Governance Guide

14.1 The latest version on the new draft corporate governance committee structure and the accompanying governance guide was tabled for comment.

14.2 The Chair indicated that historically the NEBMs had been invited to attend and observe other committee meetings. They would welcome the chance to do so again. It was also agreed that substitutes would be welcome to attend ARC meetings when regular attendees were not available.

Action Point 38: Secretariat to identify dates/times when NEBMs could attend other committees and programme boards operating across the Agency. By 26 September 2018.

15. Cyber Security Report May 2018

15.1 At the last ARC meeting the Committee had asked that all cyber security breaches be reported to ARC. This was the first such report, compiled by Michael Moynihan, who attended to answer any specific questions on it.

15.2 It was reported that there had been considerable media and public interest around Yammer, the social network within GLOW. The issues were still on-going and there were questions about the roles and responsibilities of the different groups of stakeholders.

15.3 A Cyber Security Risk Maturity Assessment was being carried out across the whole digital estate, the results of which should be presented to ARC in due course.

15.4 The ARC welcomed the report. The report provided very useful information and there was a discussion about how this could be developed to provide more formal assurance. There was also a discussion about whether the cyber risk on the Corporate Risk Register was scored appropriately and whether it was 1 risk or should be split into 2.

Action Point 39: the Planning Group to identify what assurance ARC would require in terms of this report. By 26 September 2018.

Action Point 40: Brian Taylor to look at the Cyber Security presentation and scoring on the Corporate Risk Register to ensure it is appropriate. By 31 July 2018.

Action Point 41: Planning group to consider when would be an appropriate time to carry out a deep-dive on this risk, which had been flagged as a high risk with insufficient assurance at present. By 26 September 2018.

16. Any Other Business

There was no other business.

17. New Risks

17.1 The Committee suggested that the lack of a Business Continuity Plan should be recorded on the Corporate Risk Register

Action Point 42: Brian Taylor to consider whether the lack of a Business Continuity Plan is a risk that requires to be added to the Corporate Risk Register. By 31 July 2018.

18. Corporate Communications

18.1 Roz McCracken advised that going forward the key points from all governance meetings would be shared electronically with all staff where possible. In terms of this meeting the following points could be shared: -

- Annual Accounts
- Finance and Audit reports
- Cyber Security
- HSS (Deep-dive into lone working)

18.2 Before formally closing the meeting the Chair sought the views of members on how they felt the meeting had gone. The responses included the following:

- Good intelligence gathering
- Better level of challenge with constructive questioning
- Good range of information
- Heavy agenda
- Significant improvement in papers
- Greater understanding of the role of ARC/recognition of progress made
- Encouraged by greater air of openness
- Cyber security paper welcome addition to the agenda
- Meatier agenda with focus on key issues
- Culmination of hard work and all the work carried out by staff which sits behind these reports
- Feel ARC is now starting to get hard assurance around important issues
- The independent and new views of James Wallace – bringing public sector finance was welcomed

19. The next meeting will take place at 10 am on 26 September 2018 within the Boardroom, Optima Building, Glasgow.

Lesley Macaulay
Secretary
10 June 2018