

**AUDIT AND RISK COMMITTEE
MINUTES OF THE MEETING HELD ON MONDAY 23 SEPTEMBER
2019 AT THE SPPA'S OFFICES, TWEEDSIDE PARK, TWEEDBANK**

Attendance:

Committee Members:	Helen Mackenzie (Chair) Ian Forbes Liz Holmes
Internal Audit Division:	David Reay Pamela Wilkinson
Audit Scotland:	Tom Reid
Scottish Government	Gordon Wales, Scottish Government Chief Financial Officer (by phone)
SPPA	Penelope Cooper, Chief Executive Ian Waugh, Chief Financial Officer Jane Murray, Financial Controller Dev Dey, Head of Customer Services Sally Paterson, Acting Head of People Services Phil Heywood, Interim Head of Business Evolution Lorimer Mackenzie, Interim Director of Policy Mark Cockburn, Pension Scheme Accountant (Minute taker)

1. Apologies and Introductions

- 1.1 Helen Mackenzie welcomed attendees to the meeting. Apologies were received from Stephen Boyle.
- 1.2 It was noted that committee members had held a private briefing session with Internal Audit and Audit Scotland immediately preceding the Audit and Risk Committee (ARC) meeting.
- 1.3 The Chair expressed her thanks to Mark Cockburn for his service to the committee and wished him a happy retirement.

2. Declaration of Interests

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

3. Minutes and Action Points of Meeting held on 22 July 2019

- 3.1 The minutes were agreed.

- 3.2 With reference to the action points from the meeting on 22 July 2019 or prior meetings, the Chair enquired when the next update report on the Altair Improvement Project would be available. She was advised that the next project board meeting was later this week and previous draft minutes, once approved, would be uploaded onto Knowledge Hub.
- 3.3 Committee members were advised that the recent recruitment exercise for a Risk Manager had been unsuccessful. Further consideration of the post job description and grading would be made prior to re-advertising it. One of the first actions for the new Head of Business Management will be to prioritise the running of a risk workshop with members of Management Advisory Board.

Post meeting minute: The Head of Business Management post is due to be filled by the end of November. The Planning and Risk Manager will be line managed by this postholder.

- 3.4 It was agreed that, in future, any documents provided to committee members for information but not discussed would be recorded in the minutes.
- 3.5 Committee members noted that all other action points were either complete or included elsewhere on the agenda.

ACTION: ARC Secretariat to ensure that the minutes reflect the fact that some documents, which are circulated in the agenda papers, are marked as 'for information only'

ACTION: The new Head of Business Management to schedule a risk management workshop for the Management Advisory Board as soon as practicable.

4. Internal Audit

Progress Report

- 4.1 Pamela Wilkinson presented the Internal Audit Progress Report. She advised that upon completion of the Workforce Planning and IT audit review, two of the four assurance audits scheduled for 2019-20 had been completed. For the remainder of 2019/20 Internal Audit Plan period, previously agreed follow-up audit work would be carried out. Ian Forbes asked if the Agency would have the resources, given the level of change activity and scheduled outputs at that time, to support the audit work. He was advised that the planned work had been discussed and it had been agreed that staff resources in the Agency would be aligned with the Internal Audit timetable.
- 4.2 Following the 2018-19 Workforce Planning and Culture audit review, Dev Dey was asked to comment on the "big bang" approach to the implementation of the new structure in Customer Services. He advised that this had to happen quite quickly and felt that 31 October 2019 was the most realistic date for completion. Once the changes had been made, improvements in

management information should follow and would help with decision making going forward.

SPPA Workforce Planning and IT and Internal Audit Review

- 4.3 Pamela Wilkinson presented the SPPA Workforce Planning and IT audit review report. She thanked Phil Heywood and his team for their assistance during the course of the audit. The work being undertaken to develop an IT Strategy was discussed. It was noted that IT representation was now required on all project teams. This requirement had helped inform the new team structure. The posts in the new structure were being assessed as part of the ongoing Target Operating Model exercise. Penelope Cooper added that recruitment to the new post of Head of Digital Transformation and IT was currently in progress. The Agency was using its much closer relationship with SG Digital Directorate to access a wider range of knowledge and skills not currently available within the Agency. As the Agency's plans for the procurement of a new system to support the administration of the pension schemes going forward, she highlighted the importance of fully understanding the business requirements locally and how this plays into the wider Scottish Government agenda. Members were advised of the immediate need to obtain external resource to help prepare for the procurement exercise. Once completed, a 'road map' on the procurement process would be produced and it is anticipated that this will be completed by December 2019.
- 4.4 Ian Forbes asked how gaps in filling the head of department post would be managed and was advised that there was sufficient resilience in the team and a handover plan had been prepared.

5. Audit Scotland – Pension Schemes' Annual Audit report

- 5.1 Tom Reid presented the Audit Scotland ISA 260 letter to the Committee and the draft Annual Audit Report on the Scottish Teachers Pension Scheme and the NHS Pension Scheme (Scotland) 2018-19 Annual Report and Accounts. As the financial statements gave a 'true and fair view' and were properly prepared in accordance with required standards and legislation, he anticipated Audit Scotland would be able to issue unqualified opinions on both sets of accounts. He expressed his thanks for the cooperation the audit team had received and especially to Jane Murray, Ian Waugh and the rest of the Finance team.
- 5.2 Tom Reid asked the Committee to consider the section of the report on "significant findings from the audit". The Committee discussed the past service cost for possible remedies to the McCloud/Sargeant judgement and were reassured that the £700 million adjustment incorporated into the financial statements of both schemes was purely coincidental. Lorimer McKenzie advised on scheme member demographics and that, while the NHS scheme had more members, average earnings in the Teachers' scheme were higher and this helped explain the £700 million figure being used in both.

- 5.3 Helen Mackenzie enquired about issues affecting the full provision of data provided to the Government Actuarial Department (GAD). She was advised that SPPA relied heavily on employers providing complete and accurate data. SPPA would be working more closely with GAD to provide more frequent data extracts for the next valuation to improve data quality. In future, the extraction of data would be spread over a number of years to identify gaps at an earlier stage. It was noted that there were similar data quality issues across UK public sector pension schemes.
- 5.4 Ian Forbes asked what aspect of human error had caused transfers to be allocated to the wrong scheme. It was explained that NHS and Teachers transfer values were paid into the same Agency bank account and it was not always easy to allocate amounts to the correct customer. Jane Murray explained the controls now in place to prevent recurrence of this type of error. It was noted that prior to the changes, six errors had occurred out of a population of over 2,000 transfers.
- 5.5 Tom Reid highlighted the section on the National Fraud Initiative and SPPA's participation in this exercise. Ian Waugh reminded members that this was a biennial exercise and had been reported upon in past Chief Financial Officer's Stewardship Reports. He advised that this reporting practice would continue.

6. Scottish Teachers' Pension Scheme and NHS Pension Scheme (Scotland) Annual Report and Accounts 2018-19

- 6.1 Ian Waugh presented the Scottish Teachers' Pension Scheme and NHS Pension Scheme (Scotland) Annual Report and Accounts 2018-19. He thanked committee members for the time that they had taken to consider the financial statements in advance of the meeting and in providing helpful feedback. Their prior input and Audit Scotland's IAS 260 letter was aimed at facilitating the Committee's decision to recommend to the Management Advisory Board that they support the sign-off by the Accountable Officer. The accounts were prepared in accordance with International Financial Reporting Standards (IFRS) IAS19 (employment benefits) and IAS26 (accounting and reporting by retirement benefit plans) and were compliant with the Government's Financial Reporting Manual (FReM). He described GAD's role in providing figures for the accounts.
- 6.2 Helen Mackenzie thanked Ian Waugh, Jane Murray and the team for preparing both sets of accounts and bringing them to the Committee. Liz Holmes confirmed that overall she was content. Ian Forbes enquired about the sensitivity analysis provided in the GAD section. It was explained that this level of detail was provided on the assumptions which had the greatest impact on the outturn position and provided the reader with an indication of the impact of any plus or minus changes to the variables.
- 6.3 From the audit work carried out by Audit Scotland and the level of assurance provided to the Committee, Helen Mackenzie confirmed that she would be able to inform the Management Advisory Board that they consider the Scottish Teachers' Pension Scheme and NHS Pension Scheme (Scotland) Annual

Report and Accounts 2018-19 taken as a whole were fair, balanced and understandable and provided the information necessary for stakeholders to assess performance and accountability. Furthermore, she could provide relevant and sufficient assurance to the Management Advisory Board to support the Accountable Officer's statutory duty to sign the financial statements. She thanked Audit Scotland for their audit work on the accounts.

ACTION: Helen Mackenzie 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.

7. Audit Scotland update on Management of PS Pensions s23 Project

7.1 Tom Reid provided an update on the reporting to the Scottish Parliament on SPPA's 'Management of the PS Pensions Project', advising that the Audit Scotland interim s22 report of October 2018 had been updated with a more detailed s23 report in June 2019. He advised that the Report had been presented to the Scottish Government Public Audit and Post-legislative Scrutiny Committee on 5 September 2019. He highlighted the key messages in the Report, which were:

- The Agency did not prepare a clear business case for the project
- Difficulties arose from leadership changes at SPPA and the management of the project
- Capita was not able to provide a working system and did not achieve any of the project milestones
- The consequent financial implications at the closure of the project

7.2 Ian Forbes asked how the Committee could be assured that the Agency were better placed to carry out a successful future implementation. He was advised by Phil Heywood that the scheduled preparatory work for the next procurement exercise was already underway but it was recognised that scheduling the requirements for the next procurement exercise would be complex. On the financial implications of the project, he was also advised that some of the costs included in the report were based on initial budgeted costs which may or may not materialise. There was also some residual value from the PS Pension project such as a better in-house understanding of the pension system architecture which could be drawn upon. A business case is being prepared for future procurement which will be tested against Audit Scotland's "Principles for a Digital Future" document.

7.3 Helen Mackenzie asked for assurance that there would be sufficient time for the Committee to consider the business case. Penelope Cooper advised that a procurement implementation plan was being prepared to deliver a new administration system by 2024. The next milestone will be the production of a draft business case which should be available by March 2020. Ian Waugh assured committee members that if the ARC meeting timetable did not align with the procurement project timetable, an Extraordinary ARC meeting could be convened.

- 7.4 Ian Forbes asked if funding would be made available from Scottish Government for the procurement of a new administration system. Ian Waugh confirmed that a bid for funding would be required. The initial bid that had been made in the August submission aimed to fit in, as far as practicable, with the Spending Review themes and approval criteria. More detail of the funding allocation required would emerge on completion of a full business case.
- 7.5 Helen Mackenzie looked for assurance that there was resilience in the management team to cope with personnel changes at the top of the organisation. Penelope Cooper advised that priority was being given to building up the team's leadership capabilities and developing succession planning but pointed out that any organisation was vulnerable to changes in key personnel.
- 7.6 The Committee was advised that SPPA and Scottish Government officials were scheduled to appear before the Scottish Parliament's Public Audit and Post-legislative Scrutiny Committee on Thursday 26 September 2019. Penelope Cooper advised the Committee that the Agency had made preparations for possible media interest.

8. Chief Financial Officer's Stewardship Report

- 8.1 Ian Waugh presented his Stewardship Report. He advised that the 2018-19 Annual Report and Accounts for SPPA, the Scottish Teachers' Pension Scheme and NHS Pension Scheme (Scotland) would be laid at the Scottish Parliament on Thursday 26 September along with accounts from a number of other areas of Scottish Government.
- 8.2 He asked the Committee to note the changes to resources and budgets which had been made as part of the Autumn Budget Revision exercise and where outstanding transfers would still need to be made at the Spring Budget Revision exercise later in 2019. Any changes in budget required for the pension schemes would be made at the Spring Budget Revision stage along with the UK Supplementary Estimate round.
- 8.3 The current forecast for the Agency expenditure indicated an underspend of around £900,000 and was contained within the figure for contingency. The Committee noted that if transfers from other bodies for actuarial services did not come to fruition, there would be sufficient contingency to provide budget cover. Ian Waugh advised he was seeking to ensure that funding for these services should be allocated to SPPA as part of the Spending Review process. Gordon Wales provided information about the mechanism and political issues involved in making changes to portfolio budget allocations. It was agreed that any residual contingency, beyond that held as a surplus of income over expenditure, should be reported as a separate line in future monitoring reports.

ACTION: Ian Waugh to change the reporting format to report contingencies held as a separate line.

9. Risk Management and Governance

9.1 Ian Waugh presented his minute on Risk Management. Committee members were informed that the Risk Governance Group had reviewed the risks around the Target Operating Model (TOM) and revised the risk score. As the group considered these risks to have been sufficiently mitigated to match the 'target risk' assessment, that this item could be removed from the Register. It was agreed, however, that the risk should remain on the Register until after project closure in December and to bring the proposal back to the January meeting of the Committee.

9.2 The Committee members requested that the Risk Management Group review the risk MC/1 on procurement in light of the section 23 report.

ACTION: The Committee to discuss the merits of removing risk CE/1 (TOM related risk) from the Risk Register at its next meeting.

ACTION: Risk Governance Group to review the risk MC/1 (Effective management of major procurements related risk) in light of the section 23 report.

10. Annual Benefit Statement (ABS) deep dive

10.1 Dev Dey spoke to the ABS 'deep dive' paper advising that 97.64% of members were issued with a benefit statement by the deadline of 31 August 2019. He confirmed that 100% of benefit statements had been issued to members in six out of the ten schemes managed. He described some of the IT system issues encountered during the exercise and plans to enable the pension software system to automate more of the process in future. He also highlighted the need to engage with employers to achieve more timely data submissions. He firmly hoped that the Agency would be able to get closer to the 100% target in future. It was agreed the plan for the ABS exercise for 2020 would be presented to the Committee.

ACTION: Dev Dey to bring the Annual Benefit Statement Plan for 2020 for the Committee's consideration at its January meeting.

11. Audit Recommendations Tracker

11.1 Helen Mackenzie had reviewed the Audit Recommendation Tracker and suggested that it would be clearer if a new four stage status marking be adopted. She suggested:

- Not started
- On the way
- Nearly there
- Done

It was agreed that she would email her categorisation suggestions to Ian Waugh to take forward and committee members would give the matter further consideration at the January 2020 meeting.

ACTION: Helen Mackenzie to provide an alternative categorisation of Audit Tracker recommendations for committee members' consideration at the next meeting

12. **AOB**

12.1 There was no other business.

13. **Date of Next Meeting**

13.1 The next scheduled meeting would be held on Wednesday, 22 January 2020.

Action Points Arising from the Meeting

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	To close? – Change of process
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
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	To close? - submitted
To change the reporting format to report contingencies held as a separate line.	8.3	Ian Waugh	To close? - Paper 5 Annex B
To discuss the merits of removing risk CE/1 (TOM related risk) from the Risk Register at its next meeting.	9.2	Members	To close? – Paper 7
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	To close? – Paper 7
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	To close? - Paper 12

Previous Action points	Para no.	Action by	Status
Take into account the change to an integrated administration and payroll system when planning the Accounts Payable audit follow-up review.	4.4 22/07/2019	Pamela Wilkinson	To close? - Account Payable follow ToR

Circulate the Customer Services Implementation Plan.	4.11 22/07/2019	Carol Johnston	Close
Provide updates on the implementation of the Workforce Planning and Culture report recommendations at future meetings of the Committee	4.11 22/07/2019	Pamela Wilkinson	To close ? - Paper 2
Ensure the Risk Manager, once appointed, holds a workshop with SPPA MAB Board members.	8.2 22/07/2019	Penelope Cooper	To close? - As above 3.5
Circulate Altair Improvement Programme reports to the Management Advisory Board as they become available.	12.2 22/07/2019	Governance Secretariat	To close? - Knowledge Hub
To continue to develop assurance mapping for internal audit recommendations.	5.2 29/04/2019	Ian Waugh	Open - to April 2020 meeting
To keep Management Advisory Board informed regarding progress on the Agency's strategic response to the section 23 Report to Parliament.	8.6 21/09/2018	Penelope Cooper	To close? - Paper 4