



Scottish Public
Pensions Agency
Buidheann Peinnseanan
Poblach na h-Alba

Audit & Risk Committee Annual Report 2021-22

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Chair, Audit and Risk Committee
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1. Introduction

The Audit and Risk Committee (the Committee) Annual Report to the Management Advisory Board of the Scottish Public Pension Agency (SPPA) summarises the work of the Committee for the past financial year. It also presents the Committee's opinion on the assurance that this work provides.

The Audit and Risk Committee is a sub-committee of the SPPA's Management Advisory Board, and its purpose is to support the Agency Accountable Officer's responsibilities in relation to risk, control, governance, and associated assurance through a process of support and constructive challenge. The Terms of Reference were last reviewed at the meeting on 20 January 2022.

The work of the Committee is guided by the Scottish Government's 'On Board' [2017] publication and its 'Audit and Assurance Committee Handbook' [2018].

The Committee comprised the following members in the 2021-22 reporting period:

- Helen Mackenzie (Chair)
- Liz Holmes
- Ian Forbes

2. Summary of Audit Activities

2.1. Internal Audit

Scottish Government's Internal Audit Directorate (Internal Audit) use a system for categorising assurance which includes:

- 'substantial' (controls are robust and well managed);
- reasonable (controls are adequate but require improvement);
- limited (controls are developing but weak); and,
- insufficient (controls are not acceptable and have notable weaknesses).

Recommendations use a system of categorisation based on priorities: high (serious risk exposure or weakness requiring urgent consideration; medium (moderate risk exposure or weakness with need to improve related controls; and low (relatively minor or housekeeping issue).

The following reports were presented by the Internal Audit for consideration by the Committee during year:

Plan Year	Report Title	Meeting date	Assurance	Number of High/Medium Recommendations
2021-22	Directorate for Internal Audit and Assurance Combined Assurance Progress Report	20 April 2021		
2020-21	Contract Management Review – Final Report	20 April 2021	Reasonable	4
2021-22	Internal Audit Plan Q4	20 April 2021		
2020-21	Annual Assurance Report	29 July 2021	Limited	28
2020-21	Progress report	29 July 2021		
2020-21	Financial Governance Review – Final Report	29 July 2021	Reasonable	7
2021-22	Audit and Risk Committee Progress Report	28 October 2021		
2021-22	Corporate Governance Review – Final Report	28 October 2021	Limited	8
2021-22	Audit and Risk Committee Progress Report	20 January 2022		

The overall assurance opinion for year is limited.

2.2. External Audit

The SPPA's external auditors are Audit Scotland. Audit Scotland's responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000, the Code of Audit Practice and are also guided by the Financial Reporting Council's Ethical Standard.

Each year, Audit Scotland provides an Independent Auditor's Report setting out their opinions on the annual accounts for the SPPA and the NHS and Teachers pension schemes. The Report also contains observations and recommendations on significant matters which have arisen during the annual audit covering:

- Financial sustainability
- Financial management
- Value for money

- Governance and transparency

The following reports were presented by Audit Scotland to the Committee during year:

- Annual Audit Report (20 December 2021)

2.3. Consideration of the quality of Internal Audit

The Committee reviewed the draft Annual Internal Audit plan for 2021-22 on 20 April 2021 and monitored the Plan throughout the year.

The Committee agreed Audit Scotland's Annual Audit Plan for the 2021-22 Annual Reports and Accounts on 20 April 2021.

The Committee is satisfied that the work of Internal and External Audit is complete and can be relied upon.

The Committee has reviewed the work of the internal auditors for 2021-22 through the reports presented for review. The Committee is of the view that the standard of work carried out and the reports prepared were satisfactory and can be relied upon.

Internal Audit's communication with SPPA staff and the administration of the audit programme was considered objective, proactive, efficient, and professional.

The Committee would like to express its appreciation for the support that has been given to ensure the Audit Recommendations Tracker is up to date and remains relevant.

2.4. Consideration of the quality of External Audit

The SPPA's external auditors Audit Scotland are appointed by the Auditor General for Scotland. Audit Scotland's communication with SPPA staff and the administration of

The Committee would like to thank Audit Scotland for their support with the process lead by the SPPA's Head of Finance, Procurement and Risk to undertake a complete review of the final accounts process including working papers.

3. Summary of Risk Management and Reporting

The SPPA's approach to risk management and reporting has continued to develop during 2021-22. The Committee has welcomed the improvement that has been demonstrated and the opportunity to input into the process in relation to risk reporting.

The work of the Risk and Assurance Manager has been pivotal to this process and the Committee would like to extend its thanks to her for the progress that has been achieved this year.

The Committee has received regular risk management updates which have included the opportunity to review and comment on:

- The strategic risk register
- The risk management process
- Specific deep dives into thematic areas, for example Customer Complaints.

The quarterly deep dive sessions carried out to explore a particular risk area in more detail have been particularly useful to provide reassurance to the Committee on the thoroughness of the risk management process.

3.1. Risks

The major risk themes identified by the SPPA Executive Team and reported to the Committee during the year have included:

- Internal controls and the control environment
- Business as usual operations (paying pensions correctly and on time)
- Senior leadership capacity, capability and succession planning
- Staff engagement, capability and capacity
- Data and cyber security

The recent appointment of a permanent Chief Executive, and the consequent stability in the leadership of the Agency, has helped to mitigate the major leadership and staffing related risks.

The Committee welcomes the focus on internal controls and core business as usual processes as this provides a strong foundation for the implementation of the Pension Platform Programme work.

3.2. Horizon Scanning

The Committee periodically undertakes horizon scanning to identify opportunities and risks that may emerge. Issues identified have included:

- Impending and potential changes to the pensions regulatory and scheme environment
- Post pandemic and post Brexit impacts
- Cyber security

Issues raised via horizon scanning are fed into the work of the Management Advisory Board and into the SPPA's risk management process.

3.3. Fraud & Error

There were no reported cases of fraud referred the Audit and Risk Committee in the reporting period.

3.4. Audit and Risk Committee Opinion on Risk Management and Reporting

The Committee is satisfied that the continuing development, albeit still at an early stage, of risk management and reporting in the Agency provides an improved level of reassurance that all relevant risks are being appropriately managed.

4. Consideration of Governance Statement

The Committee reviewed a draft Annual Governance Statement on 20 April 2021.

The final Statement will be reviewed at the Committee meeting convened to approve the annual accounts. The Committee will report to the Management Advisory Board on any concerns over whether the Governance Statement fairly reflects the adequacy and effectiveness of the SPPA's governance and risk framework for the year ended 31 March 2022.

5. Consideration of Draft Annual Report and Accounts

At the meeting on 20 December 2021, the Committee considered the audited SPPA Annual Report and Accounts for the year ended 31 March 2021. At this meeting, the Committee also considered the audited STPS and NHSSPS 2021 full year Annual Report and Accounts.

In relation to the annual report and accounts, the role of the Audit and Risk Committee as set out in the Framework Document, is 'to review and report upon' the documents. In exercising delegated responsibility, the Committee advised the Management Advisory Board that the Committee had reviewed the accounts and formally recommended them for approval.

After due consideration, the recommendation of the Committee to the Management Advisory Board was that, following their review, the Annual Report and Accounts for

the Agency and the two pension schemes should be approved for signing by the Accountable Officer.

2022 draft accounts will be reviewed in June with an extraordinary meeting to be convened to consider the final audited version.

6. Committee Effectiveness

The Committee comprises members with a significant amount of experience, both as Non-Executive Board members for the SPPA and within the wider pensions, financial services and public sector environment. This means the Committee is able to challenge management and auditors, where appropriate, to secure the assurance that it requires.

To ensure the Committee is, and remains, effective a self-assessment is carried out each year with consequent action points for any improvement areas identified.

In recruiting a replacement for Liz Holmes, whose tenure on the Committee ended in April 2022, the skills and capabilities that the committee required were considered and incorporated into the specification for the new Committee member.

The Committee would like to extend its thanks to Liz Holmes for her contribution to the work of the Committee, which has been invaluable.

7. Statement of Assurance to the SPPA Accountable Officer

Based on the work carried out during the year as outlined in this Report, the Committee is able to provide assurance that the governance, risk management and control policies and processes are relevant and sufficient.

The Committee gives this opinion alongside the assurance provided by the Agency's independent auditors to support the Accountable Officer's statutory duty to sign the financial statements on the basis that they give a true and fair view of the agency's operations.