

**FOI MINUTES OF THE MEETING OF THE AUDIT COMMITTEE
HELD AT 10.00AM ON TUESDAY, 16th JUNE 2009
KPMG OFFICES, WEST REGENT STREET, GLASGOW**

Present:	Mr Ian Dickson	Chair	ID
	Mr David Edelman	Non-Executive Director (to item 6.1)	DE
	Mr Christian Torkington	Non-Executive Director (item 5.1 onwards)	CT
Assessor:	Mr Michael Hipkins	BIS	MH
	Mr Martin Boyle	Scottish Government	MB
By Invitation:	Mr Ralph Seymour-Jackson	Chief Executive	RSJ
	Mr Chris Andrew	Company Secretary	CA
	Mr Les Campbell	Finance Director	LC
	Mr Alan Dickson	Head of Finance	AD
	Mrs Louise Love	Senior Internal Audit Manager	LL
	Mr David Watt	KPMG	DW
	Mr Keith Macpherson	KPMG	KM
	Mr John Goodfellow	SLC Chairman	JG
	Mr Graeme Duncan	Assistant to Company Secretary (Minutes)	GD
Apologies:	Mr Stephen Kerr	Scottish Government	SK
Distribution:	As Above		

1. Annual Discussion between Chairman and External Auditors

Prior to the commencement of the Audit Committee, the Chairman held a brief meeting with the External Auditors, KPMG to discuss any audit issues in relation to the previous and current financial years.

2. Chair's Opening Remarks

The Chair welcomed everyone to the meeting. He requested that the Committee join him in congratulating the former Chairman, Keith Bedell-Pearce who had received a CBE for public services in the Queen's Birthday Honours List on 13th June and noted that since the last meeting of the Committee, the Department of Innovation, Universities and Skills had merged with the Department for Business, Enterprise & Regulatory Reform to form the Department for Business, Innovation and Skills (BIS).

3. Minutes of Meeting held on 31st March 2009

The Minutes of the meeting held on 31st March 2009 were approved.

4 Matters Arising & Related Reports

4.1 Matters Arising from Meeting held on 31st March 2009

A full list of actions will be held with these Minutes. The Chair then requested an update on Action AC02 and RSJ advised that the Head of Systems Development was now working to guidelines in relation to the use of live data in testing, which had been created in conjunction with the Company's Legal Department, and that a follow up Audit would take place later in the year to establish the progress made in relation to this issue.

4.2 Internal Audit Review by Deloitte & Internal Audit Structure

The Chair introduced the final Internal Audit Effectiveness Review carried out by Deloitte which he felt provided the Committee with the assurance required in relation to the performance of the Internal Audit team. He stated that the role of the Head of Internal Audit still appeared to be

unclear and CA provided clarification by advising that LL would be taking on the role of Senior Internal Audit Manager. He added that this would allow him to step back from the Head of Internal Audit role and LL would have full responsibility for the Internal Audit function going forwards.

The Chair then queried how LL intended to monitor the recommendations which had arisen from the review and LL provided details of the planned action for each of the eight recommendations. The Chair then requested that a progress update on these actions be submitted to the September meeting **Action AC15 – LL.**

A discussion then followed on the proposed Internal Audit team structure and the qualifications that the team currently possessed with LL providing details in relation to this matter and highlighting that the majority of the applications received for the two new Compliance Auditor positions were from degree qualified candidates. JG stated that it was important that the quality of the Internal Audit team was not compromised by the implementation of the new Internal Audit team structure, a view with which the Chair agreed. JG then queried why it was proposed that LL should continue to report to CA in her new role as it was standard practice that someone carrying out such a role should report directly to the Chief Executive. The Chair noted that this was standard practice but stated that the key point was that LL had direct access to the Chief Executive and Chair of the Audit Committee and that she felt comfortable being able to contact them when required. It was then agreed that an updated organisation chart should be distributed to the Committee to clarify LL's reporting line **Action AC16 – CA.**

4.3 Internal Audit Plan FY09-10 Update

LL introduced the draft annual audit plan for FY2009-10 which had been revised to reflect available resources and contained details of the planned days and assignments that were forecasted for the FY. The Chair noted that the number of days had reduced and LL advised that although some lower risk reviews had been removed from the plan, there were still more reviews planned than had taken place in the previous FY. A discussion then followed on the Audit Needs Assessment for core risks and systems reviews and the Chair stated that it was important that the focus for the plan should be more on the needs of the business rather than the overall cost of the service.

The Chair then sought information on the new Compliance Auditor roles and LL advised that they would audit the assessment work which was taking place in Darlington and would provide the required assurance to BIS in relation to this matter. CA added that as well as the assurance to be provided to BIS, the National Audit Office were also interested in obtaining assurance in relation to student support payments which meant that there was a significant amount of work to be undertaken. MH then stated that from the information he had received in relation to these roles, he was pleased that the Company appeared to be taking their assurance requirements seriously.

JG then stated that he felt that table 2 of the report provided a clear picture of the forthcoming planned assignments and suggested that LL should develop a rolling plan spanning three or four years which could show how often the lower risk audit reviews should be undertaken **Action AC17 – LL.** The Chair then stated that Internal Audit were still working to a three year cycle of reviews following which the revised plan was approved.

5. Formal Notings & Approvals

CT joined the meeting mid-way through the following item.

5.1 Draft Annual Report & Accounts for FY08-09

CA introduced the draft Annual Report & Accounts for FY08-09 narrative and requested that Committee members pass on any comments they had on this document so that they could be incorporated into the final draft. A number of suggested changes were then noted and CA advised these would be considered for the final draft which would be submitted to the Main

Board on 30th June for approval. Specifically, a number of comments were made relating to the Performance Indicators section.

AD then introduced the draft accounts for FY08-09 and led the Committee through the recommendations that were detailed in the covering report to the accounts. The discussion focussed on key issue 3.1 in relation to pension liability and AD explained that the increase in the discount rate this year resulted from the volatility in recent market conditions. The Chair noted that the Committee were content with the position as this increase would likely be a spike in the overall and it was expected that the discount rate would reduce to fall back in line with expectations in future years. The Chair then highlighted key issue 3.5 in relation to dilapidations and noted that there was a different number in this report than was stated in the Accounts. LC advised that both figures were correct but differed due to a figure of £78,000 in relation to the old SLC office at Mowden Hall in Darlington.

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A number of changes were then suggested in relation to the wording within the Accounts, following which they were approved subject to these changes being made for the version to be submitted to the Audit Committee on 30th June. Specifically, a number of comments were made relating to the Statement on Internal Control.

5.2 Highlights Report FY08-09 (including Letter of Representation)

DW introduced the KPMG Highlights report for FY08-09 and provided a background to the key issues which had arisen during the audit of the Company's financial statements. He added that KPMG expected to issue an unqualified audit opinion following approval of the financial statements by the Board on 30th June 2009. The Chairman then confirmed that the Committee were happy with the points referred to in section three of the Letter of Representation and thanked both KPMG and the Company for their input to the audit process.

5.3 Review of KPIs

The Committee considered KPMG's review of SLC's Key Performance Indicators for FY08-09 and CA noted that he was content with this review. The Chair highlighted that KPMG had not been able to identify from the May Main Board Information Pack whether the results reflected a decline in overall performance, or whether performance levels had improved. CA advised that a summary table was contained within the Annual Report which compared year on year performance and agreed to consider inserting a similar table into the review of performance for FY09-10 which would be included in the April 2010 Main Board Pack **Action AC18 – CA.**

5.4 KPMG Management Letter

The Committee considered KPMG's Management Letter and CT queried whether the response provided in relation to Oracle system controls was correct. AD confirmed that this response was correct and proceeded to provide further details on this matter to the Committee. He confirmed that although the Company had taken measures to deal with this issue, budget constraints had prevented the purchase of additional software with an estimated cost of £100,000 which would provide the assurance required. The Chair requested that an update on this matter be given to the September Audit Committee meeting to ensure that a robust control framework was being implemented **Action AC19 – AD.** DW then agreed to investigate the options other Companies were considering and report back to the September Audit Committee **Action AC20 – DW.**

5.5 Final Statement on Internal Control FY08-09

The Final Statement on Internal Control for FY08-09 was approved at item 5.1 on the agenda. The Chair then requested that the individual Statements of Assurance for the Executive Directors' be included within the September Audit Committee papers **Action AC21 – LL.**

6. Assurance Reports

6.1 Executive Summary of Corporate and Strategic Risks

CA introduced the risk report and advised that in addition to the programme risks which were now included in the report, an Executive strategic risk session would be held in August to review the existing Strategic risks. ID then queried why ICR Overpayments featured as a new addition to the report and RSJ advised that although there had been few repayers in the early years of the life of the ICR loan, each year saw increasing numbers of repayers which exposed the risk of an increasing number of customers who could overpay. He added that a solution to mitigate this risk would be implemented at the end of 2009. The Chairman then noted that the Committee were aware of the potential risks to the Company due to the current financial and political climate and that they expected this to be considered at the August Executive risk session.

DE left the meeting mid-way through the following item.

6.2 Quarter 1 Audit Progress Report FY08-09

LL provided an overview of the first quarterly audit progress report for FY09-10, incorporating the annual report and annual statement of assurance for FY08-09, highlighting areas of interest to the Committee. The discussion then focussed on the report on circumstances regarding unauthorised attempts by one individual employee to access two ex-members of staff's loan accounts with JG stating his concern with regard to the lack of management action that had been demonstrated following this investigation. CT agreed that the individual concerned should have been disciplined at the time of the incident for IT misuse. CA accepted the concerns expressed by the Committee and confirmed that he would take the issue to the next Protective Security Forum for discussion, following which he would provide an update to the Audit Committee **Action AC22 – CA.**

6.3 Summary of Outstanding Audit Actions

LL introduced the outstanding audit actions report for the 1st quarter and advised that the main area of concern related to Procurement monitoring mechanisms but that she hoped this would be closed by the September Audit Committee meeting. RSJ said that the reason for the delay was that Procurement and Finance have been conducting a review of the affordable possibilities.

7. Ad Hoc Reports and Presentations

7.1 Enabler – Governance Measure

CA introduced the new Balanced Scorecard governance measure which he advised was an annual assessment supported by quarterly review. He added that the intention was that the measure should support RSJ in the drafting of his Statement on Internal Control in the future and welcomed any comments that the Committee wished to make. The Chair thanked CA for submitting this information and advised that the Committee would monitor the development of the measure which would be submitted to each Audit Committee hereon.

8. Any Other Business

The Chair advised that CA had forwarded a checklist in relation to the training and skills of Audit Committee members and he advised that in the first instance, this would be passed to CT and DE for completion.

MH highlighted that he felt that the reports in relation to Money Laundering “Mules” and BACS Compliance Checks for FY08-09 within part 2 of the Quarterly Internal Audit Progress Report could cause undue alarm and requested further information as appropriate. RSJ provided a background to the issues and an explanation as to why they had not been highlighted in part 1 of the report. Following a discussion, MH reiterated his concern in relation to the information provided in respect of these reports, which the Committee noted.

CA then outlined the key action points arising from the meeting.

9. Date of Next Meeting

The date of the next meeting was approved as Tuesday, 30th June 2009.

The meeting closed at 12.55pm

Annex – Audit Information Reports

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

The Minutes of 31st March 2009 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.