

SCOTTISH PUBLIC PENSIONS AGENCY AUDIT COMMITTEE - MINUTES OF THE MEETING HELD AT TWEEDBANK ON TUESDAY 14th April 2009

In attendance:

Committee Members: Alex Smith (Chair)
Julia Edey
James Taylor

Internal Audit Division: Gordon Johnstone
Alistair May

Audit Scotland: Alastair Reid
Peter Lodge

Other Attendees: Neville Mackay
Chris Fenton
Ian Clapperton
Chad Dawtry
Pamela Lane

Mark Cockburn (Minutes)

1. Apologies and Introductions

1.1 Mr Smith welcomed everyone to the meeting and in particular the Agency Directors as this was the first Audit Committee where they were all present. There were apologies from Pearl Marshall and Alastair Swarbrick.

2. Minutes of last Audit Committee Meeting

2.1 Mr Smith sought the Committee's approval as to the accuracy of the previous minutes. Mr Smith asked that the minutes be amended on page two to read September 2008 as the date AXISe was implemented for Teachers. The minutes were agreed.

3. Action Points from Previous Meeting

3.1 Mr Clapperton advised that the quality assurance work had not identified any errors in SPPA's systems.

3.2 Mr May advised that internal audit (IA) had experienced difficulties in retaining trained staff in recent years. It was hoped that the recent recruitment of trainees and agency staff would help this. The work at SPPA was only one audit short and therefore they should still be able to provide assurance for the Agency and Pension Scheme accounts.

3.3 Mr Fenton advised SPPA were working with colleagues at Finance and Sustainable Growth on budget monitoring arrangements.

3.4 Mr Clapperton advised that SPPA planned to move to interim scheme actuarial valuations. These would be made in the two years between the full valuations which would be every four years. This along with the cap on employers' contributions in the NHS scheme and cost sharing should make it much easier for SPPA to alert employers to any likely change in the contributions rate.

3.5 Mr Mackay advised that the planned joint disaster recovery exercise with Scottish Government had not taken place. This would now take place over the end of April and beginning of May 2009. Mr Mackay agreed to report the outcome to the next Audit Committee.

Action: Mr Mackay to report on joint disaster recovery exercise with Scottish Government to next Audit Committee.

3.6 Mr Smith asked if there had been any indication of future budget allocations to SPPA in light of the current economic situation. Mr Mackay advised that the budget for 2009 – 10 would be as previously stated. While there had been no official announcement it was likely that all public sector budgets would be reduced from 2010. Mr Mackay advised that a paper would be prepared for the External management Board (EMB) in July laying out SPPA's plan for meeting possible future budget reductions.

Action: Mr Mackay to prepare paper for EMB on SPPA's plan to meet possible future budget reductions.

3.7 All other action points were cleared or included in the agenda.

4. Audit Scotland Progress Reports

4.1 Mr Reid advised that preliminary testing on SPPA's systems of internal control had been completed with generally satisfactory results. A more detailed report would be available for the next Audit Committee meeting.

4.2 The ICT review had been postponed and would now take place at the end of April into May 2009. Findings of the review would be reported to the next Audit Committee.

4.3 Mr Reid reported good progress on pre-year-end pension testing. He was very pleased with the support from SPPA staff. The progress made had been in no small measure due to the assistance received.

4.4 The Internal Audit review was complete. Assurance would be taken from the work carried out by Internal Audit. Audit Scotland would liaise with Internal Audit to minimise any duplication of work.

4.5 Mr Lodge advised that the review of restated balance sheets for the introduction of International Financial Reporting Standards (IFRS) for both the schemes and the Agency was complete. While the scheme balance sheets only required changes to the narrative there were some changes to the Agency balance sheet. The review recommended that additional work be carried out on tangible fixed assets and leases and that the treatment of intangible fixed assets be revisited in light of new guidance.

4.6 The review of corporate governance had started and Audit Scotland planned to issue a report by 30 June 2009.

4.7 Mr Reid advised that the efficiency toolkit had been issued to the Agency, which would be used to inform the national study. SPPA would receive feedback on how the Agency compared to other organisations.

4.8 Mr Reid advised that the audit of the Agency would start on 22 June. It would be necessary for SPPA to provide final accounts along with the requested information by that date to meet the planned timetable. Mr Fenton advised that an agency accountant had been hired and a new finance manager had been recruited so there should be enough resources at SPPA to meet the timetable. Mr Smith asked if Audit Scotland would be able to meet the timetable. Mr Reid advised he was hopeful Audit Scotland would be able to report on time.

4.9 Mr Reid reported that the pension scheme accounts templates had been reviewed and a number of suggestions for improvement had been made. He also advised that Audit Scotland would be working with NAO in an audit of the Government Actuaries Department.

5 Internal Audit

Progress Report

5.1 Mr Johnstone presented the Internal Audit progress report. He advised that the Validation of Achievement of Performance Targets review had been completed. The findings of the audit were generally positive and offered substantial assurance, the highest level of assurance offered.

5.2 Mr Johnstone explained the arrangements for the remainder of the 2008 – 09 audit plan. The Governance and administration Cost Expenditure was well underway. The Awards and Payments audit was scheduled to begin in May and the Pension Change Project Audit would be considered for inclusion in the 2009 – 10 plan. All six follow-up audits are underway.

5.3 As this work would be completed by mid July, Internal Audit should be able to provide assurance for the Audit Committee meeting on July.

5.4 Mr Johnstone, in answer to a question raised at the last meeting, advised that, while SG had a fraud policy statement, a fraud response group and a coordinator, no anti fraud awareness events were planned for the core SG at present. Mr Clapperton advised that SPPA participated in the National Fraud Initiative and this was evidence of SPPA's awareness of the risk of fraud. Mr Fenton advised that SPPA had a counter fraud policy and agreed to present this to the next Audit Committee.
Action: Mr Fenton to present the Agency fraud policy to the next Audit Committee.

Internal Audit Plan 2009 - 10

5.5 Mr Johnstone presented the Audit Plan for 2009 – 10. There would be three main audit reviews. These were a review of Development of a Debt Management and Employer Contribution System; Governance and Administration Cost Expenditure; and Awards and Payments.

Recommendations and Action Plan

5.6 Mr Smith asked why the updating of Directorate plans to reflect the 2008/11 Corporate Plan was considered a low priority. Mr Mackay advised that the audit recommendation had identified an issue which had arisen as a result of a mismatch between the time at which the Agency Corporate Plan had been agreed in May 2008 and the time at which the Directorate Business Plans had been produced in April 2008. Both plans were now reconciled.

Recommendations Tracker

5.7 Mr Fenton explained that reconciliation of contributions to members' service was being considered as part of the project to introduce new contribution collection and pension overpayment recovery system. This reconciliation would only be possible if the employee data could be reported at an employer level from AXISE. Mrs Lane advised that the improvement of the reporting functionality in AXISE was being taken forward by Heywood as a priority.

5.8 Mr Smith Asked that the Recommendations Tracker identify responsible Directors.
Action: Recommendations Tracker to include responsible directors.

5.9 Mr Clapperton advised that while there had been some development of exception and analytical review reports in AXISE further development was needed. The planned completion of this work for Teachers was still 1 October 2009.

5.10 Mr Fenton advised that to strengthen controls over debt recovery the Agency was developing a debt recovery policy, planned to introduce software for the purpose later this year and to set up a dedicated debt recovery team.

5.11 Mr Fenton agreed to set up a mechanism to record the justification for any hospitality provided.

5.12 The use of the Government Procurement Card (GPC) for travel and subsistence (t & s) expenditure was discussed. As the Agency thought this was the most efficient way to pay they would continue to use the GPC for some travel and subsistence items. Mr May pointed out that there was a risk of duplicate claims as this expenditure could also be claimed via the Scottish Government travel and subsistence procedures. Internal Audit would continue to recommend the GPC card was not used in this way. The position would be monitored.

Planning

5.13 Mrs Edey noted that the audit planning programme was only over 12 months and recommended that planning be over a longer period such as 3 years. This was agreed.

Action: Internal Audit to develop 3 year audit plan

6 Corporate Services Directors Report

6.1 Mr Fenton presented his report. He advised that no incidents of fraud in respect of the Agency finance had been reported in 2008 – 09. There had been an alleged fraud on the NHS scheme which was being investigated.

6.2 The Agency running costs to the end of February were presented. This showed a forecast under-spend to the year end of £264k for staff and administration and £615k for capital expenditure.

6.3 Mr Fenton gave a progress report on the Debt collection and contribution management system. The prequalification questionnaire had been issued to potential suppliers. It was planned to send out tender invitations by the end of April, with a go live date of October.

6.4 The key risks were that the project manager left, or there were compatibility problems with Scottish Government Computer System.

6.5 International Financial Reporting Standards guidance by HM Treasury on the treatment of software had now been reversed. This change meant that there would be little difference between the numbers calculated under UK generally accepted accounting practice, and those calculated under IFRS.

7 Risk Register: Quarterly review

7.1 Mr Mackay advised that the risk of staff accessing data inappropriately had been included in the risk register. All staff would be required to complete on-line training in data handling which should give further assurance. This would include sensitivity of personal data. Mrs Edey pointed out that if data was accessed inappropriately then the member of staff could be breaking the law.

7.2 Mrs Edey questioned the usefulness of the yes/no answers to the column headed “Is residual risk acceptable”. It was agreed that it would be more useful if this were amended to record whether or not mitigating actions had been taken and to record this in a red/ amber/ green format.

Action: Delete “Is residual risk acceptable” column and replace with “Has mitigation been carried out”?

7.3 Mr Clapperton advised that payments to ineligible recipients were kept to a minimum by acting on death notifications and through the Agency’s participation in the National Fraud Initiative. Mr Reid asked what checks were in place to ensure recipients of pensions were genuine. A programme of visits would not be practical given the number of pensioners SPPA pay. It was agreed to consider this and report back to a future meeting.

Action: Ian Clapperton to consider checks to ensure recipients of pensions were genuine.

8 Review of register of interests

8.1 Mr Mackay asked the Non Executive Directors on the committee to review the list of their interests and advise of any changes. The Non Executive Directors advised changes and agreed to submit revised details of interests.

9 GMP Pension Overpayments

9.1 Mr Mackay reported that a further 708 overpayments had been identified because of errors in information received from the National Insurance Contribution Office. The pensions of the members would be corrected as soon as practical but the overpaid pension would not be recovered. SPPA had written to the members involved. Mr Mackay expressed his disappointment at the lack of customer engagement by NICO.

9.2 The National Audit Office (NAO) had a planned end to end review of the GMP issue. As they had no jurisdiction in Scotland it was likely that Audit Scotland would need to provide input to this. Mr Reid agreed to consider this.

Action: Mr Reid to consider Audit Scotland’s role in end to end review of GMP issue.

10 Terms of Reference

10.1 The terms of reference of the Audit Committee had been amended to show membership would be made up only of non executive directors rather than a mix including SG nominees. These were agreed.

11 Programme of meetings

11.1 Meeting dates were proposed for the Audit Committee as;

14 July 2009

13 October 2009

19 January 2010

13 April 2010

These were agreed.

12 Any other business

12.1 Mr Mackay asked the committee to note that the Scottish Government were changing their bank from HBOS to RBS. He voiced his concerns at the short notice period provided to the Agency and at the lack of information about how the business risks would be mitigated.

12.2 Mr Smith asked if SPPA had experienced any difficulties in investments and banking. He was advised that SPPA operate SG bank accounts so hold no cash. It was noted that SPPA also provided regulatory guidance to local authority pension schemes on the types and level of forward investment in different organisations.

11. Date of Next Meeting

The next meeting will be at 13:00 for 13.30 on 14th July 2009.

Action points arising from the meeting

Action Point	Para	Officer
To report on joint disaster recovery exercise with Scottish Government to next Audit Committee.	3.5	Mr Mackay
To prepare paper for EMB on SPPA's plan to meet possible future budget reductions.	3.6	Mr Mackay
To present the Agency fraud policy to the next Audit Committee.	5.4	Mr Fenton
Recommendations Tracker to include responsible directors.	5.8	Mr Fenton
Internal Audit to develop 3 year audit plans.	5.13	Mr Johnstone
"Is residual risk acceptable" column to be replaced by "Has mitigation been carried out"?	7.2	Mr Fenton
To consider checks to ensure recipients of pensions were genuine	7.8	Ian Clapperton
To consider Audit Scotland's role would in NAO review of GMP issue	9.2	Mr Reid