



Scottish Public
Pensions Agency
Buidheann Peinnseanan
Poblach na h-Alba

Audit and Risk Committee Terms of Reference September 2022

Purpose:

This document outlines the need for and objectives of the SPPA Audit and Risk Committee (ARC), its role in the governance of the Agency, the role of its members, frequency, quorum and agenda of its meetings.

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Version Control

Date Created	June 2016	v 1.0
Revision Date	July 2017	v 1.1
	October 2018	v 2.0
	December 2020	v 2.1
	August 2021	v 2.2 (current published) – links updated
	December 2021	v 2.3 proposed changes
	January 2022	v 2.4 proposed changes (Chair)
	March 2022	v 3.0 proposed changes
	June 2022	v 4.0 proposed changes
	September 2022	v 4.1 published version

1. Background

The functions and responsibilities of the SPPA are set out in the publication '[Scottish Public Pensions Agency Framework Document](#)'. The Scottish Government publication [On Board: A Guide for Members of Management Advisory Boards](#)' informs the arrangements at SPPA for its own Management Advisory Board (MAB).

The Agency's Accountable Officer (AO) has established an Audit and Risk Committee (ARC) to support the office holder in discharging responsibilities for issues of risk and controls, finance, governance and associated assurance through a process of review, constructive challenge and providing relevant advice.

The ARC is a sub-committee of the MAB and has delegated authority in relation to the activities/functions set out in this Terms of Reference.

The Scottish Government publication [Audit and Assurance Committee Handbook](#) helps to inform the governance arrangements of the Agency's ARC.

2. Responsibilities

The ARC will monitor and advise the Agency's Accountable Officer and MAB on:

- the processes for risk, control and governance;
- the accounting policies and the integrity of the financial reporting/statements of the organisation;
- the effectiveness and objectivity of activity and results from both internal and external audit;
- the adequacy of management response to issues identified by audit activity or by Parliamentary Committees where they affect the organisation's overall performance;
- assurances relating to the corporate governance requirements for the organisation, e.g. relating to the Agency AO's signing of the Governance Statement in the Agency Accounts and certificates of assurance where applicable;
- the assessment of enterprise risks and the determination of risk appetite;
- the effectiveness of the internal control environment; and
- anti-fraud and bribery policies, whistle-blowing processes, and arrangements for special investigations.

The SPPA ARC will advise the Accountable Officer and SG Assurance and Audit Committee of any significant findings or issues that it considers to be of a wider interest when carrying out its duties. The Chair of the ARC will give regular updates on the work of Committee to the MAB.

3. Membership and Meeting Attendance

Membership of the ARC shall consist of three non-Executive members appointed by the Accountable Officer. One of the three non-Executive members will be appointed by the Accountable Officer as Independent Chair. All three non-executive members of the ARC will sit on the Management Advisory Board. The Chief Executive Officer will consider the skills and experience required on the ARC when deciding which non-executive MAB members should serve as ARC members.

Individuals may be co-opted to the Audit and Risk Committee by the Accountable Officer in such instances where there is a gap in the knowledge or skills required. In order to operate in an independent and competent manner, the committee should possess the requisite knowledge and skills to effectively engage with and challenge the organisation, however co-opted members do not hold Board member status and must never constitute a majority of the membership.

The following officials will attend meetings but are not members:

- Accountable Officer/Agency Chief Executive Officer
- Head of Finance, Procurement and Risk
- External Audit representative
- Scottish Government Internal Audit representative

The role of other SPPA officials, such as other members of the Executive Team is to attend when invited, to provide information, and to participate in discussions, either for the whole duration of a meeting or for particular items.

Secretariat will be provided by the Agency's Corporate Governance Team.

4. Meetings

Meetings will take place a minimum of four times a year. There may be a determination by the Chair or Chief Executive that more frequent or longer meetings should be convened to discuss particular issues on which they want the Committee's advice.

A minimum of two ARC non-Executive members must be present, either online or in person, for the meetings to be deemed quorate.

In the absence of the Chair, the remaining members shall elect one of themselves to chair the meeting. If a meeting is not quorate, the meeting should be cancelled and re-scheduled for as soon as possible after the original meeting date.

The ARC may ask any other officials of the organisation, or other non-executives who are not ARC members, to attend to assist it with its discussions on any particular matter.

The Committee may ask any or all of those who normally attend but who are not members to withdraw to facilitate open and frank discussion of particular matters.

The Agency Accountable Officer will meet Audit and Risk Committee members at least once a year as a matter of routine.

Internal and External Audit representatives will also regularly meet Audit and Risk Committee members separately, usually in advance of ARC meetings.

5. Access

The Head of Internal Audit or their representative and the representative of External Audit will have free and confidential access to the Audit and Risk Committee Chair.

6. Reporting

The ARC will formally report back to the Accountable Officer and the MAB after each meeting.

MAB meetings are planned to take place within a short time period following the ARC. The last approved minutes of the ARC will be shared at each meeting of the MAB. The secretariat will also make any chair-approved minutes available to MAB members. An oral update shall be provided to the MAB of the preceding meeting by the Chair of the ARC.

The information shared with the MAB should summarise the business undertaken by the ARC including advice and opinion on matters within its remit.

Any significant issues should be reported by the ARC Chair to the Portfolio Accountable Officer and/or SG Assurance and Audit Committee.

The ARC will prepare an annual report, timed to support the Agency's governance statement and the finalisation of the Annual Report and Accounts, summarising the work of the Committee during the year.

The ARC Chair will attend quarterly agency performance meetings with the Chief Executive Officer and the Portfolio Accountable Officer.

7. Standing Agenda Items and Material

For each meeting the ARC will be provided with:

- a progress report from the Scottish Government Internal Audit Directorate summarising, as appropriate:
 - work performed
 - key issues emerging from internal audit work
 - management responses to audit recommendations
 - significant changes to the audit plans
 - any resource issues affecting the delivery of internal audit objectives.
- a progress report from the external audit representative summarising work undertaken and any emerging findings;
- a report summarising the Agency's performance relating to risk management and any significant changes to the organisation's control environment, including a summary of changes to the Agency's Risk Register;
- a report on progress in implementing the recommendations of internal and external audit (the 'audit tracker').

This can be summarised into the following standing agenda:

- Register of Interests
- Minutes of previous meeting and review of actions
- Internal Audit Progress Report
- External Audit Progress Report
- Risk Management Update and Quarterly review of Risk Register
- Audit Recommendation Tracker.

The agenda for the ARC will remain flexible to suit the strategic and operational demands of the Agency and Scottish Government, however the list below provides a basis for the additional discussions of the ARC throughout the year. Non-executive members can request items be added to the agenda as necessary to ensure fulfilment of their role.

- Audit Scotland Annual Audit Plan
- Review of Terms of Reference
- Internal Audit Annual Plan
- Audit Scotland Interim Progress Report
- Draft Governance Statement
- Head of Security Report and Business Continuity Plan Update
- Review of Annual self-assessment
- Internal Audit Annual Assurance Statement
- Audit Scotland ISA 260 Report (Agency)
- Review of Draft Agency Accounts

- ISA 580 Letter of Representation – Agency
- Draft ARC Annual Report to the Management Advisory Board
- Annual Effectiveness Self-Assessment
- Audit Scotland ISA 260 Report (Schemes)
- Audit Scotland Final Report on Annual Audit
- Review of Draft NHS Scotland and Scottish Teachers Scheme Accounts and Annual Report
- ISA 580 Letter of Representation – Schemes

A broad range of material may be required for meetings, especially when additional matters are brought to the ARC for consideration which are not routinely on the agenda. For example (this is not an exhaustive list):

- proposals for the Terms of Reference of internal audit;
- the Internal Audit Strategy;
- Internal Audit's Plan for approval;
- Internal Audit's Annual Opinion and Report;
- Deep Dives on specific subjects;
- Head of Department reports;
- Human Resources Updates;
- Extracts from the agency's strategic plan showing aspects pertinent to risk management or other responsibilities of the ARC, for example revisions to the agencies risk strategy and appetite;
- any other relevant outputs from other review bodies;
- the major findings of Parliamentary Committee reports where they affect the organisation's management response;
- the draft accounts and scheme statements for the organisation;
- the draft Governance Statement and any issues that emerge from preparing certificates of assurance;
- a report on any changes to accounting policies;
- External Audit's Plans for approval;
- External Audit's management letter and performance audit reports;
- an annual statement on fraud/losses within the organisation where applicable;
- a report on any proposals to tender for audit or 'non-audit' functions;
- a review of the Memorandum of Understanding and/or Service Level Agreement between SG Internal Audit Directorate and SPPA;
- a report on co-operation between internal and external audit;
- external Quality Assurance reports on the internal audit function;
- Audit and Risk Committee's annual member self-assessment.
- Extracts from Pension Board, Health and Safety Committee, Security Group minutes where they impact on risk management, internal controls of Agency governance;

- Reportable breaches of security;
- Reportable health and safety accidents and casualties;
- Reportable cases of fraud, bribery or corruption; and,
- Feedback from Disaster Recovery events (real or simulated exercises).