

Audit and Risk Committee Meeting Minutes
15 February 2023 10:05 – 11:20
Via Video Conference



Committee Members

Professor David Ulph - Chair
Professor Francis Breedon
Dr Domenico Lombardi

Attendees

Professor Graeme Roy - Chair, Scottish Fiscal Commission
John Ireland - Chief Executive
Pat Kenny - Associate Partner, Deloitte LLP
Jim Montgomery - SG Directorate for Internal Audit and Assurance
Susan Marvell - SG Directorate for Internal Audit and Assurance
Susie Warden - Head of Strategy, Governance and Corporate Services
James H White - Governance Manager – secretariat

Apologies

Gregory Oduor - Audit Manager, Deloitte LLP

1. Welcome and Introduction

David Ulph opened the meeting, welcoming Pat Kenney, Associate Partner from Deloitte LLP as part of the Commission's new external auditors. Apologies as given above were noted. There were two items of other business: an update on the recruitment of external members of the Committee; and payment of fees to Dr Lombardi, for which Dr Lombardi would recuse himself.

The minutes of the meeting held on 23 November 2022 were agreed as an accurate record by those who had attended it, and the action log was noted. It was agreed that the action about the tax implications of travel expenses incurred by the Commission on behalf of Commissioners should be marked as completed.

2. External Audit – Deloitte LLP

Pat Kenney, Engagement Partner, confirmed that Deloitte LLP had been appointed by the Auditor General as the Commission's external Auditor for the next five years. He outlined that a number of introductory meetings had taken place, including with SGDIAA, Chief Executive, Corporate services, and Audit Scotland. A planning meeting had been held with Corporate Services Team and a list of requirements such as documents to support audit planning had been provided.

The aim was to share the audit plan with the Commission by the end of March. Pat Kenney noted that scheduled wider scope work, which would be risk focussed, would be starting in the week starting 17 April. It was confirmed that audit fieldwork was planned to take place between June and July, exact dates to be agreed.

David Ulph thanked Pat Kenney for this update, and that he looked forward to the Committee seeing the audit plan in due course.

3. SGDIAA Update

Susan Marvell highlighted from the progress report that work for 2022-23 was on track for completion by end March. This includes an additional piece of work to provide assurance on

staff risks, resilience and key business processes. The completed audit report would be provided to the next Committee meeting on 10 May.

In relation to the Audit Plan 2023-24 for discussion, Susan Marvell confirmed that the main focus would be the Commission's Corporate Plan. This would be informed by recent review discussions about risks with Commissioners and Senior Management Team, as well as the wider landscape including the Scottish Government risk register, a review of key processes, and the guidance and training made available to staff. There would also be a small piece of work on the project management of the forecasting process, and the potential implications on this of staffing risks.

David Ulph commented that he welcomed the proposed workplan for 2023-24. There was consensus that this was a helpful plan. In particular, reviewing the forecast process and its project management could provide a useful indication of the minimum time needed to produce a good quality forecast.

Jim Montgomery commented that it was helpful to get this positive feedback and wished to formally record his thanks for the support provided by both Commissioners, and Commission Staff. This reflected the value of strategic engagement to date and that SFC was becoming a more outward focussed organisation.

David Ulph noted Sharon Fairweather, Director of Internal Audit and Assurance would be moving from her current role; he asked that the Committee's thanks for her supportive approach to the Commission be passed onto her.

4. Risk Management

Risk Management Framework

Susie Warden commented that there no substantive changes to the Risk Management Framework from previous versions, which had evolved over time to meet the needs of the Commission. The Governance Manager noted paragraphs 24 and 25 had been updated to reflect how red risks are escalated to the Governance Board by this Committee, or directly by the Senior Management Team.

David Ulph reflected that the framework document was very helpful, but suggested that an additional section should be added to state more explicitly the Commission's commitment to transparency through the publication of forecasts (and supporting material) and to neutrality were important features of how it worked in order to manage its risks. Susie Warden noted that this was reflected partly in the score cards but it was agreed that a paragraph reflecting that would be added to the Framework.

Action Point 1 – An additional section would added to the Risk Management Framework to state more explicitly that the Commission's commitment to transparency through the publication of forecasts (and supporting material) and to neutrality were important features of how it worked to manage its risks.

Risk Cards, including Level of Risk Appetite

Risk appetite - John Ireland noted the discussions about the level of risk appetite associated with each of the five risks, commenting that the appetite for each risk seems to be about right. He clarified that in addition to the escalation route for red risks, those risks with an amber score areas were being actively managed.

Jim Montgomery commented that risk was being managed and reviewed regularly and, in his opinion supported by SGDIAA's regular strategic engagement, risk was being managed appropriately. There was good evidence of a positive approach to risk management. Pat Kenny commented that risk framework was in line what he expected for an organisation like the Commission.

The Committee agreed to leave risk appetites as they are, noting that amber risks were being actively managed by the Senior Management Team.

Risk Cards - Susie Warden highlighted the changes to the risk scores since the previous meeting on 23 November 2022. A number of risk scores had reduced, and there were none currently highlighted as red risks.

Corporate Services - a period of sick leave had ended and the start date for the new shared services had been deferred to 2024. The score remained unchanged.

Reputation - Scotland's Economic and Fiscal Forecasts - December 2022 had been well received, there were some concerns from external stakeholder expectations of the forthcoming Fiscal Sustainability Report. The score remained unchanged.

Independence risk score – the score was reduced to reflect the positive reception of Scotland's Economic and Fiscal Forecasts - December 2022.

Staffing - the score was reduced, reflecting that staff had gained experience and maternity leave cover arrangements were in place and working well. It was noted that there had been a steep learning curve for newer areas of Social security spend, however, staff have gained a lot of experience, and there are less 'new' forecasting which impacts positively on staffing.

Partners – over the next six months the risks are less heightened as at the time of the budget forecast, therefore a reduced score was appropriate, recognising that progress also made with partner organisations.

Jim Montgomery agreed with the overall approach, but suggested that the next iteration of the risk cards should mention cyber security within corporate services risk. It was recognised that SG cover most of this through the SCOTS Connect shared service, staff need to be supported to ensure their vigilance against cyber attack. It was highlighted that iTECS attended a staff meeting recently to highlight good password practice. They also use a 'secret shopper' approach to raise awareness of potential phishing attacks and the appropriate response from staff to those attacks.

The Committee agreed the proposed scores as:

	Likelihood	Impact
Staffing	3	3
Partners	4	3
Reputation	3	3
Corporate Systems	2	4
Independence	1	3

Action Point 2 – Governance Manager would ensure that the next iteration next iteration of the risk cards should mention cyber security within the corporate services risk.

5. Finance

Susie Warden highlighted the increase to the projected underspend to around £70,000 as a result of both contingency not being required, and the impact of the pay award, backdated to

1 April 2022 and processed with November salaries, which was less than had been anticipated. However, potential pressure between now and the financial year end include the cost of overtime working required for the Fiscal Sustainability Report in March 2023, and general training for staff.

David Ulph commented that update paper was helpful. The Committee noted it, including the updated projected underspend.

6. Corporate Policies

Terms of Reference – the Governance Manager highlighted the only change was in relation to the external member of the Committee, which would be updated when the External Member recruitment had been completed. The Committee approved the reviewed Terms of Reference.

7. Any other business

External Member Recruitment – it was recognised that this had taken longer than expected but it was confirmed that the advert and papers were almost finalised and the advertising would be published shortly. When published, Committee members were encouraged to share this as widely as possible.

Payment of Commissioner Fees - Dr Lombardi left for this part of the meeting

John Ireland spoke to the paper highlighting the need for Dr Lombardi to be paid via payroll as required by the Scottish Public Finance Manual. As the timeline in the paper illustrated work on establishing the arrangements for paying Dr Lombardi had started before he took up office last June. More recently, the Commission's staff have been working on an interim solution of paying Dr Lombardi the fees he is owed with full NI contributions withheld. He was grateful for Dr Lombardi's co-operation throughout, but acknowledged that the delay in paying fees was contrary to the prompt payment requirement in the Public Finance Manual. The delay would probably need to be declared in the annual accounts. It was clarified that both Audit Scotland and SGDIAA had been approached for advice and that Deloitte's audit manager was aware of the issue.

The current position was that Dr Lombardi's outstanding fees (dating from 1 June 2022) should be paid at the end of February 2023, with deductions for NIC. HMRC was currently considering if payment could be made without NIC deduction; if this were to be agreed by HMRC, any NIC deductions would be repaid automatically to Dr Lombardi.

It was confirmed that work on Dr Lombardi's VISA application was ongoing on with the aim of it being submitted shortly.

Graeme Roy noted the above, including the timeline of actions in the paper. He highlighted the need for this to be resolved as soon as possible. The Committee noted the paper, and the actions taken.

7. Date of Next Meeting

The date of the next meeting is scheduled for Wednesday, 10 May 2023.

Scottish Fiscal Commission: Strategy, Governance and Corporate Services
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