![SPPA Scottish Public Pensions Agency - Buidheann Peinnseanan Poblach na h-Alba]

**AUDIT AND RISK COMMITTEE
DRAFT MINUTES OF THE MEETING
MONDAY 20 JULY 2020 (WEBEX DIAL-IN)**

Attendance:

Committee Members:	Helen Mackenzie (Chair) (HM)
	Ian Forbes (IF)
	Liz Holmes (LH)
Internal Audit:	Iain Burns (IB)
	Dougie Shepherd (DS)
Audit Scotland:	Tom Reid (TR)
	Gemma Diamond (GD)
SPPA	Penelope Cooper (PC), Chief Executive
	Ian Waugh (IW), Chief Financial Officer
	Jane Murray (JM), Financial Controller
	Phil Heywood(AM), Interim IT Programme Director, Item 8
	Matt Valente (MV), Head of Business Management
	Stuart MacArthur (SMacA), Governance Manager
	Deborah Sherlock (Minutes)

1.   Apologies and Introductions

1.a   Helen Mackenzie welcomed attendees to the meeting.

1.b   Apologies were received from Lesley Fraser, DG Organisational Development & Operations, Dev Dey, Head of Customer Services and Andre Morelli, Head of Digital Transformation & IT Operations

Declaration of Interests

1.c   There were no changes to committee members' Register of Interests nor were there any declarations of interest in the business to be conducted.

2.   Minutes and Action Points of Meeting held on 13 May 2020

2.a   The minutes were noted. As committee members wished to submit minor textual amendments it was agreed that the minutes would be formally approved at the September 2020 meeting. [post meeting note, next meeting rescheduled to October]

AP1	Circulate minutes with a deadline for textual amendments prior to the next committee meeting

2.b **Outstanding Actions**

It was agreed that all actions marked as closed could now be removed from the Outstanding Actions report.

SMcA updated the committee on the change to supervision arrangements that were currently being operated by the Pensions Regulator, He advised that relationship supervision was currently suspended and this would be evaluated at a future date. It was agreed that this action point would be removed from the Outstanding Actions report.

No further points were raised on the remaining open actions.

AP2	Remove closed items from the Outstanding Actions Report including Action Point 4.3

3. Reports by Internal Audit

Iain Burns provided the committee with an overview of the impact of the pandemic on SG Internal Audit, as a quarter of the team is now on secondment to Covid support roles.. The committee noted that Iain is currently acting as Head of Internal Audit during the secondment of Pamela Wilkinson. Dougie Shepherd is covering for Dave Reay during his secondment. IB advised that he may therefore have to respond to detailed elements of the reports in writing following the meeting given their limited knowledge of the detail of the audit work.

3.a Annual Assurance Report SPPA 2019/20

IB introduced the annual assurance report for SPPA and advised that, in line with the Public Sector Internal Audit Standards and the Scottish Public Finance Manual the annual assurance opinion on SPPA's risk management, control and governance arrangements for 2019/20 was *reasonable* based on the work carried out on the 2019/20 plan.

IB indicated that the audit plan delivery is largely complete, however, there has been an understandable delay in finalising elements of work due to the pandemic response. He advised that the current position was satisfactory and nothing arising from the completion of this work would affect the overall audit opinion.

Concern was noted that, out of the six assignments for the year, only two have been presented to the committee. It was agreed that the outstanding reports should be presented to the September meeting alongside the governance statement.

AP3	Outstanding audit reports to be presented to the next meeting of the Committee

Reference was made to the follow up of outstanding action points on page 12, annex 3 for workforce planning and culture audit report. The Committee noted there are still a large number of recommendations that are partially or not implemented. Assurance was sought that the delay in completing these actions did not mean increased risk. IB advised that Internal Audit are assessing this and it can be discussed at a later date. It was agreed that the audit tracker would be reviewed to highlight risks arising from covid related delays to completion.

IB reported that positive points were coming from this review, concerns on deliverability involving resourcing, however this also created opportunities for efficiency improvements.

AP4	Audit Tracker to be updated to incorporate any additional risks relating to delayed implementation prior to the September meeting

GD commented that Audit Scotland were pleased the Annual Assurance Report provided reasonable assurance, and noted good practice within some of the operational controls.

3.b   Progress Report 2020/21

IB reported that there were some minor errors in the report presented
- that the Teachers Retiral paper is finalised; and
- the overtime report has not been included

IB advised that steps would be taken to ensure that these are issued to the Committee for comment It was agreed that, as above, these reports would be included on the agenda for the next meeting of the Committee.

IB advised that whilst the position on both reports is limited assurance they are still comfortable with an overall reasonable assurance opinion. There has been no substantive Internal Audit work carried out for the 2020/21 first quarter due to the pandemic. IB drew the Committee's attention to the 2020/21 risk profile which has been drafted, which is a more detailed discussion of what will be relevant for the agency in terms of assurance.

Responding to a question relating to when Internal Audit expect to return to previous levels for the delivery of the audit plan IB reported that it was likely that a full return to "normal" would not be achieved. Discussions with management on areas of assurance that would be prioritised for the remainder of the 2020/21 plan were taking place and would be reported back to the committee.

In response to a question relating to the reliance Audit Scotland placed on the work undertaken by Internal Audit, GD described the planning for the audit work required to make sure assurance is across all the necessary areas.

3.c   Teachers Retirals Report

The Committee noted the technical issues relating to the presentation of this paper and that this item would also be included on the agenda for the September meeting.

IB reported that he had concerns about deliverability in some of the forward-looking areas of the report.

PC commented on the circumstances that had necessitated a delay to the completion of this report and advised that she had taken the decision to prioritise other areas based on risk. She acknowledged the limited assurance assessment and advised that the overtime is something the Senior Leadership Team have been working on. She advised that the improvement areas identified in the Internal Audit report are manageable.

3.d Annual Assurance Report SG Corporate Areas

IB presented the Report and advised that it provides a rounded assurance opinion on Scottish Government Corporate systems.
In response to a query on risk assessment in the context of Covid, IB commented that there were two elements to this going forward
- the first being how can Internal Audit work smarter and
- how we weave that into our improvement plan for when we return to normal.

The Committee noted the areas of good practice in particular that the SPPA being a good example.
The Committee noted the section of the report on corporate systems where concerns about longer term resilience of ledger and payroll type systems was identified. IW reported that he has spoken with colleagues in SG Finance and that there has been no impact on day to day financial transactions.

4. Audit Scotland **Annual Audit 2019/20**

TR provide an oral update on the current position:
- the Agency accounts were received one week later than planned due to Covid-19 and the audit is ongoing at the current time.
- the performance report which is a key part of the annual accounts has not yet been submitted.

The Committee noted that the plan is to have these documents for review at the September meeting.
It was also noted that the accounts for the NHS and Teachers schemes have been delayed due to the impact of legal cases and developments related to the McCloud case which affect the UK Government Actuaries Department calculations. The papers are due to Audit Scotland on the 10 and 17 August and it was anticipated that these accounts would be signed off in early November 2020 at an extraordinary meeting of Audit and Risk Committee.

The Committee congratulated the Finance Team on only being 4-5 weeks behind with the accounts due to the current circumstances and working from home.

5. Chief Financial Officer's Report

IW confirmed that the scheme accounts will be delivered to Audit Scotland with NHS accounts on 10 August 2020 and Teachers' on the 17 August 2020. He advised that the Treasury last week issued a consultation document on the McCloud case and what this might mean for the scheme accounts.

His report provided an update on the financial data for the first quarter, April-June 2020 and that discussions with heads of department would be carried out consider the impact of Covid on the agency's income and expenditure. He noted that stationery, printing and travel expenditure is less than a typical three-month period. The variable costs will be dependent on future activity in particular when the eventual return to the office with social distancing takes place. Fixed costs, for example utilities will remain. IW reported that the underspend of £387,000 was a relatively healthy state for the SPPA at this time.

IW advised that work is still required to finalise the financial implications of the Target Operating Model (TOM) process. Vacancies are beginning to be filled which improves forecasting. The financial effects and resourcing requirements relating to the McCloud case are currently being estimated, along with the GMP equalisation exercise.

IW updated the Committee on the newly appointed programme manager who is working closely with the Finance Team to forecast resources and budget needed to carry out the procurement of the new pension system. IW advised that a good relationship has been established with Heywood and negotiations relating to a contract extension are at a pivotal stage.

Questions were raised relating to staff budgeting costs where there is a 20% increase from one year to the next year's budget and what work has been undertaken in relation to forecasting. There followed a discussion on underspending due to vacancies with the likelihood that these will be filled in the current financial year. IW commented that it was sensible at this stage to continue with the budget that was set at the beginning of the year. There was discussion on how the current to prior year staff budget variance might be explained using an analysis of FTE/ vacancies and contractor spend over the past year showing trends. He advised that this will be updated for the next meeting of the Committee.

The Committee also commented on the risk of inflation in the context of the Brexit situation and Covid that when demands starts to come back this might translate to higher wages, higher prices on imported goods to flag as a potential finance horizon risk, when things start to return to normal.

The Committee noted the Chief Financial Officer's Report.

6. **Audit Recommendations and Audit Tracker**

The Committee agreed that all recommendations that have been completed can be removed from the report for the next meeting. The Committee noted that, despite the challenges of Covid, seven recommendations had been completed and that a significant number were classified as "nearly there" including some with August completion dates. The Committee queried if these were realistic given the current situation.

PC commented on recommendations relating to the implementation of the TOM and advised that this project would be completed at the end of August, namely agreeing the job matching and consequent vacancies. She advised that, whilst the vacancies may not be filled by the end of August, a line will be drawn under the TOM project and declared closed.

A question was raised relating to the Digital Strategy for the agency. PC replied this is being picked up by a statement of work with SG DDAT (Digital Director, Digital and Technology and this is progressing and supported with the amount of work we have carried out which is a requirement for the procurement strategy which is progressing at a pace.

In response to questions about the Governance structure, SMcA commented that it would be closely aligned with the TOM, but unfortunately recruitment has been frozen due to Covid. He advised that there are deliverables that are dependent on resources and that until recruitment can take place these would be put on hold.

7. **Business Management, Risk Management Update**

MV advised that a session had taken place with Committee members in June to review the new look strategic risk register and the risk profile cards. He advised that the recruitment of the risk assurance manager vacancy was ongoing. The risk profile cards are currently being updated in conjunction with risk owners and risk managers.

The Committee noted that the major risks being reported now appear to include those expected for this type of organisation and this is a very positive step forward. It was noted that it is important to retain simplicity in reporting in particular for the heat map. It would also be important to include trends and residual scores.

The Committee noted the current high level operational risks, namely Covid transition and McCloud Sergeant, and asked management to ensure that they remain on the Committee's radar going forward potentially using the strategic risk register.

The Committee asked that risks relating to the delivery of the annual work programme in customer services, for example annual benefit statements

remain on the risk register as these have been raised as areas of concern in the past.

The Committee also discussed the introduction of risk dashboard reporting and MV confirmed that this is the aspiration and once the new risk and assurance manager is in place to build on the existing basic reporting, it would be put in place. At this stage the focus is for each department to have their own risk register. In addition, the Risk Framework describes how matters should be escalated, so that the relevant risks are appropriately considered at monthly operational risk meetings.

The Committee considered the Risk Maturity Assessment, and asked about timescales for when elements would reach green. MV commented the maturity assessment feeds into the risk management improvement plan which looks to have challenging deadlines. A revised Risk Maturity Assessment may be available for the September meeting.

AP5	Updated Risk Maturity Assessment to be presented to the September Committee meeting if available.

8. **Platform Procurement Programme Update**

PH reported the programme has been running for seven weeks and the programme board has met. The programme dashboard, tabled as part of the papers gives an indication of progress and project governance is in place. There are weekly project meetings, the risk assumptions and issues and dependencies log have been defined.

PH advised that an integrated assurance plan, which includes all the levels of assurance whether it is digital, technology or gateway is being developed. The Project Team has identified initial resourcing and this has been approved by the programme board. An update was provided on the membership of the Programme Board.

The Committee noted the procurement update and questioned zero customisations and whether this would mean significant compromise. PH replied that based on previous experience of a heavily bespoke system, the SPPA should start off with the preference being no customisations, but a highly configurable loosely coupled platform may also provide the ability for compromise where this is required. He advised that within the IT systems customer account management functionality is standard and it may be the part around the pension calculations where customisations are required. and that part of the component system has most degree of tension.

The Committee asked about key milestones and that the Audit and Risk Committee and Management Advisory Board be kept informed. It was also stressed that key dates and timescales for review of documentation would also assist committee members with the input and scrutiny required.

AP6	Provide key dates on milestones for Procurement Programme when available

9. ARC Annual Report 2019/20

The report was tabled for discussion by the Chair. A number of typos were identified relating to dates and numbers which would be corrected prior to the report being submitted to the Management Advisory Board. The report was approved subject to those amendments.

10. Annual Governance Statement 2019/20

SMcA presented the Governance Statement. The Committee noted that the report would be kept open until the Agency accounts are signed.

The report was noted.

11. Covid related Assurance Questions from the Committee

It was agreed that the previously circulated Internal Audit control checklist relating to Covid would be included on the agenda for the September meeting but that a covering report from management was **not** required.

AP7	Include Covid-19 – Internal Control and Risk Assessment Checklist on the agenda for the September meeting

12. AOB

None.

13. Dates for future meetings.

8 October 2020. (at the time of the meeting this was September)
3 November 2020

Action Points Arising from Previous Meetings to be discussed at the July Meeting.

Action points from meeting 22 January 2020	Para no.	Action by	Status
Governance Team to add a Pension Regulator Relationship Supervision update to the agenda for next meeting	4.3	S MacArthur	Closed

CFO to share the Final Procurement Capability Review Report with ARC	5.5	I Waugh	Open
Governance to review the role of 'critical friend' on the Altair Project Board	5.7	S MacArthur	Open
SLT and Risk Governance Group to review risk	6.3	M Valente	Open
MV to provide assurance that risk related to People Survey 2019 was adequately captured and covered	6.4	M Valente	Open
MV to review Pension Board risk management remit and where risk ownership lies in the Governance process	6.5	M Valente	Open
Risk Governance Group to review risk ratings and update the risk register prior to the next meeting	6.6	M Valente	Open
MV to clarify the process to remove a strategic risk from the risk register and provide an update for the next meeting	6.7	M Valente	Open
DD to provide an update on improvements to the Customer Services control environment for a future meeting	6.8	D Dey	Open
Committee members to forward recommendations for deep dive topics to the Chair for inclusion in a report to the next meeting	6.11	Committee members	Open
DD to provide a deep dive review of the employer data interface for the April meeting of the Committee.	6.11	D Dey	Open
People Services to provide a Workforce Plan for April 2020 meeting	7.2	TBC	Open

Previous Action points	Para no.	Action by	Status
To ensure that the minutes reflect the fact that some documents, which are circulated in the agenda papers, are marked as 'for information only'	3.5	ARC Secretariat	Closed
To schedule a risk management workshop for the Management Advisory Board as soon as practicable.	3.5	Head of Business Management	Open- date to be advised

Previous Action points	Para no.	Action by	Status
To advise the Management Advisory Board that the Audit and Risk Committee are able to provide relevant and sufficient assurance to support the Accountable Officer's statutory duty to sign the financial statements.	6.3	Helen Mackenzie	closed
To change the reporting format to report contingencies held as a separate line.	8.3	Ian Waugh	closed
To discuss the merits of removing risk CE/1 (TOM related risk) from the Risk Register at its next meeting.	9.2	Members	closed
To review the risk MC/1 (Effective management of major procurements related risk) in light of the section 23 report.	9.2	Risk Governance Group	closed
To bring the Annual Benefit Statement plan for 2020 for the Committee's consideration.	10.1	Dev Dey	Open – April meeting
To provide an alternative categorisation of Audit Tracker recommendations for committee members' consideration at the next meeting.	11.1	Helen Mackenzie	Closed
Circulate Altair Improvement Programme reports to the Management Advisory Board as they become available (to review action at April 2020 meeting)	12.2 22/7/19	Governance Secretariat	Open – until next Altair Board meeting
To continue to develop assurance mapping for internal audit recommendations	5.2 29/4/19	Ian Waugh	Open – to April 2020 meeting