

Minutes of Audit & Risk Committee meeting held on 16th of February 2017

Present:

Ian Doig (Chair), Non-Executive Director
Colin Ledlie, Non-Executive Director
Bill Matthews, Non-Executive Director
Michael Moss, Non-Executive Director
John Aldridge, Independent External member

Myra Binnie, Internal Auditor
Gail Costello, Internal Auditor

Asif Haseeb, External Auditor (Audit Scotland)

Tim Ellis, NRS Chief Executive Officer
Anne Slater, Head of Public Services / Portfolio & Corporate Services
Angela Sim, NRS, Accountant
Simon Hazlewood, NRS Head of Portfolio Office
David Smith (NRS), Secretary

Apologies:

Dougie Shepherd, Internal Auditor
Gordon Shipley, Non-Executive Director
Mandy Gallacher, Non-Executive Director
Jonny Steen, External Auditor (Audit Scotland)
Steven Hanlon, NRS, Chief Financial Officer (acting Accountable Officer)

1. ARC Membership

1.1 Mr Ellis noted that this would be the last committee meeting for Mr Doig, Mr Moss and Mr Aldridge whose appointments were completing on 31 March 2017 and all were thanked for their efforts. He confirmed that Mr Ledlie would take over as Chair in time for the next meeting in May 2017, and that further appointments to the committee were likely in the year ahead.

2. Declarations of interest

2.1 There were no declarations of interest, Mr Doig noted apologies from Gordon Shipley, Mandy Gallacher, Jonny Steen, Steven Hanlon & Dougie Shepherd.

3. Minutes of the last meeting/Actions

3.1 The minutes of the 01 December 2016 meeting were then approved without amendment.

3.2 The Committee noted progress with outstanding actions and agreed that all had been progressed to a stage where they could be closed, with the following exception:

A33/16 - Mrs Rocks to produce a report on the risks NRS are carrying on legacy systems and kit and in which areas – This is to be picked up for discussion in correspondence by Mr Ellis, Mr Ledlie and Mr Shipley. **This action is ongoing.**

4. Matters Arising

4.1 Mr Ellis advised a productive meeting had taken place with the St James developers and this put NRS in good stead for positive working relations moving forward.

5. NRS update report

5.1 The usual release of Cabinet papers and most popular baby names had brought with it some good media coverage.

5.2 Following the departure of the Mrs Rocks as NRS Accountable Officer at end January, some interim arrangements had been applied across the leadership team to maintain business as usual whilst a review of the NRS operational model and senior management structure is undertaken with assistance from Linda Sinclair who is on secondment to NRS for a period of six months for this specific purpose.

5.3 Steven Hanlon will act as Accountable Officer, on a temporary basis. Gerry Donnelly will temporarily take on the role of SIRO. Anne Slater will take responsibility for Estates, Procurement and Portfolio Office, on an interim basis.

5.4 The committee recorded its thanks for the fantastic job that Mrs Rocks had done in her tenure as Accountable Officer.

6. Finance Report

6.1 Mrs Sim reported that the current projected outturn for 2016-17 is an underspend of £0.24m and the NRS finance team are working with business teams to identify how spend could be advanced to reduce this underspend further, towards the target of break-even.

6.2 She confirmed that within this overall figure the capital budget is fully committed.

6.3 Looking at 2017-18, Mrs Sim confirmed that NRS achieved a positive outcome in the Draft budget negotiations and will plan on the basis of a £35.3m Revenue budget and £3.3m Capital budget. Within this, £10.2m of revenue and £1.1m of capital are earmarked for the Census programme.

6.4 Mr Ledlie asked what level of confidence NRS had with the budget forecast for 2016-17. Mr Ellis advised that, on the back of significant improvements with forecasting in the last 18 months, he was confident that NRS has a good handle on this.

6.5 Mr Aldridge asked if NRS was satisfied it had the correct level of resource for the Census programme for 2017-18. Mr Ellis advised he was confident that this was the case and the financial resource is in place to do the things the Census programme is required to do in this period.

6.6 The committee noted the report and were satisfied with the financial position for 2016/17.

7. Governance

Internal Controls

7.1 Mr Hazlewood confirmed that results from the recent in-year self-assessment exercise on internal controls provided general assurance that NRS business areas are implementing the intended internal controls effectively. An independent review of the results would be carried out by the NRS Business Portfolio team, who would then follow up on specific points with the business areas.

Other key points to note were;

- Business planning – the formal launch of the business planning process will be 27 February, with an intention of base lining our 2017-18 business plan by the 10 April. This is earlier than last year, with the intention that the business planning and budget estimation/profiling processes work more in tandem.
- Procurement – requirement specification for the two larger contracts for Census are now underway.
- Information – Gerry Donnelly is acting SIRO, with Tim Gollins deputising.

7.2 With regards to Security & Assurance, Mr Ledlie suggested that near misses could be considered, as well as actual incidents, in order to assist in identifying possible improvements.

Operational Risk

7.3 Mr Hazlewood provided a summary of the work done to date with business areas and his intentions moving forward to strengthen our management of risks across all business areas. This would include tying in risk management more closely with our business planning process, improved review and reporting arrangements, and looking to appoint local risk champions to help business areas take ownership of their risks, opportunities and maintain momentum in-year.

- A summary dashboard was presented, which gave a snapshot of the current operational risk exposure across the business.

7.4 The committee noted this was a good piece of information and a positive direction of travel on risk management. Mr Ledlie welcomed the progress report and suggested that reporting to the Committee should focus on the top 10 operational risks for NRS as a whole rather than on the risks in each department/area of NRS.

7.5 **Action** – Mr Ledlie to meet with Mr Hazlewood to discuss the format of risk reports

Mandatory Training

7.6 Mr Smith gave an overview of the recent work that had been undertaken in understanding the data on mandatory training uptake figures. He advised that this work had enabled NRS to understand where the training gaps are in the process of administering the mandatory training, and what we might do to ensure completion rates are high.

7.7 Mr Ledlie advised this was a better picture than had previously been presented to the committee, and was pleased to see a review of the process had been completed with suitable actions going forward.

7.8 The committee noted the report, and requested that it receive an updated training report once a year.

Whistleblowing & Counter fraud

7.9 Mr Hazlewood provided a summary of the SG context, within which NRS operates its whistleblowing and counter fraud controls and confirmed the work that had been undertaken to date in NRS to ensure staff are aware of what their responsibilities are, and how to engage the whistleblowing process. He also provided a summary of his intentions for counter-fraud activity in 2017.

7.10 Mr Ledlie noted that this was an excellent report; giving valuable insight into the work NRS is actively doing in this area. He added that it may be of value that additional reminders are issued to key individuals in the Census programme to be fully aware of the risks around accepting gifts and hospitality from contractors. Mr Ellis advised that staff who work in this area generally very conscious of preventing these types of fraud risks.

7.11 Mr Aldridge raised concerns around the time delay at SG in completing the review of the existing whistleblowing policy and asked the committee to consider further action around this, if not resolved soon; i.e. writing to the Chair of the Scottish Government Audit Committee.

7.12 A discussion followed around the subject of anonymity for whistleblowers and Mr Hazlewood confirmed that in the one formal case he had dealt with in 2016 he had taken all reasonable steps to protect the identity of the whistleblower, but that while names can be withheld, this is not a guarantee that those necessarily involved in a subsequent investigation would not be able to work out who the whistleblower might be. The committee noted that, in other organisations, the 'last resort' point of contact for whistleblowers could be a nominated non-executive director, to minimise risk of staff going external to the media with concerns, which would be damaging to the organisation.

7.13 Mr Doig recommended that communications with staff should highlight that NRS has a zero tolerance approach to fraud.

7.14 He suggested that the anti-fraud policy should be extended to alert staff to the substantial risks of attempted fraud around suppliers and contractors (e.g. several public bodies had lost public monies by fraudulent change of suppliers' bank account details by third parties, overstated invoices, etc.).

7.15 He suggested that the Accountable Officer should report to ARC any emerging issues arising from Audit Scotland's Technical Bulletins' fraud reports, to gain insight to recent frauds perpetrated in other public bodies, and trends such as recent substantial increases in ransomware attacks and cyber fraud.

Audit Recommendations

7.16 Mr Hazlewood provided a brief summary of progress against audit recommendations, highlighting that work was progressing against all and that the number of outstanding recommendations continues to drop at a steady pace.

7.17 Mr Doig noted his concern that there had been a long trail of historic recommendations, but was pleased to see that much had been done to manage these down over the last year. Mrs Binnie added that she felt assured that the direction of travel around this work is positive, and that Internal audit will continue to assist with monitoring the implementation of outstanding audit recommendations.

7.18 The committee noted the report, which provided assurance that audit recommendations are being managed appropriately.

ARC Portfolio Report

7.19 Mr Hazlewood tabled a summary overview on the position with the current programmes and projects in the NRS portfolio. With regard to the Estates Strategy programme, Mr Aldridge asked if NRS was aware of the potential risk implications for the Census programme if they move out from Ladywell House. Mr Ellis advised that options are being considered in this area and is very much a focus on the Estates Strategy board's agenda.

7.20 The committee noted the report.

8. Internal Audit

Interim Report against 2016-17 Internal Audit Plan

- Mrs Binnie confirmed that Internal Audit are moving forward with remaining 2016-17 audits, including assurance mapping and people engagement.
- Follow up work is also currently ongoing around Contract Management and IT Asset management.

8.1 Mr Doig asked what specific work Internal Audit are proposing to do in their assurance mapping review. Mrs Binnie advised that this would focus on drilling down into the NRS in-year internal controls exercise.

Internal Audit Plan 2017-18

8.2 An updated Internal Audit Plan for 2017-18 had been circulated. Mrs Binnie thanked the committee for the feedback on the earlier draft plan that had been circulated in correspondence for comments, and then provided a high level summary of the proposed internal audit work, which covered;

- Changing the internal audit year into alignment with the financial year
- Census 2021
- IT Risks / Programme and Change Management (including Digital Preservation Programme)
- Finance Budget Management, including Accounts Receivable

8.3 Mr Ledlie asked how the decision is made on the number of audits completed in year by internal audit. Mrs Binnie advised there is no calculation to determine the number as such but the hope is that the main risks are covered over any given five year rolling programme. Mr Ellis added that three internal audit reports is comparatively high in comparison to SG core.

8.4 The committee agreed the Internal Audit Plan for 2017-18.

9. External Audit – External Audit Plan 2016-17

9.1 Mr Haseeb explained that the scope of the external audit work for financial year 2016-17 would focus on:

- An introduction to the audit risks that Audit Scotland will be reviewing
 - a) Risk of management override controls
 - b) Risk of fraud over income and expenditure
 - c) Finance staff turnover
 - d) Financial Sustainability
 - e) IT strategy and resources
 - f) Governance Framework
- Information around reporting arrangements
- Target dates for key outputs, including target dates when the draft final accounts would be submitted to auditors
- Audit fee
- A review of materiality values

9.2 The committee noted that this was a very thorough and helpful audit plan.

10. Forward Look

The committee noted the forward look and accepted it without amendment.

11. Any Other Business

11.1 The secretary circulated the final version of the committee's self-assessment checklist.

11.2 Mr Doig noted this was his final ARC meeting, and thanked all his colleagues for their support and advice during his appointment as Chair. He stated that it had been a pleasure to lead the committee in providing constructive challenge and scrutiny, and to serve as a 'critical friend' to NRS.

11.3 He offered his positive reflections in identifying various improvements and 'value added' that ARC had achieved in recent years.

11.4 He stressed the importance of successor planning in both executive and non-executive roles, and the importance of refreshing the NED skills available on the committee. He welcomed new leadership from Mr Ledlie as his successor as the committee chair, and wished the committee well in its future work.

11.5 The next meeting is scheduled for 18th May 2017, Room 1/G/8, Ladywell House.