SPPA

Scottish Public Pensions Agency

Buidheann Peinnseanan Poblach na h-Alba

Audit & Risk Committee Annual Report 2025-26

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June 2026

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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 29 July 2025.

The work of the Committee is guided by the Scottish Government's 'On Board' [2017] publication and its 'Audit and Assurance Committee Handbook' [2023].

This report summarises the work of the Committee for the financial year 2025-26 when the Committee comprised the following members:

Clare Scott (member and Chair to October 2025)

Mark Tarry (member from June 2024 and Chair from October 2025)

Kevin McLeod (member from June 2024)

Alan Wright (member from October 2025)

2. Summary of Committee's activities during 2025-26

2.1 Meetings

The Committee met five times during the 2025-26 year.

Date	C Scott	A Wright	M Tarry	K McLeod
01 April 2025	Attended	n/a	Attended	Attended
29 July 2025	Attended	n/a	Attended	Attended
26 November 2025	n/a	Attended	Attended	Attended
08 January 2026	n/a	Attended	Attended	Attended
24 February 2026	n/a	Attended	Attended	Attended

Minutes of meetings are available on SPPA's website.

The Committee also meets (at the discretion of ARC) with the internal and external auditors without the presence of SPPA officials ahead of each meeting.

The Committee notes that changes to SPPA's governance have been implemented during the year including changes to governance documentation, including the Framework and Terms of Reference of the governance bodies (including the Audit and Risk Committee).

SPPA Governance improvements have been put in place during the year, particularly around how SPPA engages with and communicate with colleagues on ARC and MAB. Effective governance goes beyond the formal ARC and MAB meetings. Members of both have monthly meetings with their nominated Executive Team (ET)/Senior Leadership Team (SLT) colleague, ARC colleagues also meet every six weeks with the SPPA risk and finance teams. These are important opportunities to understand in greater detail the opportunities and challenges faced by the agency and offer advice and support as appropriate. In addition to this there are deep dive sessions into specific topic areas, along with the Committee's involvement in scoping the remit for audit and assurance review.

In addition, members of both the Committee and non-executive members of the Management Advisory Board have a number of informal meetings with other

agency staff to better understand key issues such as risk and performance reporting. The regular written update from the Chief Executive Officer (CEO) between meetings also provides an opportunity for MAB and the Committee to seek assurance or challenge where necessary.

The Committee has previously recommended further focus and review of the way SPPA manages programmes and projects, including the adoption of the Scottish Government's Principles for Programme and Project Management and improved reporting, risk management and analysis of benefits realisation. The Committee has observed improvements during the year and will continue its focus in this area.

It is also worth noting that whilst the Committee gets sight f the programme dashboards it does not have any oversight or governance responsibility for the programmes.

3. Summary of Audit Activities

3.1 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 the reporting period:

Audit Plan Year	Report Title	Meeting date	Assurance	Number of High/Medium Recommendations
2024-25	Assurance review: Financial governance and sustainability	01 April 2025	Reasonable	2 high 5 medium
2024-25	Annual Assurance Report	29 July 2025	Reasonable	
2025-26	Assurance review: Contract and service management	24 February 2026	Limited	1 high 4 medium
2025-26	Assurance review: Counter fraud	Shared by email 12 March; discussion held 17 March 2026	Limited	2 high 6 medium

The overall assurance opinion for year 2025-26 is limited, as outlined in DIAA's Annual Assurance Report which was shared with ARC on 2 June 2026. Whilst ARC is disappointed in the overall opinion rating of limited, we do recognise that, whilst this could be viewed as a deterioration or worsening of the overall control position, we do recognise that there is an ever-increasing risk position that SPPA faces and the time required to allow control enhancements to bed in and mature. ARC is content with the progress made during the last 12 months and will continue to support the Accountable Officer to make continuous improvements over the next 12 months. ARC will continue to ensure that all improvements have been thoroughly embedded.

3.2 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:

- Audit Scotland Annual Audit Plan 2024/25 01 April 2025
- External audit progress report 2024/25 29 July 2025
- Annual Audit report 2024/25 08 January 2026

The Committee was also involved in the Section 22 report and process towards the tail end of closing out the ARA.

3.3 Commentary

The Committee reviewed the draft Annual Internal Audit plan for 2026-27 on 24 February 2026 and will monitor the progress of this plan throughout the year.

The Committee agreed Audit Scotland's Annual Audit Plan for the 2026-27 Annual Reports and Accounts on 24 February 2026.

3.4 Consideration of the quality of Internal Audit

The Committee has reviewed the work of the internal auditors for 2025-26 through the reports presented for review. The Committee is of the view that the standard of work and the reports produced were satisfactory.

An observation regularly fed back to the Internal Audit team is the consistent high level/strategic nature of the audits, almost a reluctance to get into the detail that underpins this.

The Committee considers the percentage of advisory reviews done is too high partially driven by the fact there are normally only four reviews per year in the audit plan. If it is due to resource constraint the Committee's preference would be to have a limited focus assurance audit instead of an advisory review.

The Committee has not seen the Internal Audit team draw on the expertise from the wider areas of Internal Audit within Scottish Government, such as data analytics team, the Programme governance team and the Counter Fraud team. In the most recent counter fraud audit, there was no evidence of the wider team's involvement.

Internal Audit's communication with SPPA staff and the administration of the audit programme was considered good and proactive.

3.5 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 adequate however with room for improvement. The overarching comment would be that the Committee finds the team rigid and not flexible in their approach, with an unwillingness to change. This year the Committee was disappointed with the last-minute issues that were presented only a few weeks after being told there were no more significant issues. Overall, the Committee is of the view that the external audit team is not customer focussed.

4.Summary of Risk Management and Reporting

The Committee received regular updates on risk management and SPPA's risk register at regular meetings. Members of the Committee also provided scrutiny and challenge through a deep dive workshop on risk management.

Reported incidents of fraud have also been reported to the Committee during the year.

The lack of a formal risk management reporting system within SG has resulted in SPPA developing its own risk management reporting approach and supporting processes. An integrated Risk Management reporting system would have the benefit of consistent risk scoring and taxonomy across SPPA and other SG agencies, with built in audit trails, supporting reporting and risk aggregation and provide consistent risk reporting to the executive and boards. The current spreadsheets are heavily reliant on SPPA interpretation of the orange book as well as knowledge of key individuals in the risk team and although there is an audit trail of changes, they do not facilitate board reporting.

The agency processes continue to mature and improve. To support this continued improvement, the Committee has:

- Recommended consistency of risk management across the agency, particularly within projects.
- Recommended the development of assurance mapping.
- Recommended the escalation of fraud risk management.
- Requested visibility of SPPA's determination of risk appetite and the implications for management of risks.

Significant progress has been made against these items across the

year particularly around assurance mapping and fraud risk management.

4.1 Risks

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

- Operational – Remedy delivery
- Data Quality
- Data Strategy
- Cyber Security
- Fraud risk

The highest risks to SPPA are reviewed through the risk register and deep dive on a regular basis along with specific audits as required.

4.2 Horizon scanning

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

- Cyber resilience
- Fraud
- Financial stability
- Economic pressures
- Capacity and capability of organisation
- Public service reform
- Statutory reform and change

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

4.3 Fraud and error

There were six reported cases of fraud in the reporting period.

4.4 Audit and Risk Committee Opinion on Risk Management and Reporting

SPPA continue to make good progress in this area and strengthen their position with further work to be done.

5. Consideration of Governance Statement

The Committee reviewed a draft Annual Governance Statement on the 13 May 2025 ahead of the June 2025 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 2026.

6. Consideration of Draft Annual Report and Accounts

At the meeting on 8 January 2026 the Committee considered the audited 2024-25 SPPA Annual Report and Accounts. At this meeting, the Committee also considered the audited STPS and NHSSPS 2024-25 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 by correspondence in line with the ARC ToR.

After due consideration, the recommendation of the Committee, 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.

2025-26 draft accounts will be reviewed in November 2026 with a special meeting to be convened to consider the final audited version.

7. Committee Effectiveness

Committee members have the opportunity to comment on the effectiveness at each meeting. A more formal review of effectiveness is conducted periodically and the most recent review was completed 10 months ago. The Committee's review concluded with suggestions for the following improvements:

- Assurance mapping to facilitate planning internal audits and assessing the adequacy of internal audit resource;
- ARC members to assist in reviewing draft terms of reference for individual internal audits;
- Quality and consistency of high-level risk and control management information;
- Reporting of fraud risk management;
- Reporting on projects;
- Induction process for new members;
- Capturing of recommendations/actions from meetings and tracking progress;
- Individual/named secretary for ARC to improve communications and ensure accountability;
- Updated governance documentation including Terms of Reference and Agenda Planner;
- An annual review of ARC Terms of Reference (where time allows);
- Timeliness of papers for meetings.

Good progress has been made against all the above items, with the items no longer being a concern to the Committee. The next effectiveness review is scheduled for July 2026.

8. Statement of Assurance to the SPPA Accountable Officer

Based on the work carried out during the year, the Committee can provide assurance that the governance, risk management and control policies and processes are relevant and, in many areas, sufficient. Work is ongoing to address risks and gaps as identified in audit reports, the minutes of the Committee and this report.

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 governance statement.

9. Document Control

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