



Scottish Public  
Pensions Agency  
Buidheann Peinnseanan  
Poblach na h-Alba

# Audit & Risk Committee Annual Report 2022-23

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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 by the committee and published in September 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 2022-23 reporting period:

- Helen Mackenzie (Chair)
- Ian Forbes
- Clare Scott

## 2. Summary of Audit Activities

### 1.1 Internal Audit

Scottish Government's Department of Internal Audit and Assurance (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 the year:

Report Title	Meeting date	Assurance	Number of High/Medium Recommendations
Corporate Governance Review (Follow-up)	21 June 2022	N/A	N/A
SPPA Progress Report Q1	21 June 2022	N/A	N/A
Cyber Security Governance Arrangements (Assurance)	3 October 2022	Reasonable	2 high; 5 medium
SPPA Progress Report Q2	3 October 2022	N/A	N/A
Capability and Capacity Review (Follow-up)	17 January 2023	N/A	N/A
SPPA Progress Report Q3	17 January 2023	N/A	N/A
Cyber Security Governance Arrangements (Follow-up)	29 March 2023	N/A	N/A
SPPA Progress Report Q4	29 March 2023	N/A	N/A

A review of SPPA Members' Data was conducted in Q4, however this is due to be presented to the Committee at the June 2023 meeting.

The Committee meets with internal and external audits without the presence of agency staff prior to each scheduled committee meeting.

The overall assurance opinion for year is limited, however Internal Audit have observed that the SPPA is on an improvement trajectory. The Committee notes this assurance opinion and advises that demonstrable improvement resulting in at least a reasonable assurance rating in the coming year must be a priority.

## 1.2 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

*Document title. Date. Revision Number.*

- Value for money
- Governance and transparency

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

- Annual Audit Report – SPPA Accounts
- Annual Audit Report – Scheme Accounts

### **1.3 Commentary**

The Committee was consulted on the draft Annual Internal Audit plan for year 2022/23 in January 2022 and monitored the Plan throughout the year.

The Committee were updated on Audit Scotland's Annual Audit Plan for the 2022-23 Annual Reports and Accounts in March 2023.

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

### **1.4 Consideration of the quality of Internal Audit**

The Committee has reviewed the work of the internal auditors for 2022-23 through the reports presented for review. The Committee is of the view that the standard of work and the reports produced 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 welcomes Internal Audit's role in supporting the lessons learnt work being undertaken in respect of the production of the 2022-23 Annual Accounts.

### **1.5 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 audit plan was considered satisfactory.

## **3. Summary of Risk Management and Reporting**

The SPPA's approach to risk management has continued during 2022-23 building on the progress made in the previous year. The committee has continued to provide advice on how the risk management how controls documented in the risk register could be improved.

The work of the Risk and Assurance Manager continues to be 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 data quality.]

Regular deep dive sessions which are carried out to explore particular risk area more detail have been particularly useful to provide assurance to the committee on the thoroughness of the risk management process. During 2022/23, the Committee has taken the opportunity to review how the topics for the deep dive sessions are identified and plans to use the 2023/24 sessions to provide support and insight to management based on members experience and expertise.

## 2.1 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, in particular the recruitment of a permanent Chief Operating Officer
- Staff engagement, capability, and capacity
- Staffing levels and capacity within the Finance Team
- Data quality in particular relating to scheme members.
- Data and cyber security

The Committee welcomes the appointment of a permanent Chief Operating Officer as part of the senior leadership team and the consequent stability in leadership this will give to operational teams. The Committee notes the departure of the Head of Finance, Procurement and Risk at the end of June 2023 and the consequent change in risk that this vacancy presents.

The Committee notes the delay in the production of all three sets of annual accounts and welcomes the lessons learnt review that is being undertaken and the in-depth project planning for the 2022-23 process.

The Committee's deep dive session on members' data identified consequent risks relating to the accuracy of pension payments. These risks arise because of omissions

or errors in the data and the late submission of required returns from employers. The Committee will continue to monitor the issue closely in 2023/24.

## 2.2 Horizon scanning

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

- The impact of UK Government pension policy changes
- The impact of reduced financial resources available from the Scottish Government

These issues are fed into the work of the Management Advisory Board and the SPPA's risk management process.

## 2.3 Fraud and error

There were no reported cases of fraud in the reporting period.

The Committee has not received a report relating to the National Fraud Initiative during 2022-23.

The Committee held a deep dive session on fraud on 1 May 2023 and has requested further information be reported to a future meeting.

## 2.4 Audit and Risk Committee Opinion on Risk Management and Reporting

The Committee notes that the continuing development of risk management and reporting in the Agency provides an improved level of reassurance that all relevant risks are being appropriately managed, albeit this continues to remain at an easily stage.

# 4. Consideration of Governance Statement

The Committee reviewed a draft Annual Governance Statement at the 19 December 2022 meeting.

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 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 2023.

# 5. Consideration of Draft Annual Report and Accounts

At the meeting on 19<sup>th</sup> December 2022, the Committee considered the audited year SPPA Annual Report and Accounts. At a meeting on 20<sup>th</sup> March 2023, the Committee also considered the audited STPS and NHSSPS 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 commended the Annual Report and Accounts to the Management Advisory Board which, overall, was fair, balanced and an understandable representation of the business conducted; and recommended that the Management Advisory Board recommend to the Accountable Officer that he sign the Accounts.

Draft annual report and accounts will be reviewed in September 2023 with a special 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 can 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. The effectiveness review for 2023 was delayed due to staff absence and did not take place during the time-period covered by this report.

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 has welcomed new member Clare Scott, who has significant pensions administration and leadership experience, during 2022.

## 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 can provide assurance that the governance, risk management and control policies and processes are relevant and, in some areas, sufficient. Work is ongoing to address risks and gaps as identified in audit reports and the minutes of the committee.



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 and annual report on the basis that they give a true and fair view of the agency's operations.

## 8. Document Control

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