

Audit and Risk Assurance Committee
Minutes of Meeting
Buchanan House, Glasgow 11 December 2019

Present:

Siobhan White (SW) SHR ARAC Chair
Bob Gil (BG) ARAC member (items 1-9)
Ewan Fraser (EF) ARAC member

In attendance:

Amy McNee (AM) Internal Audit Manager, Scottish Government
Jim Montgomery (JM) Senior Internal Audit Manager, Scottish Government (items 1-6)
Michael Cameron (MC) Chief Executive
Iain Muirhead (IM) Director of Digital and Business Support (items 1 – 6 & 10-13)
Clare Nicholson (CN) Business Manager
Roisin Harris (RH) Corporate Governance Manager (secretariat)

Observing

George Walker SHR Board Chair

Agenda item	
1.	<p>Chair's welcome & apologies The Chair welcomed everyone present, especially SHR Chair as an observer.</p> <p>Apologies were submitted from ARAC member Mike Dailly and also Nick Bennet (NB) and Nicola MacKenzie (NM) from Scott Moncrieff.</p>
2.	<p>Declaration of interest There were no new declarations of interest.</p>
3.	<p>Minutes of the previous meeting, matters arising & audit log The Committee agreed to approve the minutes from its last meeting on 4 September 2019.</p> <p>ARAC reviewed the matters arising and audit log.</p> <p>IM confirmed that SHR is reviewing all records management policies and procedures as part of a work programme to re-submit its records management plan to the Keeper by 31 March 2020.</p> <p>IM also confirmed that he has met with SHR's external auditor to discuss planning recently. IM explained some issues around SHR's audit fee. ARAC noted the lack of complexity of SHR's audit work and how the fee compares to other organisations. It agreed that IM should seek further discussions with Audit Scotland on SHR's fee arrangements. IM explained that the external auditor had intended to bring its audit plan to the December meeting but, given the audit fee issue, has rescheduled this to ARAC's March meeting.</p> <p>ARAC noted the logs and updates.</p> <p>Action: CN to update the date for the Retention Policy to March 2020 on the log</p>

<p>4.</p>	<p>IT Update MC updated ARAC on IT matters.</p> <p>MC reported that the Board approved spend to initiate procurement for software support contract on 10 December and that this will be delivered by 1 April 2020.</p> <p>MC reported that user testing flagged some challenges in using the CivTech digital assistant and that the supplier worked on those at no cost to SHR. He explained that SHR has just done the first phase of testing with staff and that Management Team will consider the output and bring a report to the Board in February on the outcome and conclusion. MC confirmed that if staff testing provided sufficient confidence, the next test phase would involve tenants.</p> <p>MC reported that he had updated the Board in October and December on SHR's website and that the contract with the provider has now transferred from Scottish Government to SHR, which will allow SHR to progress further development. He also explained that SHR will incur direct hosting costs in the region of £18K/year. from 2020/21. ARAC noted Scottish Government met the hosting costs in 2019/20.</p> <p>MC explained the next phase of development will enhance accessibility of SHR's Directory seeking to bring it into the main website. ARAC noted that some pdf elements of the Directory will remain and therefore be less accessible, but that SHR can apply disproportionate clauses to these elements.</p> <p>Internal Audit commented that SHR is further forward on website accessibility than other clients. The Committee noted this may be due to the requirement for new websites to be accessible by September 2019, with existing ones having until September 2020.</p> <p>MC confirmed that although SHR has worked with the Digital Assurance Office when developing the business intelligence system, no current projects qualify for further involvement. ARAC noted the expert input from Scottish Government's web and procurement teams.</p> <p>ARAC noted the updates.</p>
<p>5.</p>	<p>Internal Audit progress Report AM presented an update to ARAC. She highlighted that:</p> <ul style="list-style-type: none"> • the annual plan work was completed; • Ernest and Young has been appointed as a co-source partner for internal audit; and • Internal Audit will implement a re-structure from April 2020. <p>AM also highlighted that one audit recommendation in relation to notifiable events remains in-progress, while she has closed two recommendations around open data.</p> <p>AM reported that planning discussions have started with SHR for 2020/21. She also updated ARAC on review of Scottish Government shared services and noted SHR is keen to input. JM explained the core Scottish Government internal audit plan covers business as usual reviews. The Committee discussed SHR's experience of shared services from the Scottish Government.</p>

	<p>ARAC noted that the CN will amend the audit log to show the notifiable events recommendation as in-progress.</p> <p>ARAC welcomed the Internal Audit newsletter and discussed the three lines of defence model highlighted.</p> <p>JM updated ARAC on Internal Audit Directorate re-structure. He reported that Mabel Hall will replace AM as Audit Manager and that she has previously worked with SHR. He also explained how Internal Audit plans to work with Ernest & Young. JM confirmed that there would be no additional cost to SHR if is assigned Ernest and Young as internal auditors in the future.</p> <p>AM presented on the internal audit review of SHR's Regulatory Framework consultation and reported an overall substantial assurance opinion. She highlighted that there is only one medium level recommendation around staff resource allocation.</p> <p>The Committee welcomed the positive report and discussed the recommendation. It noted SHR does not have a formal time recording system, but uses programme and project management approaches. JM explained the recommendation is about differentiating from business as usual work.</p> <p>GW welcomed that Internal Audit work and findings on the Regulatory Framework consultation. He reflected on how intensive the consultation work had been and the importance of SHR involving stakeholders.</p> <p>The Committee noted that SHR is committed to a further review within five years.</p> <p>ARAC thanked AM and noted the updates.</p>
6.	<p>Risk Report</p> <p>CN presented SHR's risk register. She reported that Management Team reviewed it on 6 November 2019 with a focus on Brexit and that it will consider the risk register next on 17 December 2019. MC reported that the Management Team will consider the outcome of the general election, focusing on things like potential changes to lending markets and any financial risks to the organisations that it regulates.</p> <p>MC confirmed that Management Team had considered:</p> <ul style="list-style-type: none"> • the context of Brexit and the broader related changes including how these may present risks for SHR; and • high profile engagements and the risk of failure in the sector and the related reputational risk to SHR in the context of stakeholder expectations. <p>GW reported on the Board's review of the risk management and thanked IM for his work developing a new register and approach for SHR.</p> <p>JM reported that amongst clients there are many formats of risk management, but that the most important things to establish a model that works for the organisation and welcomed that SHR's approach. He highlighted that climate change may be a future topic for consideration. MC confirmed that the Management Team has discussed the implications of climate change as a public body with obligations and in the context of regulated organisations.</p>

	<p>ARAC asked the Management Team to consider its discussion when it next reviews the risk register on 17 December 2019.</p> <p>Actions:</p> <ul style="list-style-type: none"> • Management Team to consider ARAC feedback when it considers updating the risk register.
7.	<p>Terms of Reference</p> <p>CN presented a review of the Committee terms of reference. She reported the Committee last reviewed it in December 2018 and that it is good practice to do this annually.</p> <p>ARAC considered the review proposals and noted that the model recommends naming the Chair and members. It agreed that as SHR already publishes Committee member names and these can be subject to change, that it would not add these into the terms of reference.</p> <p>The Committee considered the IT update. MC reported on the background dating back to when SHR was developing a new BI system. The Committee agreed that he already includes items of significance in his Board reports and there is scope for ARAC discussions under risk management so to remove this as a standing agenda item.</p> <p>The Committee reflected on a recent situation when it was not quorate and asked CN to include information on what to do if the situation arises. AM confirmed that other clients specify this kind of detail in their terms of reference.</p> <p>ARAC agreed subject to the inclusions discussed, to approve the refreshed terms of reference and recommend it to SHR's Board for approval.</p> <p>Actions:</p> <ul style="list-style-type: none"> • CN to add detail on procedures if a meeting is not quorate and remove the IT update as a standing item. • SW to propose the terms of reference to SHR Board for approval.
8.	<p>ARAC Self-Assessment</p> <p>ARAC carried out a self-assessment using a series of questions themes to prompt discussion on effectiveness.</p> <p>ARAC agreed the current arrangements around communications with SHR Board, staff and auditor worked well and allowed for regular updates as well as ways to raise issues if required. ARAC welcomed an offer from SW to write a blog for the staff intranet on the work of ARAC. MC confirmed he will also share the outcome of Internal Audit's work on the Regulatory Framework with all staff.</p> <p>ARAC also discussed:</p> <ul style="list-style-type: none"> • relationships with auditors and AM confirmed from her perspective this worked very well; • risk management, welcoming the recent changes to the register and agreeing the subsequent meetings discussions had been very useful. It noted the GW welcomed the support from ARAC in reshaping SHR's approach to risk management;

	<ul style="list-style-type: none"> • monitoring audit actions, agreeing the log provides an effective tool; • governance, noting ARAC reviewed SHR Board scheme of delegation for recommendation to the Board earlier in the year and that ARAC considers a fraud report annually; • meeting arrangements, noting the issue with one meeting not being quorate and that it could, if required seek additional members from SHR Board; • the role staff play in providing ARAC and SHR Board will information to allow for appropriate oversight; • if there is a forum of Audit Committee Chairs, noting that there is nothing planned, but it would be possible for SW to connect with other public bodies; and • member skills, agreeing these are currently right, noting two members are accountants. ARAC welcomed that SW would also share relevant articles that she comes across through her academic work for circulation. <p>Action:</p> <ul style="list-style-type: none"> • SW to write a blog on the work of ARAC for the staff intranet. • SW to connect with Chairs of Audit Committees in other public bodies.
9.	<p>Best Value Update</p> <p>CN presented proposals for reviewing SHR's duty of Best Value. She explained the previous arrangement for a rolling programme of themes. CN highlighted the current focus on indicators and proposed an annual review of evidence across all themes reporting to Management Team. ARAC welcomed the proposal, agreeing it was comprehensive and would allow SHR to keep Best Value proportionate to the organisation. It agreed to consider the full first annual review after Management Team input.</p> <p>Action: CN to initiate the Best Value review with Management Team for ARAC to consider in June 2020.</p>
10.	<p>Assurance Mapping</p> <p>ARAC considered an update to SHR's assurance map. It noted this now includes information on monitoring and layering to help the reader understand the activities that assure the Board and Management Team and frequency of these. ARAC considered the updates and welcomed the connections to SHR's risk register, noting how this feeds into ARAC's role around governance arrangements. GW reported that the SHR's Board welcomes and values the assurance map. ARAC considered if it would be appropriate to publish the map, but noted the risk register references make it hard for external audiences to understand. ARAC noted that the Chair and Management Team have plans to refer to SHR's assurance mapping work during forthcoming speeches to stakeholders.</p> <p>ARAC agreed that an annual review was appropriate as it is a road map of assurance and different from the dynamic nature of the risk register. It agreed to report to the Board annually following each review and that the CEO could address any significant interim amendments through his Board reports.</p>

11.	<p>AOB ARAC noted the agenda planner and future meeting dates for 2020. AM confirmed that she will clarify when the new audit manager will commence work with SHR.</p> <p>ARAC agreed there were no new matters for consideration for audit activity.</p> <p>Action: AM to clarify when the audit manager will commence work with SHR.</p>
12.	<p>Effectiveness of meeting and papers and ARAC agreed the meeting was effective.</p>
13.	<p>DONM – 9 March 2020</p>