

**MINUTES OF THE SWIA AUDIT COMMITTEE MEETING
2.00 pm, WEDNESDAY 30 AUGUST 2006
ROOM 1 G 9, LADYWELL HOUSE**

PRESENT: Hamish Hamill, Non Executive Director, Chair
Alexis Jay, Chief Inspector
David Cumming, Depute Chief Inspector
Andrew Wilkinson, Corporate Manager
Sandra Nutley, Non Executive Director
Andy Anderson, Audit Scotland
Mike Healy, Scottish Executive Internal Audit
Alison Douglas, Scottish Executive Accountancy Services
Jim Stevendale, SWIA Finance Manager
Stuart Ainslie, SWIA Accountant
Anne Travers (Minutes)

APOLOGIES: Alistair May, Scottish Executive Internal Audit

1. Introductions

1.1 The Chair began the meeting by asking the members to introduce themselves for the benefit of all attending.

2. Audit Committee Remit

2.1 The Chair invited comments on SWIA's audit committee remit. The document followed closely the Scottish Executive format and had been agreed by SWIA's Board. Mike Healy advised that HM Treasury was consulting on revisions to the Audit Committee Handbook. The results of the consultation were due in November and he would come back to the committee with any changes that may affect the SWIA Audit Committee Remit.

The Committee agreed the remit and the proposed timetable and content of meetings.

3. Internal audit report

3.1 Mike Healy provided a brief background of Internal Audit's remit and approach. He advised that Internal Audit could provide only limited assurance about the overall control framework established in SWIA. Whilst systems were being developed and were satisfactory in some areas with plans in place to address the remaining areas, at the time of the audit there were weaknesses that could undermine the achievement of business and/or control objectives. Specific weaknesses found were in Health and Safety, transfer of budgets, finance policy/procedures, travel and subsistence and the government procurement card. He acknowledged that considerable

improvement work had already taken place and that he was satisfied with the progress. Regular meetings were being held with SWIA Finance Team and a review of progress would be made in January/February 2007. The Committee agreed that limited assurance was accepted.

Action Point 01/06 – Andrew Wilkinson to advise the Committee on progress made at the next Audit Committee meeting.

- 3.2 Alexis Jay acknowledged that one of the major problems was the transfer of budgets and that discussions had been held with the Education Department Finance Team but, whilst sympathetic, they were unable to help. The Committee agreed that Mike Ewart, Head of the Education Department should be contacted to help solve the problem.

Action Point 02/06 – Alexis Jay to write to Mike Ewart seeking assistance to secure a formal budget transfer.

- 3.3 Mike Healy advised that for 2006/07 Internal Audit would be working with SWIA to develop an 'Annual Plan' including corporate governance and resources as well as following up on 2005/06 audit work. Andrew Wilkinson advised that SWIA would also clarify what services SWIA could expect from the Scottish Executive. Sandra Nutley asked if the review of the risk assessment of staff resources could be brought forward from 2007/08. The Committee was content to bring this forward to 2006/07.

- 3.4 Alexis Jay highlighted that there was little guidance available on establishing new Agencies. Andy Anderson agreed that it would have been helpful for new Agencies to have had access to a 'starter pack'.

- 3.5 The Chair asked Alexis Jay if she was happy with the Service Level Agreement drawn up by Internal Audit. Alexis Jay confirmed that she was content.

4. External audit report

- 4.1 Andy Anderson informed the committee that Audit Scotland's draft report would be available within three to four weeks. In the interim, he provided a brief summary of Audit Scotland's findings.

Audit Scotland recognised that as SWIA was in its first year of operation it was unrealistic to expect all of the accounting and control requirements to have been met. In these circumstances the aim was to ensure that steady progress was made in developing and implementing effective accounting and internal control environments across all the activities of the Agency, with particular emphasis on establishing effective corporate management and financial control structures.

However, Audit Scotland's prime responsibility was to give their opinion on whether the accounts gave a true and fair view of the Agency's activities during the year and that transactions complied with any relevant authorities.

Audit Scotland's approach had been based mainly on substantive testing, and did not seek to take assurance from the control environment. Audit Scotland had taken assurance from Internal Audit on a number of areas such as travel and subsistence and Government Procurement Card purchases to avoid duplication of audit effort. Andy Anderson thanked Internal Audit for its help and co-operation.

Andy Anderson advised the committee that Audit Scotland was pleased to be able to provide an unqualified audit opinion on SWIA's 2005/06 accounts before the committee.

4.2 Andy Anderson continued by recognising the progress that had been made by the Agency in developing corporate structures and financial control systems. These were developing and were now embedded across the Agency's operations. Progress would be monitored as part of the 2006/07 audit.

However, a number of significant weaknesses had been evident which had exposed the agency to considerable risk. Particular issues were:-

- set up costs managed by the Education Department were not subject to Agency control or monitoring;
- inadequate budgetary control within the Agency;
- weaknesses in financial control -
 - inadequate segregation of duties,
 - delegations unclear/not being applied,
 - weaknesses in control over staff numbers/recruitment, and
 - confusion over coding of expenditure.

All errors identified had been corrected in the accounts.

It was Audit Scotland's view that there were two main reasons for control weaknesses:

- lack of accounting expertise within the Agency; and
- inadequate separation of Agency accounting and budgetary processes from the Education Department

These issues had been recognised by the Agency and action was being taken to resolve them. However, a key recommendation in the Audit Scotland annual report would be the need for continuing accounting expertise.

- 4.3 Andy Anderson advised the committee that the Government Financial Reporting Manual and Scottish Public Finance Manual required that any significant failings during the year were referred to in the Statement of Internal Control (SIC), including details of remedial action. Where references to significant control weakness were omitted from the SIC, Audit Scotland were required to include a comment to that effect in the auditor's report.

It was acknowledged that SWIA had included a reference to financial control weakness in the SIC which was agreed. Andy Anderson confirmed that Audit Scotland would not draw attention to any specific internal control issues.

In closing Andy Anderson thanked Andrew Wilkinson and his staff for their help and co-operation throughout the audit and acknowledged that developing and introducing financial systems was a major challenge but dealing with internal and external auditors must have added to the complexity.

- 4.4 Alexis Jay accepted the criticisms as fair. Andrew Wilkinson advised the committee that progress was being made particularly with the appointment of Stuart Ainslie, temporary Accountant, whose role was to introduce appropriate financial systems in place and a decision would then be made whether the Agency would require a full or part-time accountant. It was hoped that a procurement manual would be available in September. Andrew commended the good working relationship that had been established with both Internal Audit and Audit Scotland.

- 4.5 The Committee accepted Audit Scotland's report.

5. Annual accounting arrangements and review of draft 2005/06 accounts

- 5.1 Andrew Wilkinson advised the Committee that the accounts were complete bar minor tidying up amendments. The Committee accepted the accounts. The Chair stated that the document was positive and that it should be laid before Parliament as soon as possible.

6. Risk register/risk management

- 6.1 SWIA had agreed and introduced risk management procedures in keeping with Scottish Executive practice. Risk was reviewed at every Board meeting and quarterly or by exception by the Senior Management Team. A risk management group had been established to oversee risk management across the Agency. A risk register had been agreed by the Board and the risk management group was taking forward the required actions. The document was clearly a work in progress.

It was agreed that the register was fit for purpose and would serve as the basis for future reports. Andy Anderson stated that much of the risk did not affect the accounts but commented that emphasis on risk shouldn't be over complex but should give a small number of significant risks, as clear as possible. Sandra Nutley requested that definitions of the abbreviations should be attached to the document for ease of reference.

7. AOB

- 7.1 It was suggested that guidance for Non Executive Directors in relation to Audit matters would be useful. Mike Healy advised that there should be a Scottish Executive instruction and Code of Practice for Non Executive Directors and agreed to forward this. Andy Anderson agreed to see if Audit Scotland had any applicable documents.

Action Point 03/06 – Mike Healey and Andy Anderson to forward any appropriate guidance through Anne Travers.

8. Date of next meeting

2.00 pm 23 November 2006, Ladywell House