

Committee Members

Professor David Ulph - Chair
Professor Domenico Lombardi
Professor Francis Breedon
Catriona McConnell - External Member
Sarah Pumfrett - External Member

Attendees

Professor Graeme Roy - Chair, Scottish Fiscal Commission
John Ireland - Chief Executive
Pat Kenny - Associate Partner, Deloitte LLP
Rebecca Smith - Audit Manager, Deloitte LLP
Iain Burns - Scottish Government Directorate for Internal Audit and Assurance, covering for Louise Carmichael
Susie Warden - Head of Strategy, Governance and Corporate Services
Robin Frost - Analyst, Scottish Fiscal Commission - minutes

Apologies

Louise Carmichael - Scottish Government Directorate for Internal Audit and Assurance
Susan Marvell - Scottish Government Directorate for Internal Audit and Assurance
Claire Murdoch - Head of Fiscal Sustainability and Public Funding
David Stone - Head of Economy and Income Tax
Michael Davidson - Head of Devolved Taxes and Social Security
James H White - Governance Manager - secretariat

1. Welcome and Introduction

David Ulph opened the meeting. Apologies as given above were noted. There were no declarations of any interest in the agenda items.

The minutes of the meeting held on 14 May 2024 were agreed as an accurate record. The action log was noted, in particular that a discussion about Artificial Intelligence was scheduled for discussion at the staff awayday on 10 October 2024 with input from Scottish Government colleagues. This will be included on the agenda for the next full Audit and Risk Committee scheduled for 5 November 2024.

Sarah Pumfrett notified two additional items of business to be discussed:

- implementation of the Scottish Government Oracle Fusion project
- the impact of civil unrest on the operations of the Commission.

2. Deloitte LLP – Rebecca Smith

Rebecca Smith summarised the draft audit report and reported that Deloitte expect to issue an unmodified opinion of financial statements. Particular points made included:

- assistance from the SFC was appreciated
- no issues or errors were identified

- two misstatements were identified, on the Accounts payable control account and bicycle salary sacrifice scheme
- the remaining outstanding items were listed in the draft report ISA 260, including the pension scheme disclosures for members of the Senior Management Team
- SFC achieved fiscal balance in 2023-24
- The quality indicators for the audit process itself were mostly green, but there had been delays in receiving the draft annual report and accounts and particularly in receiving evidence from Scottish Government shared services.

In discussion the following points were clarified:

- the significant risk of management override in operating within the expenditure resource limit was a standard risk and not specific to the Commission
- the Commission's controls had identified failures in the Scottish Government's controls, and that those errors had been corrected.
- Weaknesses identified by the Commission's interactions with Scottish Government shared services were not unique to the Commission, and similar issues had been identified in other audited bodies.

Susie Warden said that the new Oracle Cloud system would replace the current financial system and controls from 1 October 2024. Management's priority was therefore to engage with that programme to ensure the future controls were adequate, rather than to pursue issues with the existing system. This would be done through scrutiny of the process maps and negotiation of the memorandum of understanding for the shared service system.

There was discussion of the severe financial pressure facing the Scottish public sector and the potential impact on the Commission. The following points were made:

- David Ulph said that these pressures increased the risk that the Commission would not be allocated the budget it requested in future years
- Pat Kenny said that documenting the savings and efficiencies that the Commission was making would be useful evidence, particularly for Parliamentary scrutiny.
- Sarah Pumfrett said that zero-based budgeting was a technique that ensured that budgets were as lean as possible, whereas imposing an arbitrary savings target on an already efficient organisation could result in delivery failures.

3. Scottish Government Directorate for Internal Audit and Assurance

Iain Burns had shared a number of documents for information. There was discussion of the annual assurance report for Scottish Government systems. Iain Burns clarified that the mention of limited assurance was a typo and the assurance given was reasonable, albeit a lower reasonable assurance than the previous year.

There was an extensive discussion about SGDIAA's audit of Scottish Government shared services, including if a more extensive audit, in collaboration with other smaller organisations, would be helpful.

John Ireland said that in considering the risk posed by shared corporate services, accountable officers placed great reliance on internal audit's report. An audit of the entire corporate service, rather than just the systems, would be more useful in giving

assurance to accountable officers. A frank, transparent assessment would better enable accountable officers to assess the risk impact to the organisation. However, as the new Oracle Fusion system was soon to go live such audit work could not take place for at least 12 months. The Commission's management already spends a disproportionate amount of time on shared services so there was a reluctance to dedicate even more time. The Committee agreed to escalate this issue to the Governance Board.

There was discussion about the Scottish Government having lost both its Cyber Essentials (self-assessed) and Cyber Essentials plus (independently assessed) accreditations. This was particularly concerning because Scottish Government had required all public bodies to meet the Cyber Essentials standard. Iain Burns reported that more stringent testing had discovered issues with legacy systems which had not previously been identified. Those systems had been isolated to reduce risk, and the remainder of the Scottish Government IT system remained compliant.

Action Point 1 - Iain Burns to report whether there was any external validation of the cyber security of the Scottish Government IT systems.

In relation to the challenges for Scottish Government in achieving a balance budget position (Annex B, paragraph 2.7 of the SGDIAA papers), Sarah Pumfrett suggested that the goal ought to be to optimise rather than minimise risk, as minimising risk would be prohibitively expensive.

There was discussion of the progress of the Oracle Cloud system. Sarah Pumfrett said that the Oracle transformation team surveyed public bodies each month to ascertain their state of readiness and that a significant number of organisations and aspects were not yet ready. Susie Warden said not all aspects of readiness were expected to be complete at this stage; for example staff training material was only just being launched. There were no practical issues to report about the Commission's or the system's readiness to launch; the issues were those about the controls and governance, as the Committee had been discussed earlier.

4. Risk

There was a discussion of the risk cards. Although scores remained stable, there had been underlying changes in both directions.

Corporate Systems – Having more information about Oracle Fusion, a draft memorandum of understanding and with training now being available reduced the risk, but the proximity of implementation increases risk so on balance there was no change. The Commission's requirements were far simpler than many organisations so only a serious system failure would impact the Commission. Susie Warden said the longer term risks were whether the financial costs for the system would increase, what staff time efficiencies the new system would realise, and whether these would balance out.

Partners – It was noted that a new liaison team were in place who were settling in and that the previous uncertainty about Ministerial positions was now resolved.

Staffing - Analytical vacancies being filled reduced risk but the increased proximity of the budget increases risk. Susie Warden said the forthcoming reduction in working hours

from 37 hours to 35 hours was not expected to impact delivery of forecast work or production of publications. However the banked time staff would acquire during this time would have a greater impact on non-forecast work than would the change in hours alone, so staffing had been increased to mitigate this. Any emergency recruitment controls would not have a short-term impact as there was already a recruitment freeze for the implementation of the new Oracle system. David Stone said there was a risk of Senior Analysts moving, given their time in post, but the Scottish Government recruitment freeze may ease this pressure. On balance, the risk score was unchanged.

Reputation – The OECD review report would be finalised in the next few months.

The Committee agreed the risk scores as:

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

Iain Burns said that the Committee may wish to reconsider its risk appetite for certain risks in future, as some risks were consistently not in green yet no additional actions were being requested.

5. Finance

Susie Warden introduced the finance update paper. Staff costs were lower because of a vacancy and start dates of new staff. Non staff costs had increased due to the installation costs of the replacement fire and intruder alarm systems. Overall these balanced out and the projected underspend had not changed significantly. Analytical staff being at full complement reduced the potential costs and likelihood of staffing-related uncertainties.

6. Corporate Policies

There were no corporate policies to review. The self-assessment checklist had been updated after the meeting on 14 May, and agreed by correspondence, as well as approved by the Governance Board.

7. Any other business

David Ulph invited Sarah Pumfrett to raise the items mentioned at the start of the meeting. She felt that the first item about Oracle Fusion implementation had been covered.

Sarah Pumfrett asked about actions the Commission had taken in the light of the recent civil unrest, particularly in reminding staff about appropriate social media use and supporting staff who were anxious for themselves or family or friends elsewhere in the UK. She noted that although unrest had ceased and had not spread to Scotland, the end of the school holidays and any inflamed sectarian unrest in Northern Ireland could trigger unrest in Scotland.

John Ireland said that under the civil service code, staff were politically restricted in their social media activity. Management had recently issued reminders in advance of the UK election. Management had highlighted the potential impact of civil unrest on individuals and signposted the support available to staff. Staff had experienced direct harassment and management had offered support.

8. Date of Next Meeting

The next Audit and Risk Committee meeting is scheduled for Tuesday, 15 October 2024 to consider the Annual Report and Accounts, with the next full meeting scheduled for 5 November 2024.

Scottish Fiscal Commission: Strategy, Governance and Corporate Services
20 August 2024