



## Audit and Assurance Committee

<b>Date of Meeting</b>	Tuesday 10 November 2020
<b>Subject</b>	Audit and Assurance Committee Self-Assessment and review of Terms of Reference
<b>Agenda No.</b>	10
<b>Paper No.</b>	10.9
<b>Prepared By</b>	Corporate Assurance Team
<b>Purpose</b>	Decide

### 1. Background

- 1.1. The Audit and Assurance Committee handbook recommends that the Audit and Assurance Committee undertakes an annual review of its Terms of Reference and a self-assessment of performance.
- 1.2. The previous Committee self-assessment took place in November 2019. As a result of actions identified from this, changes were made to the calendar of business and to the timeline for the Annual Accounts process. This has resulted in fewer areas for development identified during this year's self-assessment.

### 2. Key points

- 2.1. With agreement from the Chair a refined question set was produced and the Corporate Assurance Team provided initial responses for many of the more administrative questions. The Committee were asked to review the responses and evidence provided and amend as appropriate to reflect individual views on the response to each question
- 2.2. The responses gave an overall positive reflection of the current status of the Committee. There were a number of areas that have been highlighted for improvement, and we have outlined these in the action plan below. The Committee are asked to review the action plan and agree any specific actions that need captured.



## Proposed Action Plan

Question	Response	Action Required
Has the committee considered the arrangements for assessing the attendance and performance of each member?	Further development required	Attendance is monitored by the secretariat. Issues would be raised as appropriate with Chair.  Performance management (appraisal) is being considered more widely to link in with Executive Advisory Body. This will be take forward jointly between Governance and Corporate Assurance Team.
Does the committee consider, as appropriate:		
<ul style="list-style-type: none"> <li>Large write-offs</li> </ul>	Further Development Required	Any large write offs for Social Security Scotland are mainly processed through DWP and are not currently considered by the Committee.
<ul style="list-style-type: none"> <li>Changes in accounting treatment</li> </ul>	Further Development Required	The Committee have not been consulted previously in this area. However, the Chair was consulted as part of the review of the first draft accounts.  Discussion required on future consultation process.
<ul style="list-style-type: none"> <li>The reasonableness of accounting estimates</li> </ul>	Further Development Required	The Committee have not been consulted previously in this area. However, the Chair was consulted extensively about the initial approach to estimating recoverable debt for Carer's Allowance Supplement.  This will need to become a routine part of Committee business as the range of benefits and scale of operations increases.
Does the committee have a mechanism to keep it aware of topical legal and regulatory issues?	Further Development Required	Consideration required to develop a process for the Committee to be made aware of these issues.  Consideration to be given to a monthly Audit and Assurance Committee update email.



Has the committee considered how it should coordinate with other committees that may have responsibility for risk management and corporate governance?	Yes	Discussion required on how the Committee should coordinate with other both other Audit and Assurance Committees and internal Social Security Scotland groups (e.g. Risk Review Group)
Are there any areas where the committee could improve upon its current level of effectiveness?	Yes	<p>We need to more fully consider performance review (appraisal), we also whilst moving out of Covid-19 need to consider what other areas of the business should link into the Committee (e.g. Chief Digital Office). The strategic leads for the Committee are also attending a Corporate Governance course and will consider any best practice coming from this.</p> <p>Performance review also needs to take account of Best Value which includes qualitative and quantitative data.</p> <p>Discussion required on how the committee can contribute to assurance in relation to fraud and error (risks of it occurring, experience of it happening and actions taken to reduce it in future).</p>

- 2.3. The Corporate Assurance Team will work with the Committee to ensure these areas are addressed in due course.
- 2.4. Feedback on the process is welcome for future self-assessment. The Committee is asked to consider completing future self-assessment by conference call to allow discussion between members.

### 3. Terms of Reference

- 3.1. The Terms of Reference for the Committee has also been reviewed. Please see Annex A. No significant changes have been made. Comment is welcomed from the Audit and Assurance Committee on the formatting and level and depth of information contained within.
- 3.2. Committee members are asked to review the tracked changes (see section on membership) and comments and advise of any further changes they have or whether they are happy to approve.

### 4. Conclusion

- 4.1. The Committee is asked to review the self-assessment action plan and Terms of Reference. Members are asked to discuss their views on the Committee's overall performance.

### 5. GOVERNANCE CHECKLIST

Please ensure that you detail which Corporate Plan Strategic Objective the paper contributes to. These strategic considerations should be used to assist you with the content of your paper.

Strategic Objective	Contribution
<b>Dignity, fairness and respect</b>  Delivering a service with dignity, fairness and respect at its core.	Not Applicable
<b>Equality and tackling poverty</b>	Not Applicable

Strategic Objective	Contribution
Promoting equality and tackling poverty.	
<b>Efficiency and alignment</b>  Ensuring efficiency and aligning our activities with wider public sector for the benefit of the people we serve.	The Audit and Assurance Committee provides oversight in a number of areas including Finance and Risk which help contribute towards this strategic objective.
<b>Economy, society and environment</b>  Contributing to our economy, society and protection of our environment.	Not Applicable

Strategic consideration	Impact
Environment	Not applicable
Governance	The self-assessment and revision of terms of reference are required within the schedule of business for the Committee.
Data	Not applicable
Finance	Not applicable
Staff	Not applicable
Equalities	Not applicable
Estates	Not applicable
Communications and Presentation	Not applicable

Impact Assessment
Non applicable



Social Security Scotland  
Tèarainteachd Shòisealta Alba

# Social Security Scotland Audit and Assurance Committee

## Terms of Reference

Dignity,  
fairness,  
respect.

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## Purpose

The Accountable Officer has established an Audit and Assurance Committee (the Committee) as a Committee of the Executive Advisory Body to provide them with support in their responsibilities for issues of risk, control and governance and associated assurance through a process of constructive challenge.

The overall risk management process will be reviewed at least once a year to deliver assurance that it remains appropriate and effective. The Committee formally reports to both the Accountable Officer and Social Security Scotland's Executive Advisory Body.

## Membership

The Committee is a statutory function and is independent of Social Security Scotland's management. Membership will be composed of at least three non-executive or independent external members. A non-executive member will chair the Committee, and at least one member will have significant financial experience.

The period of non-executive member appointments to the committee will be linked to their appointment to the Executive Advisory Body. Independent Audit and Assurance Committee members, if applicable, will be appointed for a period of up to three years, renewable once by mutual consent, and will be timed to maintain relevant membership of the committee.

Committee meetings will normally be attended by the Accountable Officer, the Deputy Director for Finance and Corporate Services, Scottish Government Internal Audit, and a representative of External Audit.



The committee may ask any other officials from within Social Security Scotland to attend to assist it with its discussions on any particular matter, or request that those who normally attend but who are not members, withdraw in order to facilitate open and frank discussion on particular matters.

The members of the committee are:

Non-Executive Members:

- Russell Frith (Chair)
- Jessica Burns
- Elaine Noad
- Douglas Hutchens

[We also have in attendance to support the Committee](#)

Social Security Scotland Staff

- David Wallace (Accountable Officer)
- James Wallace (Deputy Director of Finance and Corporate Services)
- [Redacted] (Corporate Assurance Manager)

There may be other staff from Social Security Scotland attending as appropriate.

Audit Representatives :

- [Redacted] (Internal Audit)
- [Redacted] (Audit Scotland)
- There may be other representatives from both Internal Audit and Audit Scotland attending as appropriate.

The Committee will be Chaired by a non-executive member. The Committee will be provided with secretarial support by Social Security Scotland Governance Team.

## Reporting

The Committee will formally report in writing to the Executive Advisory Body and Accountable Officer after each meeting. A copy of minutes of the meeting may form the basis of the report.

The Committee will provide the Executive Advisory Body and Accountable Officer with an Annual Report, timed to support finalisation of the accounts and the governance statement, summarising its conclusions from the work it has done during the year.

## Responsibilities of the Committee

The Committee's responsibilities will include scrutinising the adequacy of risk management, internal control and governance arrangements and the efficient and effective use of public funds.

The Committee will advise the Executive Advisory Body and the Accountable Officer on the:

- Strategic processes for risk, control, and governance and the governance statement;
- Accounting policies, the accounts, and the annual report of Social Security Scotland, including the process for review of the accounts before submission for audit, levels of error identified, and management's letter of representation to the external auditors;
- Planned activity and results of both internal and external audit;
- The adequacy of management response to issues identified by audit activity, including external audit's management letter/report;
- The effectiveness of the internal control environment;
- Assurances relating to the corporate governance requirements for the organisation, including on the performance framework and corporate information governance;

- Proposals for the tendering of either internal or external audit services or for purchase of non-audit services from contractors who provide audit services; and
- Anti-fraud policies, whistle-blowing processes, and arrangements for special investigations.

In relation to risk management specifically, the Committee will support the Accountable Officer in monitoring the corporate governance and control systems by:

- Gaining assurance that risks are being monitored;
- Commenting on the appropriateness of the risk management and assurance processes which are in place;
- Receiving risk management assurance information and consequently delivering an assurance about risk management as part of the annual assurance exercise; and
- Assisting in the identification of emerging risks and challenging mitigating actions.

The Committee will also periodically review its own effectiveness and report the results of that review to the Executive Advisory Body and Accountable Officer.

The Committee may, in its annual report to the Accountable Officer, draw attention to areas where risk is appropriately managed, risk is inadequately controlled, risk is over-controlled, or where there is a lack of evidence to support a conclusion.

The Committee is also responsible for drawing any significant matters to the attention of the relevant DG Quarterly Assurance meeting, and the Scottish Government Audit and Assurance Committee. However, the Committee will not own or manage risks.

Examples of enquiry members might wish to pursue when considering risk management is set out in Annex A.

## Rights

The Committee may:

- co-opt additional members for a period not exceeding a year to provide specialist skills, knowledge and experience; and
- procure specialist ad-hoc advice at the expense of Social Security Scotland, subject to budgets agreed by the Executive Advisory Body or Accountable Officer.

## Responsibilities and access to the Chair

The Chair will agree the business for all Committee meetings, having final say in the decision about what business will be pursued at any particular meeting. They will also ensure after each meeting appropriate reports are prepared from the committee to the Accountable Officer and Executive Advisory Board.

The Chair should have bilateral meetings at least annually with the Accountable Officer, the Head of Internal Audit and the External Auditor. In addition, the Chair should meet any people newly appointed to these positions as soon as is practicable after their appointment.

Scottish Government internal audit and the representative of external audit will have free and confidential access to the Chair of the Committee and vice versa. It is expected, however, that exercise of this right will be on an exceptional basis.

The Chair should take the lead in ensuring that committee members are provided with appropriate appraisal of their performance as a committee member and that training needs are identified and addressed. The Chair should seek appraisal of their performance from the Accountable Officer.

The Chair should ensure that there is a periodic review of the overall effectiveness of the committee and of its Terms of Reference.

## Escalation and Reporting

The Committee is authorised by the Accountable Officer to undertake any activity within this Terms of Reference. However, it does not have any executive responsibilities nor is it charged with making or endorsing any decision, although it may draw attention to strengths and weaknesses in control and make recommendations for how weaknesses should be addressed. The overarching purpose of the Committee is to advise the Accountable Officer. It is then for the Accountable Officer to take the relevant decisions.

If a member fundamentally disagrees with a decision taken by the Committee, they have the option of recording their disagreement in the minutes. However, ultimately, members should accept and support the collective decision of the Committee. Members will not undermine Committee decisions or distance themselves outside of Committee Meetings.

Where a disagreement between Audit and Assurance Committee and Social Security Scotland executives cannot be resolved, or where the Committee has specific concerns about the manner in which the organisation is managed these concerns will be recorded in the minutes and brought to the attention of the Executive Advisory Body and Accountable Officer. The Executive Advisory Body may, in turn, escalate issues to Social Security Scotland's Portfolio Sponsor, the Director of Social Security.

The Director General (Portfolio Accountable Officer) reserves the right to have appropriate representatives (e.g. internal audit) undertake any work required to provide independent assurance of Social Security Scotland's management and control if he or she considers it necessary.

Social Security Scotland is subject to external audit by the Auditor General for Scotland (AGS) or by auditors appointed by the AGS. Following audit, the final accounts will be presented to the Committee to advise the Accountable Officer on signing these and the governance statement.

## **Meeting Frequency and Operating Arrangements**

The procedures for meetings are:

- The Committee will meet at least four times per year; however, the Chair of the Committee may convene additional meetings, as he/she deems necessary;
- The Committee may also meet, in private, with auditors immediately prior to, or after, a Committee meeting;
- The Chair and Accountable Officer should be advised before the meeting of any non-attendance of members;
- Papers for the Committee meetings will be circulated to members and attending officials five working days ahead of the meeting date;
- A minimum of three members of the Committee will be present for the meeting to be deemed quorate;

Details of the yearly core work programme of the Committee can be found in Annex B. It is not exhaustive or in any way restrictive, additional issues can be considered with the agreement of the Chair.

## **Information Requirements**

Information management arrangements include the numbering and storage of all papers within the Audit and Assurance Committee Objective file; the use of an agenda template, minute template, and covering paper template; and an action point tracker.

In order to provide the secretariat with sufficient time to prepare the agenda for the Chair's approval, agenda items and accompanying papers will be submitted at least five working days in advance of the meeting. Documents received after the five day deadline will only be accepted with the approval of the Chair.

The secretariat will check all the submitted papers for formatting etc. before distributing these to members, providing members with sufficient time to read and digest the information provided. In line with Social Security Scotland's policy on proactive publication the agenda, minutes, action tracker and papers from all meetings will be published on the organisation's website. Generally, the Committee will be provided with:

- A report summarising any significant changes to the Risk Register;
- Update reports both on Finance and Error, Fraud and Debt
- A progress report from the Scottish Government internal audit detailing:
  - Work performed and a comparison with work planned;
  - Key issues emerging from internal audit work;
  - Management response to audit recommendations;
  - Any significant changes to the audit plan; and
  - Any resourcing issues affecting the delivery of internal audit objectives.
- A progress report from External Audit summarising the work done and emerging findings.

As and when appropriate, the Committee will also be provided with:

- Business update reports from the Accountable Officer;
- The Charter/Terms of Reference of the Internal Audit Directorate;
- The Internal Audit Strategy of the Scottish Government;
- The annual Internal Audit Plan
- The Scottish Governments Head of Internal Audit Annual Opinion and Report;
- Quality assurance reports on the internal audit function;
- The draft accounts ;
- The draft governance statement;

- A report on any changes to accounting policies;
- External Audit's management letter/report;
- A report on any proposals to tender for audit functions;
- A report on co-operation between Internal and External Audit;
- A report on the Counter Fraud and Bribery arrangements and performance;
- Reports from other sources within the "three lines of assurance" integrated assurance framework (e.g. Best Value self-assessment Reviews, Gateway Reviews, Health Check Reviews, ICT Assurance Reviews, Digital 1st Service Standard Reviews, Procurement Capability Reviews, Procurement Key Stage Reviews).

## **Review and Assessment of the Committee's Performance**

Members and the Deputy Director for Strategy and Client Experience for Social Security Scotland will be responsible for reviewing the operating arrangements and effectiveness of the Committee on an annual basis.

Date February 2020

These Terms of Reference were reviewed and agreed in February 2020



## **Annex A**

### **Key Lines of Enquiry for Audit and Assurance Committee Members**

This list of questions is not intended to be exhaustive or restrictive nor should it be treated as a tick list substituting for detailed consideration of the issues it raises.

Rather it is intended to act as a 'prompt' to help the committee ensure that their work is comprehensive.

#### **On the strategic processes for risk, control and governance, how do we know:**

- that the risk management culture is appropriate?
- that there is a comprehensive process for identifying and evaluating risk, and for deciding what levels of risk are tolerable?
- that the risk register is an accurate reflection of the risks facing the organisation?
- that appropriate ownership of risk is in place?
- that management has an appropriate view of how effective internal control is?
- that risk management is carried out in a way that really benefits the organisation or is it treated as a box ticking exercise?
- that the organisation as a whole is aware of the importance of risk management and of the risk priorities?
- that the system of internal control will provide indicators of things going wrong?
- that the Accountable Officer's annual governance statement is meaningful, and what evidence underpins it?
- that the governance statement appropriately discloses action to deal with material problems?
- that the organisations is appropriately considering the results of the effectiveness review underpinning the governance statement?

#### **On risk management processes, how do we know:**

- how senior management (and Ministers where appropriate) support and promote risk management?
- how well are people equipped and supported to manage risk well?

- that there is a clear risk strategy and policies?
- that the organisation's risk appetite has been articulated?
- that there are effective arrangements for managing risks with partners?
- that the processes incorporate effective risk management?

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If risks are handled well:

- key strategic risks can change very quickly?
- scenario planning and stress testing?
- 'bubbling under' risks?

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Risk focus is wide enough:

- external and emerging risks are considered?
- 'financial' risks and 'non-financial' risks are reviewed?
- if risk management contributes to achieving outcomes?
- that management are regularly reviewing top risks?

**On the planned activity and results of both internal and external audit, how do we know:**

- that the internal audit strategy is appropriate for delivery of a positive reasonable assurance on the entirety of risk, control and governance?
- that the internal audit plan will achieve the objectives of the internal audit strategy and, in particular, is it adequate to facilitate a positive, reasonable assurance on the key risks facing the organisation?
- that internal audit has appropriate resources, including skills, to deliver its objectives?
- that internal audit takes appropriate account of other assurance activity, especially in the first and second line (and that this assurance is understood and owned by management).
- That internal audit recommendations that have been agreed by management are timeously implemented?
- that any issues arising from line management not accepting Internal Audit recommendations are appropriately escalated for consideration?

- that the quality of internal audit work is adequate? What does application of the internal audit quality assessment process tell us about the quality of the internal audit service?
- that there is appropriate co-operation between the internal and external auditors?
- the Accountable Officer and Board have taken all necessary steps to make themselves aware of any relevant information and that auditors are aware of that information?
- A more detailed tool for evaluation of the quality of the Internal Audit service is the "Internal Audit Quality Assessment Framework" produced by HM Treasury.

**On the accounting policies, the accounts, and the annual report of the Agency, how do we know:**

- how effective and accurate budgeting and in-year forecasting is?
- if the finance function is fit for purpose?
- what the "hidden" financial risks are, relating to (inter alia):
- HR?
- VAT?
- Overruns?
- Sudden loss of funding/revenue?
- that the accounting policies in place comply with relevant requirements, particularly the HMT Financial Reporting Manual?
- there has been due process in preparing the accounts and annual report and is that process robust?
- that the accounts and annual report have been subjected to sufficient review by management and by the Executive Advisory Body and Accountable Officer?
- that when new or novel accounting issues arise, appropriate advice on accounting treatment is gained?
- that there is an appropriate anti-fraud policy in place and losses are suitably recorded?
- that suitable processes are in place to ensure accurate financial records are kept?
- that suitable processes are in place to ensure fraud is guarded against and regularity and propriety is achieved?

- that financial control, including the structure of delegations, enables the organisation to achieve its objectives with good value for money?
- if there are any issues likely to lead to qualification of the accounts?
- if the accounts have been qualified, that appropriate action is being taken to deal with the reason for qualification?
- that issues raised by the External Auditors are given appropriate attention?

**On the adequacy of management response to issues identified by audit activity, how do we know:**

- that the implementation of recommendations is monitored and followed up?
- that there are suitable resolution procedures in place for cases when management reject audit recommendations which the auditors stand by as being important?
- On assurances relating to the corporate governance requirements for the organisation, how do we know:
  - corporate governance arrangements operate effectively and are clear to the whole organisation?
  - the Accountable Officer's Governance Statement is meaningful, and that robust evidence underpins it?
  - the Governance Statement appropriately discloses action to deal with material problems?
  - the Executive Advisory Body/Executive is appropriately considering the results of the effectiveness review underpinning the annual Governance Statement?
  - the range of assurances available is sufficient to facilitate the drafting of a meaningful annual Governance Statement?
  - those producing the assurances understand fully the scope of the assurance they are being asked to provide, and the purpose to which it will be put?
  - effective mechanisms are in place to ensure that assurances are reliable and adequately evidenced?
  - assurances are 'positively' stated i.e. premised on sufficient relevant evidence to support them)?
  - the assurances draw appropriate attention to material weaknesses or losses which should be addressed?

- the annual Governance Statement realistically reflects the assurances on which it is premised?

**On the work of the committee itself, how do we know:**

- that we are being effective in achieving our terms of reference and adding value to corporate governance and control systems of the organisation?
- that we have the appropriate skills mix?
- that we have an appropriate level of understanding of the purpose and work of the Agency?
- that we understand all of the sources of assurance available to the organisation?
- that we have sufficient time to give proper consideration to our business?
- that our individual members are avoiding any conflict of interest?
- that we are avoiding "group think"
- what impact we are having on an organisation?

## **Annex B**

### **Meeting Cycle and Draft Work Programme**

The following is standard business that will be considered at all Committee meetings. Following this is an outline of what is expected at other meetings throughout the Committee year.

- Conflicts of interest
- Review of performance in relation to risk management (including updated Risk Register)
- Review of performance in relation to Fraud, Error and Debt
- Consider any reports from Internal Audit, Audit Scotland and management responses
- Consider financial reports, including relevant information about financial performance and achievement of financial targets
- Consider any reports from other sources within the "three lines of assurance" integrated assurance framework

#### **February Meeting**

- Review the Internal Audit charter / terms of reference, strategy and the periodic work plan for the coming financial year
- Consider External Audit plans for the coming financial year

## **May Meeting**

- Consider (emerging) external audit opinion for the financial year just finished
- Review assurances provided by senior staff for the annual governance statement
- Consider internal audit opinion for the financial year just finished
- Consider an annual report on Fraud, Error and Debt
- Consider an annual report to the Executive Advisory Body and Accountable Officer
- Consider update on Register of Compliance Obligations

## **August Meeting**

- Review and consider the accounts for the financial year just finished
- Advise the Accountable Officer on signing the accounts and governance statement
- Review the performance management arrangements adopted by the body including, where appropriate, the timetable for reviewing such arrangements
- Consider the External Audit management letter for the previous financial year and the response to/implementation of any recommendations
- Review the efficiency of both internal and external audit

## **November Meeting**

- Consider the committee's own effectiveness in its work
- Review the committee's Terms of Reference
- Consider update on Register of Compliance Obligations