

**MINUTES OF THE MEETING OF THE AUDIT COMMITTEE
HELD AT 8.45AM ON TUESDAY, 29th JANUARY 2008
100 BOTHWELL STREET, GLASGOW**

Present:	Mr Ian Dickson	Chair	ID
	Ms Angela McCusker	Non-Executive Director	AMcC
	Ms Tanvi Davda	Non-Executive Director	TD
	Mr Ralph Seymour-Jackson	Chief Executive	RSJ
Assessors:	Ms Marion Maddox	DIUS	MM
By Invitation:	Mr Keith Bedell-Pearce	Main Board Chairman (item 4.1 onwards)	KBP
	Mr Chris Andrew	Company Secretary	CA
	Mr Les Campbell	Finance Director	LC
	Mr Alan Dickson	Head of Finance	AD
	Mrs Louise Love	Internal Audit Manager (item 4.1 onwards)	LL
	Mr Grant Macrae	KPMG	GM
	Mr Keith MacPherson	KPMG	KM
	Mr Duncan Russell	National Audit Office	DRuss
	Mr Graeme Duncan	Asst to Company Secretary (Mins)	GD
Apologies:	Mr Christian Torkington	Non-Executive Director	CT
	Mr Michael Hipkins	DIUS	MH
	Mr Stephen Kerr	Scottish Executive	SK
	Mr Simon Brindle	Welsh Assembly Government	SB
Distribution:	As Above		

1 Introductory remarks

The Chairman welcomed everyone to the meeting and introduced Alan Dickson, Head of Finance and Keith MacPherson from KPMG who were both attending their first Audit Committee.

2 Minutes of Meetings held on 25th September and 17th December 2007

The Minutes of 25th September and 17th December 2007 were approved subject to amendments to the December minutes which were provided by LC **Action AC01 – GD**.

3.1 Matters arising from meetings held on 25th September and 17th December 2007

A full list of actions will be held with these Minutes. RSJ provided an update in relation AC37 and advised that there had been a brief discussion with DIUS in relation to Grant in Aid funding but no way forward had yet been agreed. It was agreed that this action should be closed with a note added to the description stating the importance of obtaining ‘lessons learned’ from this exercise.

LC then provided an update on the current progress of the appointment of external auditors for FY08-09 highlighting that although a tender exercise will now be initiated, other developments meant that this process would be less urgent than first anticipated. He advised that a letter had now been received from the Accounting Officer at DIUS which had helped to clarify the situation. LC informed the Committee that SLC were not required to appoint the NAO, but that they should be invited to participate in the tender exercise. Therefore, LC suggested that the tender process should begin in September so that it can be completed by November 2008, thereby avoiding the period covering the audit of the FY 07-8 accounts and the summer holiday season. This would mean that the Company would need to re-appoint KPMG at the September 2008 AGM, and should they subsequently not be reappointed, they would resign as soon as new auditors have been selected. RSJ then queried whether

there would be a requirement for an EGM to formally appoint the new auditors for FY08-09 but LC advised that they could be formally appointed at the September 2009 AGM, noting that this arrangement would mean the Company would at all times have external auditors in place. GM then advised that KPMG had no issues with the proposed arrangement and ID agreed that the solution seemed a sensible way forward. He then stated that the Audit Committee should give some thought as how they as individuals should assist this process.

3.2 Head of Internal Audit Update

CA presented the Head of Internal Audit update and summarised the current position with regard to the recommendations made by Suzanne Orr (the Head of Internal Audit for the Department for Children, Schools and Families). He expressed his thanks to Suzanne Orr for the very helpful manner in which the review had been carried out, and for the positive and supportive recommendations that she had made in her report. He advised that of the four recommendations made in her report to MH, three of these had already been completed and only the role ambiguity in relation to the Head of Internal Audit remained outstanding and required discussion at this meeting. * MM stated that DIUS were pleased with the positive way in which the Company had responded to the recommendations made, and noted that it is important that there is strong support for the Accounting Officer within the Company.

3.3 Review of SLC's Procurement Department and Buying Processes

LC introduced the review of the Company's Procurement function and advised that a number of recommendations had been made by the external consultants, the main one being the re-grading of the Procurement Manager role. He advised that the Company would shortly be advertising for this position and that the current Procurement Manager was keen to apply. He also informed the Committee that steps had been taken to promote the Procurement team within the Company, and as a result of this Procurement was now represented on two of the three internal management boards. He also confirmed that the procurement actions from the Internal Audit report were being progressed with an update expected to be available to the Committee in March.

RSJ advised that one of the recommendations was to raise the current tender limit so that tenders were only issued for exercises that really required them and LC advised that the current tender limit was £25K. TD then stated that she felt the summary report as presented to the Committee was not specific enough to SLC and suggested it would be useful for LC to bring an update back to the Committee which detailed the specific SLC related recommendations and responses arising from this review **Action AC02 – LC**.

Keith Bedell-Pearce and Louise Love joined the meeting.

4.1 External Audit Strategy

GM presented the external audit strategy for year ending 31 March 2008 and informed that since the document had been prepared, the reporting requirements had changed with new guidance due to be implemented in March 2008 which would need to be taken into account during the audit. He added that a new Financial Reporting Manual (FReM) would be issued, but noted that although this would affect FY 08-09, no additional work was required for FY 07-08. The Committee then approved the proposed fees from KPMG for FY07-08 and CA confirmed that this would require to be submitted to the Board for formal approval **Action AC03 – LC**.

A short discussion then followed on SLC's Retirement and Death Benefits Scheme and ID suggested that LC should incorporate a review of the actuarial assumptions used in the pension valuation into the year end financial forecast and submit this to the Board **Action AC04 – LC**.

Finally, it was agreed that while KPMG are required to review the Company's Whole of Government Accounts submission as part of the year end audit process, it will not be necessary for the Committee to see the outcome of this exercise in any detail, except on an exception basis.

4.2 KPMG Mid-Year Review

GM introduced the mid-year review from KPMG for the six months ended 30 September 2007 and advised that this document, which was originally prepared in December, had now been finalised with no further changes made. He then highlighted a number of particular areas of interest to the Committee as detailed in the report.

He then informed that in relation to the Company's potential corporation tax refund, a detailed response had been submitted to HMRC in December and although the subsequent reply by the inspector had been drafted, he could not confirm whether or not this issue would be resolved by the end of the current financial year.

4.3 Fraud Management Annual Overview Report

CA presented the fraud monitoring annual overview report which was required to be submitted to the Committee following the recent changes to the Terms of Reference and advised that once the report had been approved, it would be submitted to the Permanent Secretary at the DIUS for his information. He then informed that the Ineligibles Team who carried out the fraud investigations which were detailed within the report had since been renamed and were now known as the Special Investigations Unit (SIU).

TD stated that it was surprising to see the various lengths people would go to in an attempt to fraudulently claim money and praised the thoroughness of the report. CA then advised that the Company was working closely with external fraud consultants who were currently carrying out a review of the Company's fraud management arrangements to prevent and detect fraudulent activity and noted that this report should be available for submission to the March Audit Committee **Action AC05 – CA**.

MM then queried whether the Darlington Unit had established links between Local Authorities and the local Police and CA advised that meetings had already been held with the local Police force as the start of this process. He also advised that the Company were now a member of the Single Point of Contact (SPOC) organisation which promotes liaison on matters relating to identity fraud.

MM stated that fraud management was an area that will be of great interest to Ministers over the coming years and that therefore it is important that the Company has the skills and ability to manage this in the correctly. KBP stated that the systems and processes in place at the present time seemed to be effective but creating awareness amongst front-line staff was also an important method of combating fraudulent activity. CA advised that the Learning & Development Team were involved with the recruitment of staff in Darlington and confirmed that there will be a focus on raising fraud awareness during their induction to the Company. He added that a recent NAO report which reviewed the DWP's fraud management arrangements had been published and stated that this would be analysed to provide further benchmarking for the Company's arrangements. He agreed to make this report available to the Committee **Action AC06 – CA**.

4.4 IFRS Reporting Standards Update

LC introduced the International Financial Reporting Standards (IFRS) update and advised that from FY 08-09, the annual financial statements of government departments required to be prepared using IFRS. He informed that this would have no impact on the Company for FY 07-08 but noted that these requirements would necessarily result in a review of Company accounting policies to ensure that these are ready for FY 08-09. He then referred to Appendix 1 of the report which was a letter that he had sent to the Head of the Financial Reporting Policy Team at HM Treasury, and advised that he had recently received a positive response on the issues he had raised in relation to the treatments of Grant in Aid and notional cost of capital. This was noted positively by the Committee.

KBP queried whether LC had considered how much of a strain on resources the implementation of these changes would have and LC replied that they would attempt to spread this work throughout the course of the year so that it became part of the routine workload. GM stated that it would take time to

update the relevant policies and decide on the necessary disclosure requirements. He suggested that the September Audit Committee would be a good time to discuss this matter further **Action AC07 – LC**.

5.1 Corporate and Strategic Risks

CA presented the risk report and advised that since the report had been prepared in December, the issue of secure data exchanges had been raised and noted that any related actions would be picked up under Corporate Risk 18. ID then highlighted Strategic Risk 7 which is ‘excessive focus on Customer First leads to poor delivery of other services’ and queried why this risk had changed to a ‘Red’ status. RSJ advised that this was due to the stage that the Customer First Programme has reached, which is currently using a significant amount of resources to ensure that it is delivered on time. ID then asked RSJ what action had been taken to minimise this risk and RSJ stated that he had asked Wallace Gray, ICT director and Martin Herbert, Customer Services Director to concentrate predominantly on Business As Usual (BAU) activities to ensure that these services are not poorly delivered. AMcC asked how RSJ would ensure that the Executive Team has the necessary balance of focus between the management of the Customer First Programme and BAU was right. RSJ advised that he trusted the judgement of the Team to manage these activities successfully and to inform him of all major developments.

5.2 Quarter 3 Audit Progress Report FY07-08

CA introduced the internal audit progress report for quarter 3 of FY 07-08 and advised that good progress was being made against the audit plan. LL then provided a summary of the report and highlighted that there had been an additional staff fraud investigation carried out due to the discovery of an individual who had attempted to divert a student support payment into their own bank account. KBP asked whether this case had been passed to the Police and although LL advised that this had been recommended, RSJ advised that because this had been caught prior to any payment being made, it was likely that the Police would find this a difficult case to prosecute. KBP then advised that the DWP have their own prosecution service and queried whether this should be a service that the Company should look to establish. CA replied that this was currently under active consideration together with the DIUS, although any such decision would take some time to implement. He noted, however, that there are other options possibly available. Specifically, the Company has arranged a meeting in early February with a firm that can prepare detailed files on these types of fraud cases to Police standards, which may increase the chance of a prosecution being taken forwards.

LL then advised that the draft FY 08-09 audit plan would be presented to the Committee for approval at the March Audit Committee and that due to a request from the funding bodies, the internal audit review of corporate governance would now be postponed and replaced by an EU loans audit instead. ID then requested an update on the completion of the current audit plan and LL advised that while all fieldwork is expected to be complete by 31 March, it is likely that the last few final audit reports would be presented to the June Audit Committee.

The discussion then focussed on the final reports which Internal Audit had classed as ‘unsatisfactory’ in the latest progress report.

LL advised that the issues identified within the Payroll audit had been dealt with and that the HR Department had since made good progress with only seven minor recommendations left outstanding. It was noted that the main issues had arisen following the implementation of ORACLE HR. TD queried when the review was carried out and LL advised that it began in summer 2007 with the first draft report being available around August. ID asked if there were any outstanding problems in relation to the ORACLE HR and LL stated that the system had been purchased with minimum customisation and noted that Internal Audit would have preferred to have seen some more specific requirements included in the implementation. She then advised that the Company’s computer auditors were due to carry out a post-implementation review of the system in February/March 2008. AMcC asked what involvement Finance and Internal Audit had in the implementation project for ORACLE HR and Financials and LL advised that while both had been represented on the project board, the decision had been consciously taken (due to financial constraints) to install the system without it

being significantly customised. ID then requested that LL should consider whether any ORACLE HR system issues arising from this review could also affect ORACLE Financials when drafting the FY 08-09 audit plan **Action AC08 – LL**.

* **Action AC09 – RSJ**.

ID then queried whether the Committee had any thoughts in relation to the FY 08-09 audit plan and RSJ stated that following discussions with debt sale advisors, it was clear that high level of due diligence would be required on this matter. He advised that a discussion would be held with LL as to how Internal Audit could assist in this process during April, May and June 2008, which may tie up a considerable amount of their resources during this period. ID then stated that the issues he thought may be most pressing for the forthcoming plan were the Customer First programme, follow-up work on data security issues and the movement of ICT operations. LL then advised that the computer auditors would be reviewing ICT's plans for the communications room move during April 2008, prior to the move happening, to provide assurance that the plans will ensure a low risk approach. It was also noted that there were plans for a further OGC review of Customer First, and CA stated that it was important that Internal Audit did not duplicate when undertaking their own work. LL noted that a draft scoping document is currently out for comment for this review, and that it is intended that the audit will be undertaken during February/March 2008.

5.3 Summary of Outstanding Audit Actions

ID queried whether any of the Committee members wished to raise a query in relation to the outstanding audit actions report. No queries were raised and the report was subsequently noted.

6.1 Update on SLC's Data Security Arrangements

RSJ advised that he would provide an update on SLC's data security arrangements at the Main Board which was due to follow immediately after this Committee.

7 Any Other Business

LC advised the Committee that he had been asked to take the Chair of the Audit Committees of both the Legal Aid Board, of which he is a Board member and also the charity Quarriers, of which he is a council member, and that he had accepted both offers.

ID then suggested a change to the FOI Audit Committee minutes of 25th September 2007 which were included in the information reports section of the pack and this was agreed by the Committee **Action AC10 - GD**.

8 Date of Next Meeting

The date of the next meeting was approved as Tuesday, 26th February 2008.

The meeting closed at 10.45am.

Annex – Audit Information Reports

The Committee were invited to review the Audit Information reports and raise any queries with the author.

The Minutes of 25th September 2007 and 17th December 2007 were approved for upload to the FOI Website.

NB: Where asterisks appear these items have been excluded from the minutes before placing on the website as the subject under discussion falls within one or more of the exemptions contained in Part II of the Freedom of Information Act, 2000 and can be reasonably withheld.