

ADVISORY AUDIT BOARD – SESSION 4

Executive summary

1. The purpose of this item is to provide the SPCB with an introduction to the business of the Advisory Audit Board (AAB) and an opportunity to meet with the AAB's existing external members, Murdoch McCamley of Audit Scotland and Andy Munro, Head of Internal Audit. This paper also invites the SPCB to nominate two of its members to join the AAB for the current session of the Scottish Parliament; and agree arrangements for the first meeting of the AAB in Session 4. Contact: Andy Munro, ext 86133.

Background

2. The AAB was established in the first Session of the Scottish Parliament to advise the Clerk/Chief Executive (as the SPCB's Principal Accountable Officer) and, where appropriate, the full SPCB, on governance and internal control matters including the assessment and management of business risk. The scope of the AAB's work, as defined in its Terms of Reference, seeks to address the assurance needs of the SPCB and its Accounting Officer. Within this, the AAB has particular engagement with the work of the external auditor (currently Audit Scotland, as appointed by the Auditor General for Scotland under the Public Finance and Accountability (Scotland) Act 2000), the Head of Internal Audit and the Finance Office. Some further background to the specific roles and responsibilities of the Auditor General for Scotland, Audit Scotland and Internal Audit can be found at Annex A.

Responsibilities of the AAB

3. The AAB reviews the system of internal control and provides the Principal Accountable Officer with advice on whether the necessary assurances required for signing the Statement on Internal Control (within the annual accounts) have been provided. To enable this, the AAB approves the planned activity of both Audit Scotland and internal audit, scrutinises the results of all audit work and assesses the adequacy of management responses and the arrangements for the implementation of agreed recommendations.

4. A key responsibility of the AAB in executing its duties is the review and scrutiny of the SPCB's annual report and accounts, taking evidence from SPCB officials, including the Head of Internal Audit and Audit Scotland. Following its work, the AAB recommends the annual accounts to the SPCB prior to the accounts being signed by the Presiding Officer and the Principal Accounting Officer.

5. On an ongoing basis, the AAB also reviews other sources of assurance relating to the corporate governance requirements of the Scottish Parliament,

including reports on strategic and operational matters and other such related issues.

6. The AAB also plays a role in assessing the appropriateness of the indices applied to the uprating of Members' allowances and may play an oversight role in the uprating of Members' salaries should they be decoupled from Westminster.

Membership of the AAB

7. There are currently 3 external members of the AAB (one of whom Chairs the Board) and 2 members of the SPCB (currently vacant following the election).

8. Mr Ian Robertson, who chairs the AAB, is a Chartered Accountant and a former president of the Institute of Chartered Accountants of Scotland. He has significant experience at chief executive and finance director level of large and high profile companies. In addition to the AAB, Ian currently chairs the audit committee of a major building society and is an audit committee member for a number of public sector organisations.

9. Mr Edward Murray is a Chartered Accountant with significant expertise and experience in strategic management and corporate governance. In addition to his work with the AAB, Edward holds a number of high profile positions within large Scottish companies and institutions in both an advisory and non-executive director capacity. Mr Murray intends to stand down in the autumn.

10. Mr Kevin Sweeney is a solicitor who previously worked as a senior partner in the corporate department of a large Scottish legal practice. In addition to the AAB, Kevin currently holds a number of high profile board and similar level positions, including audit committee chairman within private and public sector organisations.

11. Previously, the SPCB member with portfolio responsibility for Finance has joined the AAB given the clear links between finance and audit matters. In Session 3, the SPCB members of the AAB were Tricia Marwick MSP and Tom McCabe MSP.

12. The SPCB is invited to;

- **Nominate two members to join the AAB; and**
- **Consider, in view of the planned review of portfolios in 2013, whether AAB membership should also be reviewed after two years.**

AAB Meetings

13. The AAB typically meets four times per annum although the Terms of Reference allow for the Chair of the AAB to convene additional meetings as deemed necessary. A minimum of two AAB members, one of whom must be an external member, is required for the meeting to be deemed quorate. The external members have, in recent years, also made themselves available to the Chief

Executive outside the normal meeting schedule for consultation on other governance and organisational issues.

14. AAB meetings are normally attended by the Clerk/Chief Executive, the Head of Financial Resources, the Financial Controller, the Head of Internal Audit and a representative from Audit Scotland. In addition, whenever appropriate, the AAB seeks any information it requires from other officials of the Parliament either in writing or by giving evidence before it.

15. An AAB meeting normally take place each March to review and formally approve internal and external audit plans. A June meeting is held to review the external auditors' interim report and the ongoing work of internal audit. The September meeting focuses on the SPCB's annual report and accounts together with the final reports of the external and internal auditors, and the December meeting normally focuses on internal audit reports.

16. The March 2011 meeting of the AAB did not take place due to the dissolution of the Parliament prior to the 2011 election. As a result, Audit Scotland's interim report and the internal auditor's plan for 2011/12 have yet to be formally approved which is a key AAB responsibility.

17. In discussion with the independent members of the AAB, the SPCB is therefore invited to consider whether:

- **the first meeting of the full AAB may be held during the summer recess to review and approve Audit Scotland's interim report and the internal audit plan; or**
- **the AAB independent members should meet separately for this purpose; or**
- **the report and plan be reviewed and formally approved by all AAB members by correspondence.**

Audit Advice to Office Holders

18. The AAB also acts as the Audit Board to: the Information Commissioners; the Human Rights Commission; the Ethical Standards Commission; and the Children and Young Person's Commission. In doing so, they provide high quality advice whilst avoiding the expense of establishing separate audit boards for these organisations.

Resource Implications

19. An established budget is in place to cover the costs of the AAB, external and internal audit services. Internal Audit and the AAB are committed to achieving 'real term' savings of approximately 15% as part of the wider 'Other Offices' group of the Scottish Parliamentary Service.

Governance issues

20. Key governance issues have been considered for this paper. The AAB, external and internal audit form a key part of and contribution to the overall governance arrangements for the Scottish Parliamentary Service.

Publication Scheme

21. This paper will be published in accordance with the SPCB's Publication Scheme.

Next steps

22. Following decisions on the nominations for membership of the AAB, AAB members may indicate how best to review and approve external and internal audit plans for 2011/12. The first AAB meeting of Session 4 will then be arranged accordingly.

Decision

23. The SPCB is invited to:

23.1 nominate two members to join the AAB; and

23.2 consider, in view of the planned review of portfolios in 2013, whether AAB membership should also be reviewed after two years.

24. The SPCB is also invited to consider whether:

24.1 the first meeting of the full AAB may be held during the summer recess to review and approve Audit Scotland's interim report and the internal audit plan; or

24.2 the AAB independent members should meet separately for this purpose; or

24.3 the report and plan be reviewed and formally approved by all AAB members by correspondence.

**Andrew Munro
Head of Internal Audit
June 2011**

Background to the Auditor General for Scotland and Audit Scotland and Internal Audit

Audit General for Scotland and Audit Scotland

The Auditor General for Scotland (AGS) is responsible for auditing the Scottish Parliamentary Corporate Body (SPCB), the Scottish Government (SG) and its Agencies, NHS bodies, further education colleges and Non Departmental Public Bodies. The AGS retains responsibility for signing the audit opinions on the annual accounts of the SPCB and the SG, but appoints auditors to audit the accounts of the other bodies. The auditors of the other bodies may be members of staff of Audit Scotland, or private firms. Audit Scotland was created to support both the Auditor General for Scotland and the Accounts Commission in carrying out their work. (The Accounts Commission is responsible for local authority audits.)

The AGS also has the power to undertake examinations of economy, efficiency and effectiveness (performance audits). These audits focus on an individual organisation, or can be across a range of organisations.

The AGS submit reports on the findings of audit work to the Scottish Parliament's Public Audit Committee (PAC), for its consideration. These reports can arise from performance audits or from matters arising from the annual audits of all the bodies he is responsible for. The latter will be based on the annual report on the audit, which is prepared each year by Audit Scotland or the private firm, as per appointments. These reports are published on the Audit Scotland website.

For the Scottish Parliament, Audit Scotland staff undertake planning work in late autumn, usually presenting their Annual Audit Plan to the AAB early in the New Year. The main interim audit work is carried out in February/ March, with an interim report to the AAB thereafter. The audit of the annual financial statements takes place in August/ September, with a report to the Accountable Officer and the AAB in September, drawing to attention any matters that need to be considered prior to the Accountable Officer signing the accounts. This is followed by an annual report on the audit, which will be published on the Audit Scotland website after it has been considered by the AAB.

In recent years the SPCB has participated in performance audits of particular topics, such as energy efficiency, but has not been the subject of a performance audit in its own right.

Internal Audit

The overall objective of Internal Audit is to provide independent assurance on the adequacy and effectiveness of the systems of internal control, financial management and others, established to manage the risks of the organisation and enable the achievement of strategic objectives while ensuring accountability for public funds.

Internal Audit takes a risk based approach which requires internal audit resources be prioritised to areas of highest risk, thereby offering assurance that the controls designed to mitigate those risks are operating effectively. The risk

based approach provides an audit plan that contributes to the achievement of the business objectives and assists in providing wider audit assurance by ensuring that key risks are addressed.

To ensure that all areas of greatest risk in relation to the audit process have been identified, the following sources are typically considered in the preparation of the strategic and annual internal audit plans: The Scottish Parliamentary Service Strategic Plan and Strategic Risk Register; Audit Scotland's Management Letter/(s); Views of the Head of Internal Audit; Liaison with other UK legislative institutions; the view of the Clerk/ Chief Executive; areas for review identified by SPCB Leadership Group; and areas for review identified by the AAB.

Common areas for internal audit activity include: the Reimbursement of Members Expenses; procurement projects, information management and key financial and operational systems (such as payments, cash and banking, and payroll).

The Internal Audit plan is prepared in accordance with the approach agreed by the Advisory Audit Board. This provides for a Head of Internal Audit supported by an external firm (currently PricewaterhouseCoopers who were appointed following competitive tender in June 2010). For the current year the indicative resource available for internal audit is 250 days.