

Title of report	Audit and Assurance Committee Annual Report to the Council 2019/20
Public/confidential	Public
Action	For discussion and approval
Summary/purpose of report	This report represents a summary of the work of the Audit and Assurance Committee and gives the Committee's opinion on the assurance that this work provides.
Recommendations	That the Council: <ol style="list-style-type: none"> 1. notes the work of the Audit and Assurance Committee 2. notes the Committee's assessment of its performance and the plans to address development areas 3. agrees that it is appropriate for the Chief Executive as Accountable Officer to sign the Annual Report and Accounts at all of the appropriate points within the document 4. approves the 2019/20 Annual Report and Accounts.
Author	Nicky Anderson Head of Finance
Responsible Officer	Alan Baird Audit and Assurance Committee Chair
Link to Strategic Plan	The information in this report is about our internal governance arrangements and therefore links to all of our strategic objectives.
Link to the Risk Register	Risk 3: We fail to meet corporate governance, external scrutiny and legal obligations.

	Risk 5: We fail to provide value to our stakeholders and demonstrate our impact.
Equality Impact Assessment (EIA)	1. An EIA was not developed as the information in the report relates to matters of internal governance and does not impact on people with protected characteristics.
Documents attached	Appendix 2 – Draft Governance Statement
Background papers	none

1. INTRODUCTION

- 1.1 The Audit and Assurance Committee Annual Report to the Council summarises the work of the Audit and Assurance Committee for the past financial year and presents the Committee's opinion on the assurance that this work provides. The report also contains the Audit and Assurance Committee's recommendation to the Council on the approval of the Annual Report and Accounts.
- 1.2 The Committee met on five occasions. All meetings were quorate.
- 1.3 The Audit Committee became the Audit and Assurance Committee in October 2019 following a wider review of the SSSC's corporate governance arrangements.

2. REMIT OF AUDIT AND ASSURANCE COMMITTEE

- 2.1 The remit of the Audit and Assurance Committee is to:
- review the strategic KPI performance report
 - review the financial monitoring report
 - review the Strategic Risk Register/Management Plan report
 - ensure the audit requirements of the SPFM (Scottish Public Finance Manual) are being implemented
 - scrutinise accounting policies, accounts and annual report of the organisation with recommendations for the Council before submission to Parliament.
- 2.2 The function of the Audit and Assurance Committee is to advise the Council and the Accountable Officer on strategic processes for risk, control and governance and the governance statement; adequacy of management response to operational and financial performance, financial probity and stewardship and management of risk (financial and strategic objectives); and effectiveness of audit functions.

3. SUMMARY OF AUDIT AND ASSURANCE COMMITTEE WORK

3.1 Internal audit reports considered

Scott Moncrieff, the Internal Auditors during 2019/20, use a system for categorizing assurance levels where each control objective is assessed and categorized using a colour coded approach. The colour code system is as follows:

Assessment	Definition
BLACK	Fundamental absence or failure of key control procedures – immediate action required.
RED	The control procedures in place are not effective – inadequate management of key risks.

YELLOW	No major weaknesses in control but scope for improvement.
GREEN	Adequate and effective controls which are operating satisfactorily.

In addition to the above control assessments Scott Moncrieff assign management action grades to demonstrate risk exposure. They are graded using priority numbers as follows:

5	Very high risk exposure - major concerns requiring immediate Board attention
4	High risk exposure - absence / failure of significant key controls
3	Moderate risk exposure – not all key control procedures are working effectively
2	Limited risk exposure – Minor control procedures are not in place / not working effectively
1	Efficiency/housekeeping point

The following reports were submitted to and considered by the Committee:

Int. Audit Plan Year	Report Title	Committee Date	Control Objective Assurance	Management Action Rating
2018/19	Fitness to Practise	June 2019	1 yellow 2 green	1 action graded 2; 2 actions graded 1
2018/19	Payroll	June 2019	1 red 2 yellow 4 green	1 action graded 3; 1 action graded 2
2019/20	Income and Receivables	June 2019	5 green	No actions
2019/20	Resource Determination and Allocation Model	December 2019	1 yellow 4 green	1 action graded 2

2019/20	IT Healthcheck	December 2019	1 red 1 yellow 2 green	1 action graded 4; 2 actions graded 3
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The following 2019/20 internal audit report was considered by the Audit and Assurance Committee during the 2020/21 year.

Int. Audit Plan Year	Report Title	Committee Date	Control Objective Assurance	Management Action Rating
2019/20	Corporate Control Arrangements	April 2020	3 green	No actions

3.2 **Consideration of the 2018/19 draft Annual Report and Accounts**

The Committee held a meeting on 28 August 2019 dedicated to a detailed review of the draft Annual Report and Accounts. At the meeting of 25 September 2019, the Committee considered the draft 2018/19 Annual Report and Accounts and the associated report from Grant Thornton (external auditors) and recommended that the Council approve the 2018/19 Annual Report and Accounts.

The Committee reviewed the Governance Statement, which is included within the Annual Report and Accounts.

3.3 **Review of Audit Plans**

The Committee reviewed and approved the Strategic Internal Audit Plan (2019-22) and Internal Audit Plan for 2019/20 along with the associated assignment plans for 2019/20. The Committee monitored progress against this plan throughout the year.

Henderson Loggie were appointed internal auditors with effect from 1 April 2020. Henderson Loggie are developing the Strategic Internal Audit Plan 2020-23 which will include the draft internal audit programme for 2020/21. The Committee will consider the new strategic and annual plan in 2020/21. The Committee prioritised and agreed two 2020/21 internal audit assignments could progress ahead of agreement of the plan as a whole. The review of annual and strategic audit plans strives to ensure a strong relationship between the planned internal audits, the strategic risk register and the SSSC's duty to provide best value.

The Committee received the External Audit Plan for 2019/20 from the External Auditors, Grant Thornton.

3.4 **Implementation of Audit Recommendations**

Throughout the year the Committee monitored management's progress towards implementing audit recommendations. This was achieved by reviewing recommendation follow up reports prepared by Internal Auditors summarising progress on completed actions at each quarterly Audit and Assurance Committee meeting.

The internal Auditor's Annual Report concluded that of the 15 actions due to be implemented by 31 March 2020, 12 actions (80%) were fully implemented and 3 (20%) were partially implemented.

3.5 **Other Work**

Audit and Assurance Committee

In October 2019, after a review of the SSSC's governance framework, the Audit Committee became the Audit and Assurance Committee. The remit of the Committee was expanded to include Assurance Reports. These reports present a quarterly review and projection of financial and operational performance and an assessment of the risk associated with delivering this performance. The Committee makes recommendations to the Accountable Officer and the Council on a quarterly basis through a report from the Chair. This report makes a recommendation to the Council on the assurances that can be taken about the financial, operational and risk management processes as well as any specific areas of work highlighted by Internal Audit or any other relevant business.

Audit and Assurance Committee Self-assessment

As noted above, the SSSC carried out an extensive review of our governance arrangements during 2019/20 financial year and the committee members contributed to the approval of new governance arrangements.

Member Development

The Council holds a minimum of four development sessions per year and the committee members participate as they are all members of the Council. There were no specific Audit and Assurance Committee development sessions however the Council development sessions included a number of topics relevant to the work of the committee including:

- the new corporate governance arrangements, how they will work in practise and the committee's role in that.
- strategic plan development
finance and budget setting session
- strategic risk development

Committee Development

A private meeting between Audit and Assurance Committee and external audit was held in September. Internal Audit did not meet privately with the Committee however the Chair and Internal Audit did meet to discuss delivery of audit services and management of the contract. The calendar of Committee business was further developed during the year.

Strategic Risk Register Monitoring

The Committee continued to monitor and review the Strategic Risk Register throughout the year. The Committee considered a revised Risk Policy to Council and in February 2020, the Committee recommended that the Council approve a revised Risk Register and Risk Appetite Statement.

The Committee closely monitored a fitness to practise workload risk in relation to the number of cases opened exceeding those closed which if not appropriately managed had the potential to create a backlog of cases which would be detrimental to our public protection role.

Internal Audit Procurement

The Committee oversaw the procurement of new internal auditors and made a recommendation to Council to appoint Henderson Loggie as the SSSC's internal auditors with effect from 1 April 2020.

Shared Services

In February 2020 the Committee received a report on progress with the implementation of a revised shared services model.

Audit Scotland Section 22 Report

During the 2019/20 financial year the Committee continued to receive updates regarding progress against the action plan that was agreed in response to the December 2018 Audit Scotland report on Governance and Transparency prepared under Section 22 of the Public Finance and Accountability (Scotland) Act 2000. In February 2020 the Committee received a report on the SSSC's response to the themes set out in the Review of the Public Audit and Post-legislative Scrutiny Committee (PAPLS) report.

Audit Scotland Publications

All Audit Scotland national reports that were considered relevant to the work of the Audit and Assurance Committee were considered during the year.

Business Process Re-engineering (BPR)

In February 2020 the Committee received an update on the BPR review, instigated following recommendations from the ICT Health check. The Committee requested a follow-up report within six months, or earlier should any further issues be raised.

Fraud and Corruption Assurance Report

The Committee requested a quarterly report to include any fraud or irregularities detected.

3.6 Priorities for 2020/21

Audit and Assurance Committee Effectiveness Review

A wide ranging corporate governance review was undertaken during 2019/20 and the role and function of the Audit and Assurance Committee was considered as part of this review. The first formal review of the effectiveness of the newly constituted Committee is planned to take place during Q4 of the 2019/20 financial year.

Committee Development

Members of the Audit and Assurance Committee will continue to hold private meetings with External and Internal Audit at least annually. A "horizon scanning" agenda item will continue to be considered at each meeting with the exception of the special meeting to consider the annual report and accounts.

Risk Management

The regular review and update of the Risk Register is a task of significant importance. The Risk Management Policy will continue to be reviewed annually alongside the risk register in line with planned committee work and key risks to the delivery of strategic objectives will be considered by the committee in the quarterly Assurance Report.

Governance

Robust governance remains a priority of the Committee. The Council has requested an Internal Audit of our new arrangements to take place during financial year 2020/21. *The Committee has recommended that this is included in the Internal Audit Plan.*

Digital Transformation

The Committee will continue to consider and monitor risks associated with the Digital Strategy.

Counter Fraud and Corruption Framework

The Committee will review the Counter Fraud and Corruption Framework. A shared service arrangement will be agreed with NHS Counter Fraud Services (CFS) during 2020/21. The Committee will continue to receive a quarterly Fraud and Corruption Assurance report.

4. PROGRAMME OF AUDIT AND ASSURANCE COMMITTEE MEETINGS

4.1 The table below details expected business for the Audit and Assurance Committee during 2020/21.

2020/21	
Meeting Date	Business
28 April 2020	<p>SSSC:</p> <ul style="list-style-type: none">• COVID-19 Decision Tree• Assurance Report as at 31 March 2020• Governance Improvement Plan• Fraud and Corruption Assurance report• National Fraud Initiative Update <p>Internal Audit:</p> <ul style="list-style-type: none">• Recommendations Follow up Report• Internal Audit Annual Report 2019/20• Interim Internal Audits 2020/21
28 July 2020	<p>SSSC:</p> <ul style="list-style-type: none">• Strategic Risk Register• Draft Audit and Assurance Committee Annual Report

2020/21	
Meeting Date	Business
	<ul style="list-style-type: none"> • Governance Improvement Plan update • Fraud and Corruption Assurance Report • Financial Horizon Scanning • Shared Services Management Agreement • Strategic Internal Audit Plan <p>Internal Audit:</p> <ul style="list-style-type: none"> • Equality and Diversity • Risk Management
6 October 2020	<p>SSSC:</p> <ul style="list-style-type: none"> • Draft Audit and Assurance Committee Annual Report to Council 2019/20 • Draft Annual Report and Accounts 2019/20 <p>External Audit:</p> <ul style="list-style-type: none"> • Report to those charged with governance on the 2019/20 audit
27 October 2020	<p>SSSC:</p> <ul style="list-style-type: none"> • Draft Audit and Assurance Committee Annual Report to Council 2019/20 • Draft Annual Report and Accounts • Review of Financial Regulations and Debt Management Policies • Procurement Review • Assurance Report • Business Process Re-engineering Review • Shared Services Management Agreement • Fraud and Corruption Assurance Report • Fraud and Counter Fraud Policy Review <p>Internal Audit:</p> <ul style="list-style-type: none"> • Internal Audit Progress report • Internal Audit Recommendation Follow-up report • Internal Audit reports <p>External Audit:</p> <ul style="list-style-type: none"> • Annual Report and Accounts statutory audit progress
2 February 2021	<p>SSSC</p> <ul style="list-style-type: none"> • Assurance Report • Fraud and Corruption Assurance Report • Risk register review • Shared services Management Agreement <p>Internal Audit:</p> <ul style="list-style-type: none"> • Internal Audit Plan 2020/21 Progress Report • Recommendations Follow up Report • Internal Audit Reports

4.2 All Audit and Assurance Committee agendas contain the following standing items:

- Horizon Scanning
- Action record
- Assurance report

5. FRAUD

5.1 The Committee received assurance at its meeting of 28 July 2020 that there had been no incidences of fraud detected during the 2019/20 financial year.

6. QUALITY OF INTERNAL AUDIT

6.1 In overall terms the Committee has assessed the work of Scott-Moncrieff the appointed internal auditors for 2019/20. The Committee is of the view that the standard of internal audit work and the reports produced was *adequate*. *However, there was concern about the quality of specific assignments particularly with respect to planning and reporting. There was also concern that the quality of the management of the internal programme had declined. Meetings were held between the Chair of the Committee and the Internal Auditor to address those concerns. It should be noted that new internal auditors have been appointed with effect from 1 April 2020.*

7. QUALITY OF EXTERNAL AUDIT

7.1 The SSSC's external auditors, Grant Thornton, are appointed by the Auditor General for Scotland. The audit of the 2019/20 Annual Report and Accounts will be the fourth year (of five) of Grant Thornton's engagement. The Auditor General extended the term of external auditors for an additional year due to the COVID-19 pandemic meaning Grant Thornton will now be engaged until the audit of the 2021/22 financial year.

7.2 External audit provide an audit plan, attend Audit and Assurance Committee meetings and provide an informative report on their work. The Committee believes there is *a good working relationship between the Grant Thornton audit team, SSSC staff and the Audit and Assurance Committee.*

8. GOVERNANCE STATEMENT

8.1 The Audit and Assurance Committee has reviewed the Governance Statement contained within the draft 2019/20 Annual Report and Accounts. The Committee is of the opinion that the Governance Statement fairly reflects the adequacy and effectiveness of the SSSC's governance and risk framework for the year ended 31 March 2020 and up to the date of approval of the draft Annual Report and Accounts.

8.2 The statement addresses all issues that the Committee considers to be pertinent.

8.3 The Committee advises the Council and Accountable Officer that in its opinion

it is appropriate for the Accountable Officer to sign the Statement.

9. ASSURANCE OPINION

- 9.1 In preparation for developing this report to the Council, the Audit and Assurance Committee held a private meeting with external audit. The Chair met with internal audit privately. The meetings were an opportunity to review the way in which the Committee operates, and to identify any issues which the Committee would wish to draw to the attention of the Council.
- 9.2 *No issues arose from the private meetings with external audit. The Committee were satisfied that the Chair's meetings resolved any issues with the reporting mechanisms from internal audit. The internal and external auditors were able to contact the Chair directly if they felt there were any concerns or issues that needed to be raised.*
- 9.3 The Committee is of the opinion that the assurances supplied are reliable, have integrity and are sufficiently comprehensive to support the Council and the Accountable Officer in their decision making and their accountability obligations.

10. ANNUAL REPORT AND ACCOUNTS

- 10.1 Following detailed review of the draft document and consideration of the external auditor's report, the Audit and Assurance Committee consider the draft Annual Report and Accounts taken as a whole is fair, balanced and understandable and provides the information necessary for stakeholders to assess the SSSC's performance and strategy.
- 10.2 On this basis, the Committee recommends that the Council approves the draft Annual Report and Accounts for the year ended 31 March 2020.