



Scottish Public
Pensions Agency
Buidheann Peinnseanan
Poblach na h-Alba

Audit & Risk Committee Annual Report 2023-2024

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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 27 June 2023.

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 2023-2024 reporting period:

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

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 assurance 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
2023-24	Member's Data	27 June 2023	Limited	2 high, 4 medium
2023-24	IT contract management	16 January 2024	Limited	3 medium
2023-24	Transfers in and out	26 March 2024	Reasonable	1 high; 4 medium
2023-24	Pensioner PAYE tax compliance	Unsigned version to be presented at meeting on 18 July 2024	Reasonable	1 medium; 1 low

The overall assurance opinion for year is reasonable.

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: 11 December 2023

2.3 Commentary

The Committee reviewed the Annual Internal Audit plan for year on 27 June 2023 and monitored the Plan throughout the year.

The Committee agreed Audit Scotland's Annual Audit Plan for the 2023-24 Annual Reports and Accounts on 27 June 2023.

2.4 Consideration of the quality of Internal Audit

The Committee has reviewed the work of the internal auditors for 2023-24 through the reports presented for review. The Committee is of the view that the standard of work and the reports produced by Internal Audit is complete and can be relied upon.

2.5 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 complete and can be relied upon.

3. Summary of Risk Management and Reporting

The Committee has received regular updates on risk management and SPPA's risk register.

The SPPA's approach to risk management has continued to develop during 2023-24 building on the progress made in the previous years. The Committee has provided advice on how the risk management how controls documented in the risk register could be improved.

Whilst progress continues to be made, it will be important for the SPPA to continue to embed a risk management culture that clearly links prioritised activity to key risks that have been identified and how that activity is resulting in a positive change in the risk score.

3.1 Risks

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

- Data quality, reliability and completeness
- Implementation of the 2015 Remedy
- Resilience to change at senior leadership level
- Financial planning
- Budget constraints
- Counter Fraud measures
- The implementation of the Oracle Fusion IT system

The Committee has provided scrutiny and challenge through deep dive workshops, direct participation on the Remedy project board and at formal meetings. For some

areas evidence of control measures has been provided, in others work is underway to document and implement standard processes.

The Committee notes that data quality remains the highest scoring risk and has introduced a stand-alone agenda item with the objective to ensure monitoring and review takes place at every scheduled meeting. The Internal Audit review of members data included a number of recommendations which, when fully implemented, will reduce and make limited progress towards mitigating data risk.

3.2 Horizon scanning

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

- Financial Sustainability
- Demonstrating value for money
- Resourcing constraints

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

3.3 Fraud

There were two reported cases in the reporting period:

- Potential fraud due to non-payment of contributions
- Attempt to change member bank details.

The Committee received regular NFI updates and noted improvements regarding data submission and the process to deal with matches identified.

The Committee reviewed and provided comment on SPPA's updated Counter Fraud Policy.

3.4 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. The Committee notes the progress that has been made and the plans in place to continue to the improvement that has been made.

4. Consideration of Governance Statement

The Committee reviewed the Agency draft Annual Governance Statement in June 2024. The final Statement will be reviewed at a Committee meeting which will be

convened in November 2024 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 2024.

5. Consideration of Draft Annual Report and Accounts

At the meeting on 5 October 2023, the Committee considered the audited year SPPA Annual Report and Accounts for 2022-23. At the meeting on 11 December 2023, the Committee also considered the audited STPS and NHSSPS year Annual Report and Accounts for 2022-23.

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 Reports and Accounts to the Management Advisory Board, noting that these, on the whole, were a fair, balanced and understandable representation of the business conducted.

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.

Draft Agency accounts for 2023-24 were reviewed by ARC members during June 2024 and the draft scheme accounts will be viewed during July/August 2024, with a special meeting to be convened in November 2024 to consider the final audited versions of all accounts.

6. Committee Effectiveness

During 2023/24 committee membership included expertise in the pensions administration, finance, procurement and public sector service delivery. This provided a strong basis on which to challenge management and secure the assurance required.

Changes in the membership of the committee which will take place in the 2024/25 reporting year provided the opportunity to strengthen governance and audit expertise on the committee.

The Committee reviews effectiveness at the end of each meeting.

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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