



Scottish Public Pensions Agency

2015/16 Annual audit
report to Members and
the Auditor General for
Scotland

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Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively (www.audit-scotland.gov.uk/about/).

Mark Taylor, Assistant Director, Audit Scotland is the appointed external auditor of the Scottish Public Pensions Agency for the period 2011/12 to 2015/16.

This report has been prepared for the use of the Scottish Public Pensions Agency and no responsibility to any member or officer in their individual capacity or any third party is accepted.

The information in it may be used by the Auditor General in support of her wider responsibilities, including reporting to the Scottish Parliament.

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Key messages

Audit of financial statements

- Unqualified independent auditor's reports on the 2015/16 financial statements for the Scottish Public Pensions Agency (SPPA), the NHS Pension Scheme (Scotland) (NHSPSS), and the Scottish Teachers' Pension Scheme (STPS).

Financial management & sustainability

- SPPA operated within limits set by the Scottish Government with a net outturn of £12.7 million (excluding depreciation and notional charges) against a budget of £13.7 million.
- NHSPSS is an unfunded pension scheme with £44.8 billion net liabilities, a year on year increase of 1.6%.
- STPS is an unfunded pension scheme with £28.7 billion net liabilities, a year on year decrease of 2.4%.

Governance & transparency

- Overall we concluded that SPPA had appropriate governance arrangements in place. The updated Corporate Plan has not been finalised and progress of SPPA's review of transparency has slipped.
- Systems of internal control operated effectively during 2015/16.
- Arrangements in relation to the prevention and detection of fraud and irregularities were satisfactory.

Value for money

- SPPA does not have an overarching workforce plan in place to identify the staff skills, numbers and costs required to deliver the "One SPPA" transformation programme. Work is ongoing to develop SPPA's approach to workforce planning as part of the "Target Operating Model" service redesign project within the "One SPPA" transformation programme.

Introduction

1. This report is a summary of our findings arising from the 2015/16 audit of the Scottish Public Pensions Agency (SPPA), the NHS Pension Scheme (Scotland) (NHSPSS), and the Scottish Teachers' Pension Scheme (STPS).
2. The management of SPPA is responsible for:
 - preparing financial statements which give a true and fair view of the Agency, NHSPSS and STPS in accordance with the relevant financial reporting framework
 - ensuring the regularity of transactions, by putting in place systems of internal control
 - maintaining proper accounting records
 - publishing with their financial statements an annual governance statement and a remuneration report.
3. Our responsibility, as the external auditor, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management with the oversight of those charged with governance. This does not relieve management of their responsibility for the preparation of financial statements.
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports are summarised at [appendix II](#) and [appendix III](#).
6. [Appendix IV](#) is an action plan setting out our recommendations to address the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that the Agency understands its risks and has arrangements in place to manage them. The Audit and Risk Committee should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.
9. 2015/16 is the final year of the current five year audit appointment. From 2016/17 the auditor of SPPA will continue to be Audit Scotland. In accordance with agreed protocols and International

Standards on Auditing we will be liaising with the incoming audit team as part of this transition.

Overview of the scope of the audit of the financial statements

10. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit and Risk Committee on 25 January 2016.
11. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken any non-audit related services. The 2015/16 agreed notional fees for the audit were £25,850 for SPPA, £67,550 for NHSPSS and £64,170 for STPS, and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
12. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance.
13. [Appendix I](#) sets out the audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

14. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

15. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
16. We summarised our approach to materiality in our Annual Audit Plan. We revised our planning materiality for 2015/16 on receipt of the unaudited accounts to £166,000 (1% of gross expenditure) for SPPA, £11 million for NHSPSS and £10.8 million for STPS (both Schemes 1% of benefits paid).
17. We also set a lower level, known as performance materiality, when defining our audit procedures. This is determined to ensure that uncorrected and undetected audit differences do not exceed our materiality level. Performance materiality was set at £124,500 (75% of materiality) for SPPA, £9.9 million (90%) for NHSPSS and £9.7 million (90%) for STPS.
18. We report all misstatements greater than £7,500 for the SPPA and £250,000 for each of the Schemes.

Audit of the SPPA 2015/16 financial statements

Audit opinions

Financial Statements	<ul style="list-style-type: none">• The financial statements of SPPA for 2015/16 give a true and fair view of the state of the body's affairs and of its net expenditure for the year.• We confirm that the financial statements have been properly prepared in accordance with the 2015/16 FReM and the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions.
Regularity	<ul style="list-style-type: none">• In all material respects, the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance.• The sums paid out of the Scottish Consolidated Fund were applied in accordance with section 65 of the Scotland Act 1998.
Other prescribed matters	<ul style="list-style-type: none">• The part of the Remuneration and Staff Report to be audited has been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.• The information given in the Performance Report is consistent with the financial statements.

Submission of financial statements for audit

19. We received the unaudited financial statements on 6 June 2016, in accordance with the agreed timetable. The working papers were of a good standard and staff provided support to the audit team which enabled us to complete our on-site fieldwork on 23 June 2016.

Significant findings from the audit

20. International Standard on Auditing 260 (ISA 260) requires us to communicate significant findings from the audit as detailed below:
 - The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and disclosures.
 - Significant difficulties encountered during the audit.
 - Significant matters arising from the audit that were discussed, or subject to correspondence with management.
 - Written representations requested by the auditor.
 - Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
21. No monetary errors were identified within the financial statements during the course of the audit. Other than minor presentational errors which were discussed with relevant officers, there were no issues or audit judgements that, in our view, required to be

communicated to those charged with governance, in accordance with ISA 260.

Future accounting and auditing developments

Code of Audit Practice

22. A new Code of Audit Practice applies to public sector audits for financial years starting on or after 1 April 2016. It replaces the Code issued in May 2011. The new Code outlines the objectives and principles to be followed by auditors.
23. The new Code increases the transparency of our work by making more audit outputs available on Audit Scotland's website. In addition to publishing all Annual Audit Reports, from 2016/17, Annual Audit Plans and other significant audit outputs will be put on the Audit Scotland website for all audited bodies. This is irrespective of whether the body meets in public or makes external audit reports publicly available.

Financial management and sustainability - SPPA

24. The main financial objective for the SPPA is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers. SPPA operated within its resource budgets.

2015/16 financial position

25. The SPPA, as an executive agency of the Scottish Government, receives almost all of its funding directly from the Scottish Government.
26. At 31 March 2016, the Statement of Financial Position shows a net asset position of £10.8 million, which is in line with the previous year. Total net expenditure for the year was £16.3 million (2014/15 £13.8 million) and capital expenditure totalled £2.7million (2014/15 £4.3million).
27. SPPA's 2015/16 budget increased from £10.8 million to £12.3 million at the Autumn Budget Revision, and the Agency received further funding at the Spring Budget Revision with a final budget of £13.7 million. These increases in budget were to fund the administration of pensions (£1.5 million), support for additional actuarial services (£1.0 million) and postage costs for communication details of the end of contracting-out to active and deferred members (£0.4 million).

28. The final outturn against budget was £12.7 million, an underspend of £1 million. This underspend was due to a combination of factors: lower than anticipated staff costs as a result of delays in recruitment; the timing of project related advisory spend; savings in postage costs; and an unused contingency budget.
29. The financial position of SPPA remains stable with the body operating within its available funding and reporting an excess of assets over liabilities.

Financial Planning

30. As funding from the Scottish Government is SPPA's primary source of income there is a greater degree of certainty over future funding streams than for some other public sector organisations who are involved in income generating activities. Therefore, the main focus for SPPA is achieving a balanced financial plan to remain within its annual allocation.
31. In April 2015 the Corporate Board agreed to roll forward the 2012-15 Corporate Plan into 2015/16 with a new 3 year Corporate Plan, covering the years 2016-19, to be developed in-year. SPPA has not yet updated its Corporate Plan in final form and so there is not a current strategic level plan in place to demonstrate how SPPA will deliver its activities and remain within the anticipated funding allocation.

Refer Appendix IV Action Plan no. 1

Financial management

32. As auditors we need to consider whether bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
- the director of finance has sufficient status to be able to deliver good financial management
 - standing financial instructions and standing orders are comprehensive, current and promoted within the body
 - reports monitoring performance against budgets are accurate and provided regularly to budget holders
 - monitoring reports do not just contain financial data but are linked to information about performance
 - Audit and Risk Committee members provide a good level of challenge and question significant variances.
33. Based on our accumulated knowledge and through our attendance at the Audit and Risk Committee we conclude that SPPA has strong financial management arrangements in place.

2016/17 budget

34. SPPA has an allocated resource budget of £16.8 million and a capital budget of £3.5 million for 2016/17. As at September 2016 there is an anticipated funding gap of £2.2 million. The funding gap represents funding for actuarial services and for operating costs to support police and fire pension schemes administration. The funds

are expected to be transferred from other sources within the Scottish Government at Autumn Budget Revision and Spring Budget Revision.

Audit of the Schemes 2015/16 financial statements

Audit opinions

Financial Statements	<ul style="list-style-type: none">• The financial statements of NHSPSS and STPS for 2015/16 give a true and fair view of the state of the affairs of the Schemes and of their net expenditure for the year.• We confirm that the financial statements have been properly prepared in accordance with the 2015/16 FReM and the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions.
Regularity	<ul style="list-style-type: none">• In all material respects, the expenditure and income in the financial statements were incurred or applied in accordance with relevant legislation and guidance issued by Scottish Ministers.• The sums paid out of the Scottish Consolidated Fund were applied in accordance with section 65 of the Scotland Act 1998.
Other prescribed matters	<ul style="list-style-type: none">• The information given in the Reports of the Managers is consistent with the financial statements.

Submission of financial statements for audit

35. We received the unaudited financial statements on 18 July 2016, in accordance with the agreed timetable. The working papers were of a good standard and staff provided support to the audit team which enabled us to complete our on-site fieldwork on 14 September 2016.

Significant findings from the audit

36. International Standard on Auditing 260 (ISA 260) requires us to communicate significant findings from the audit as detailed below:
- The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and disclosures.
 - Significant difficulties encountered during the audit.
 - Significant matters arising from the audit that were discussed, or subject to correspondence with management.
 - Written representations requested by the auditor.
 - Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
37. There were no misstatements identified during the audit. A number of minor presentational and monetary adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements.

Significant findings from the audit

38. The following issues are brought to the attention of those charged with governance regarding the appropriateness of accounting policies or accounting estimates and judgements, the timing of transactions, the existence of material unusual transactions or the potential effect on the financial statements of any uncertainties.
39. **Actuarial methodology:** The pension liabilities as at 31 March 2016 are based on a complete extract of the members' data as at 31 March 2012 for NHSPSS and STPS, rolled forward to 31 March 2016. The actuary has previously identified that the roll forward methodology has some weaknesses, notably that although the total liability should be reasonably reliable, the liabilities attributed to active members, deferred pensioners and pensioners may not reflect the actual membership in each category at the roll forward date. Also, in times of significant change in Scheme membership, material experience gains and losses will not be recognised until further data becomes available.
40. Valuation methodology relies on judgement and assumptions for financial, demographic and mortality factors. SPPA requires to ensure that it is content with the assumptions proposed by the actuary. We received representations from the Accountable Officer that he is satisfied with key aspects of the methodology. We are satisfied that the roll forward valuation methodology together with the Actuary's judgements and assumptions provides a sufficiently reliable estimate of the NHSPSS and STPS liabilities as at 31 March 2016.

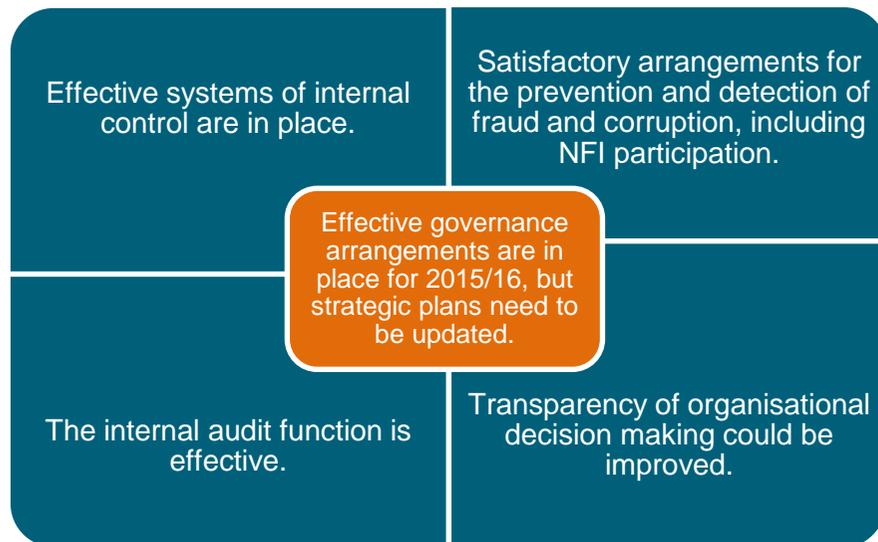
41. Statements of financial position - net liabilities: in common with some other public pension schemes, the NHSPSS and STPS are unfunded. The pension liabilities recorded in the financial statements are not matched by investments or other assets, and consequently the Schemes show net liabilities of £44.8 billion for NHSPSS and £28.7 billion for STPS. The accounts of the Schemes are prepared on a going concern basis given that funding to meet

pension payments, as they fall due under the Schemes' regulations, is made available from the Scottish Government's budget. An appropriate disclosure note is included in the financial statements. We are satisfied that it is appropriate to prepare the accounts on a going concern basis.

Financial management and sustainability - Schemes

42. The net expenditure for the year for NHSPSS was £2,110.4 million, compared to net expenditure of £2,175.7 million in 2014/15. This decrease is due mainly to an increase in contributions receivable, which was slightly offset by an increase in expenditure.
43. The Scheme liability has increased from £44.1 billion to £44.8 billion as at 31 March 2016. This is due to new liabilities and finance costs of £3.4 billion exceeding the discharge of existing liabilities and actuarial gains of £2.7 billion.
44. The STPS's net expenditure for the year was £1,264.3 million, compared to net expenditure of £1,420.2 million in 2014/15. This movement is also due to an increase in contributions receivable and changes in the pension financing cost.
45. The Scheme liability has decreased from £29.4 billion to £28.7 billion. This is due to new liabilities and finance costs of £1.9 billion being less than the discharge of existing liabilities and actuarial gains of £2.6 billion.
46. Accrued resources for the NHSPSS and the STPS are covered by one combined spending authorisation in the Budget (Scotland) Act 2015. In 2015/16 the combined accrued resource cost of £3,374.7 million for NHSPSS and STPS was within the combined limit of £3,398.4 million.
47. The budget figures have been set for 2016/17 at a combined figure of £3,300.3 million. The budget figures are accounting estimates for assessing the overall commitments in each Scheme that will need to be met through time. The direct cost falling on the Scottish public sector is the annual employer contributions.
48. The most recent actuarial funding valuations to assess the overall Scheme commitments (as at 31 March 2012) were carried out by the Government Actuary's Department (GAD) on behalf of the Scottish Government. The valuations were finalised in 2015 and used to set employer contribution rates for the period from 1st April 2015 to 31st March 2019 and to establish an employer cost cap against which future Scheme costs will be compared in future quadrennial valuations.
49. Future valuations will be used to inform future contribution rates to be paid into the Schemes by Scheme employers. The next valuation is underway and will be based on Scheme data as at 31st March 2016.

Governance and transparency



Corporate governance

50. The Chief Executive is the Agency's Accountable Officer, answerable to the Scottish Government's Principal Accountable Officer and Scottish Ministers. He is supported by a Corporate Board of Executives and Non-Executives. The Chief Executive and the Corporate Board are responsible for establishing arrangements for ensuring the proper conduct of the affairs of SPPA and for

monitoring these arrangements. The Corporate Board is supported in its role by the Audit and Risk Committee. The Board and Audit and Risk Committee met on a regular basis throughout the year to consider relevant matters.

51. The Public Service Pensions Act 2013 introduced new governance arrangements from 1 April 2015 for pension schemes, which would reinforce the importance of transparency and accountability. Pension Boards are required to assist the Scheme Manager in the operational delivery of the pension schemes in line with scheme regulations and expectations set by the Pensions Regulator. Pension Boards were established for each Scheme and meetings of the Boards have been held during 2015/16. The governance arrangements are bedding in. A review of these arrangements, led by KPMG, is underway and due to be completed early in 2017.
52. We concluded that SPPA has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.

Transparency

53. The Scottish Government's On Board guidance (<http://www.gov.scot/Publications/2015/04/9736/0>) for board members of public bodies was updated and reissued in April 2015. On Board states that boards should demonstrate high standards of corporate governance at all times including openness and

transparency in decision making. It recommends boards should consider:

- holding an annual open meeting
- holding board meetings in public unless there is a good reason not to
- publishing summary reports and/or minutes of meetings
- inviting evidence from members of the public in relation to matters of public concern
- consulting stakeholders and users on a wide range of issues
- making corporate plans and the annual report widely available.

54. Audit Scotland also believes in transparency of financial reporting within the Annual Report and Accounts including:

- a clear reconciliation between expenditure and the outturn against Scottish Government Resource budgets
- identification and explanation of any significant movements in budget during the year.

55. In our Annual Audit Report 2014/15 we highlighted that the Corporate Board and Audit and Risk Committee meetings were held in private. We also noted that there was a significant time lag between Board meetings and the minutes being made publicly available, and that minutes of the Audit and Risk Committee were not published. The most recent Corporate Board minutes on the SPPA website are those of July 2015.

56. We recommended that SPPA should review its current arrangements for openness and transparency of organisational decision making against relevant best practice.

57. The Agency appointed a Business Manager to head up a Secretariat, reporting to the Chief Executive, in January 2016. It is planned that the Secretariat will assist in developing clear policies, associated processes and establishing required resources, as part of a wider review of the transparency and accountability agenda within SPPA. Steps have been taken therefore to implement our recommendations, although progress in this area has slipped. There remains scope for SPPA to review its arrangements for organisational decision making against the relevant best practice principles within the On Board guidance.

Refer Appendix IV Action Plan no. 2

Internal control

58. As reported in our Review of Internal Controls 2015/16, presented to the Audit and Risk Committee in April 2016, no material weaknesses in the accounting and internal control systems were identified which could adversely affect the organisation's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

Internal audit

59. Internal audit provides the Audit and Risk Committee and Accountable Officer with independent assurance on the overall risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. Internal audit is provided by the Scottish Government Internal Audit Directorate.
60. Our review of internal audit concluded that overall the internal audit service operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place. The internal audit plan for 2015/16 was completed within timescale.
61. In our 2015/16 Annual Audit Plan we concluded that we did not plan to place formal reliance on the work of internal audit for our financial statements audit due to the nature of the internal audit work. In respect of our wider governance and performance audit work we have taken account of internal audit's 2015/16 work in the following areas: HMRC Real Time Information, Personal Data Handling Arrangements and IT Data Loading Controls.

Arrangements for the prevention and detection of fraud

62. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring

compliance with standards and codes of conduct, standing orders and financial instructions.

63. In our opinion SPPA's overall arrangements for the prevention of fraud, irregularity and corruption are satisfactory; we note that no system can eliminate the risk of fraud, irregularity or corruption entirely.

National Fraud Initiative in Scotland

64. SPPA participates in the National Fraud Initiative (NFI), a two-yearly counter-fraud exercise led by Audit Scotland. The NFI uses electronic data analysis techniques to compare information held on individuals by different public sector bodies and different financial systems, to identify data matches that might indicate the existence of fraud or error.
65. The NFI continues to have a high profile within SPPA with data matches actively investigated and findings regularly reported to the Operations Management Team and the Senior Management Team. SPPA has continued to investigate matches identified by the 2014/15 exercise and through the twice-yearly mortality screening exercise also operated through NFI. 3,660 matches have been investigated, with SPPA recording 190 outcomes worth £437,129. However, as reported in our 2014/15 Annual Audit Report, further work on the matches relating to deferred members requires to be carried out. To date none of these matches have been investigated.

Refer Appendix IV Action Plan no. 3

66. Audit Scotland published its national report on the 2014/15 NFI exercise in June 2016 and reported almost £17 million of fraud and error across services in Scotland. The NFI report contains a self-appraisal checklist which should be reviewed by the Audit and Risk Committee to ensure that they are fully informed of the planning and the progress being made by officers investigating the NFI 2016/17 exercise.

Value for money

Arrangements for securing Best Value

67. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.
68. The Auditor General may require that we consider whether Accountable Officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value. Where such requirements are not specified we may agree to undertake local work in this area. We did not undertake any specific work in this area during 2015/16.

Local performance audit reports

Workforce Planning Arrangements

69. Audit Scotland published its impact report on 'Scotland's public sector workforce' in August 2015. The original report (published in November 2013) encouraged bodies to plan workforce changes on a three-year rolling basis; take a longer-term view of the impact of their workforce change programmes, manage departure schemes and develop succession plans.

- 70. During 2015/16 auditors of all public bodies were asked to undertake audit work reviewing the workforce planning arrangements in place. This work will inform Audit Scotland's forward programme of performance audits.
- 71. Development of a workforce plan, with appropriate succession planning for key posts, should be part of SPPA's arrangements to support business change. Service redesign may require different staff skills and resourcing models from those currently in place.
- 72. As previously reported, the Agency has no overarching workforce plan in place and succession planning arrangements are unclear. The revision of the SPPA People Strategy and the introduction of a new approach to workforce planning are underway and form part of a nine-point people action plan. The Agency's new transformation programme ('One SPPA') is underway and as part of this transformation programme SPPA are planning a service redesign project (Target Operating Model). Workforce planning will be an integral part of this project.
- 73. Any delays in developing a long term workforce plan will limit the effectiveness of SPPA's planning for future service delivery.

Refer Appendix IV Action Plan no.4

National performance audit reports

- 74. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for

Scotland. During 2015/16, a number of reports were issued as outlined in [Appendix III](#).

Appendix I: Significant audit risks

The table below sets out the audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
Financial statement issues and risks		
<p>Management override of controls (Agency corporate risk and Pension Schemes risk)</p> <p>Auditing standards (ISA 240: <i>The auditor's responsibility to consider fraud in an audit of financial statements</i>) requires auditors to consider, on all audits, management's ability to manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p><i>There is a risk that fraud may occur through management override of control mechanisms.</i></p>	<ul style="list-style-type: none"> • Detailed testing of journal entries and other adjustments to the financial statements. • Review the reasonableness of accounting estimates. • Evaluation of significant transactions that are outside the normal course of business. • Consider the results of controls testing and amend level of year end testing if appropriate. 	<p>We concluded from our audit testing that the 2015/16 journal entries, accounting estimates and judgements and significant transactions which we reviewed were appropriate.</p> <p>No issues were highlighted as a result of our controls testing and detailed substantive testing at the year end that would indicate management override of controls.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Income recognition (Pension Schemes risk)</p> <p>ISA 240 states that it is the auditor’s responsibility to consider fraud in an audit of financial statements. This presumes a risk of fraud as regards revenue recognition within the financial statements.</p> <p><i>The volume and complexity of contribution income means there is an inherent risk of fraud in accordance with ISA 240.</i></p>	<ul style="list-style-type: none"> Detailed controls testing of the EPICOR contributions system. 	<p>Our attendance at Audit and Risk Committee meetings, review of internal audit reports and detailed testing of contributions income did not highlight any issues.</p> <p>Our Review of Internal Controls 2015/16 report was presented to the Audit and Risk Committee in April 2016.</p>
<p>GAD valuation (Pension Schemes risk)</p> <p>The decisions taken by SPPA with regard to the Schemes are based on the work of GAD, which involves significant elements of estimation and professional judgement.</p> <p>The actuarial valuation methodology relies on judgement and assumptions in relation to financial, demographic and mortality factors. The valuation process also relies on the data provided by the Agency to GAD being accurate, complete, timely and verifiable.</p> <p><i>The actuarial input in valuing the Schemes could be affected by incomplete or inaccurate information, reliance on source data which is</i></p>	<ul style="list-style-type: none"> Assess the reliability, professional competence, capability and objectivity of GAD as an expert on whom reliance is placed. Meeting with GAD. Discuss GAD’s quality review processes to determine the level of assurances that can be taken from their internal processes. Review of PwC report assessing GAD’s actuarial processes. Review the reports supporting the valuation data submitted to GAD. Review audit trail of discussions between the SPPA and the actuary. 	<p>We met with GAD and discussed the roll forward of the 2012 data for 2015/16 accounts; and GAD’s quality review processes.</p> <p>We reviewed the GAD assumptions reports, and noted the minutes of the meeting between GAD and SPPA to discuss the proposed assumptions.</p> <p>We carried out audit work on the valuation data submitted to GAD by SPPA.</p> <p>We carried out analytical work on the actuarial output figures.</p> <p>We assessed the reliability, professional competence, capability and objectivity of GAD as an expert on whom we place reliance and concluded that we could place reliance on their</p>

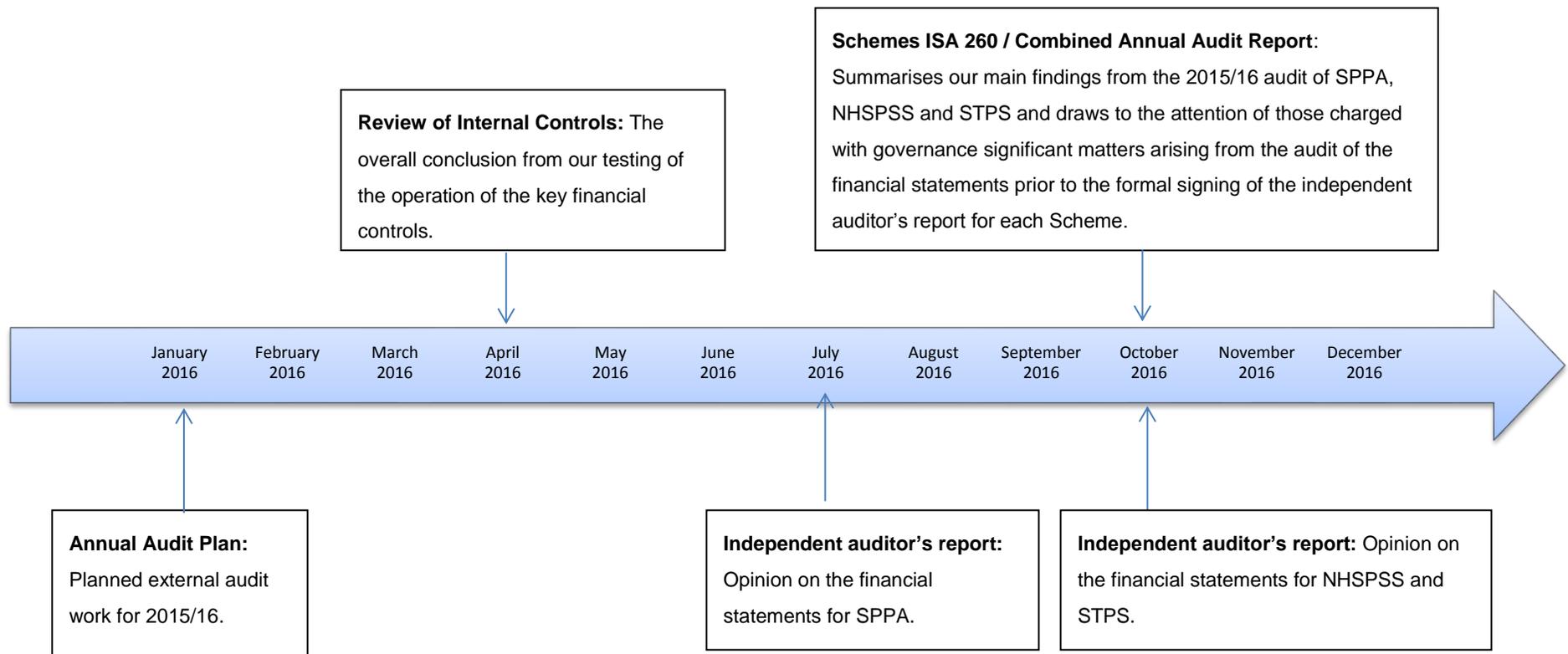
Audit Risk	Assurance procedure	Results and conclusions
<i>not fully validated or the use of unreasonable assumptions.</i>	<ul style="list-style-type: none"> Carry out high level analytical work on the actuarial output figures. 	work.
<p>Information to support Scheme valuations (Pension Schemes risk)</p> <p>The pension liabilities are based on complete extracts of the members' data using an established roll forward methodology. SPPA needs to ensure that the implications of changes to membership profiles are fully considered and up to date and accurate information is provided to the actuary.</p> <p><i>There is a risk of actuarial valuations being materially affected by contribution figures which are subsequently superseded if appropriate processes are not in place,</i></p>	<ul style="list-style-type: none"> Meeting with GAD. Review and assessment of the information supplied to GAD. Review of GAD's validation processes. 	We met with GAD; discussed and reviewed the information supplied to GAD and also reviewed evidence that supported the validation processes in place. No issues were noted that would have a material effect on the actuarial valuation.
<p>Pension contributions (Pension Schemes risk)</p> <p>It is essential that information provided to GAD is accurate and reliable. Contributions income, as processed and recorded on EPICOR, is a primary determinant in the calculation of the Schemes' liabilities and current service costs. Robust procedures for reconciling contributions income received to employers' annual returns are essential to ensure that all monies due</p>	<ul style="list-style-type: none"> Meetings with SPPA to monitor the process of reconciliations, with targets and timescales agreed. Review of reconciliations during our audit of the Schemes' financial statements. Review of figures provided by other audited bodies against SPPA figures. 	<p>We held meetings with Finance staff to discuss progress with contributions reconciliation processes; progress is satisfactory.</p> <p>We reviewed figures provided by other audited bodies against SPPA figures; no errors were noted.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>from employers are received.</p> <p><i>Failure to manage contribution collections effectively may impact on the Schemes' liabilities and actuarial valuations.</i></p>		
<p>Cyber security (Agency corporate risk)</p> <p>There is a risk that access to IT systems or the integrity of Scheme data could be compromised as a result of a cyber attack.</p> <p>As it moves towards increased use of web portals for transmission of data and information between members and employers, the Agency may become more vulnerable to cyber crime.</p> <p><i>There is a risk of fraudulent access to data and theft of the data held on SPPA's systems.</i></p>	<ul style="list-style-type: none"> Review security controls against cyber attack including disaster recovery 	<p>SPPA commissioned a series of audit reviews by the Interim Head of Security, covering: cyber security; physical security (CCTV); information assurance; records management; and risk management. These reports are presented to the Audit and Risk Committee when finalised. To avoid duplication, we did not carry out the audit work we had originally intended. We have reviewed the series of reports, including the recommendations for improvement and the agreed management actions.</p> <p>SPPA also recruited for a substantive Head of Security post during this period; a permanent appointment has now been made. The new Head of Security will ensure that the agreed management actions are implemented which will help to strengthen current arrangements.</p> <p>The 2015/16 Governance Statement noted that SPPA's business continuity plans are normally tested annually, but due to staff changes the 2015 test was postponed into 2016. This testing is due to</p>

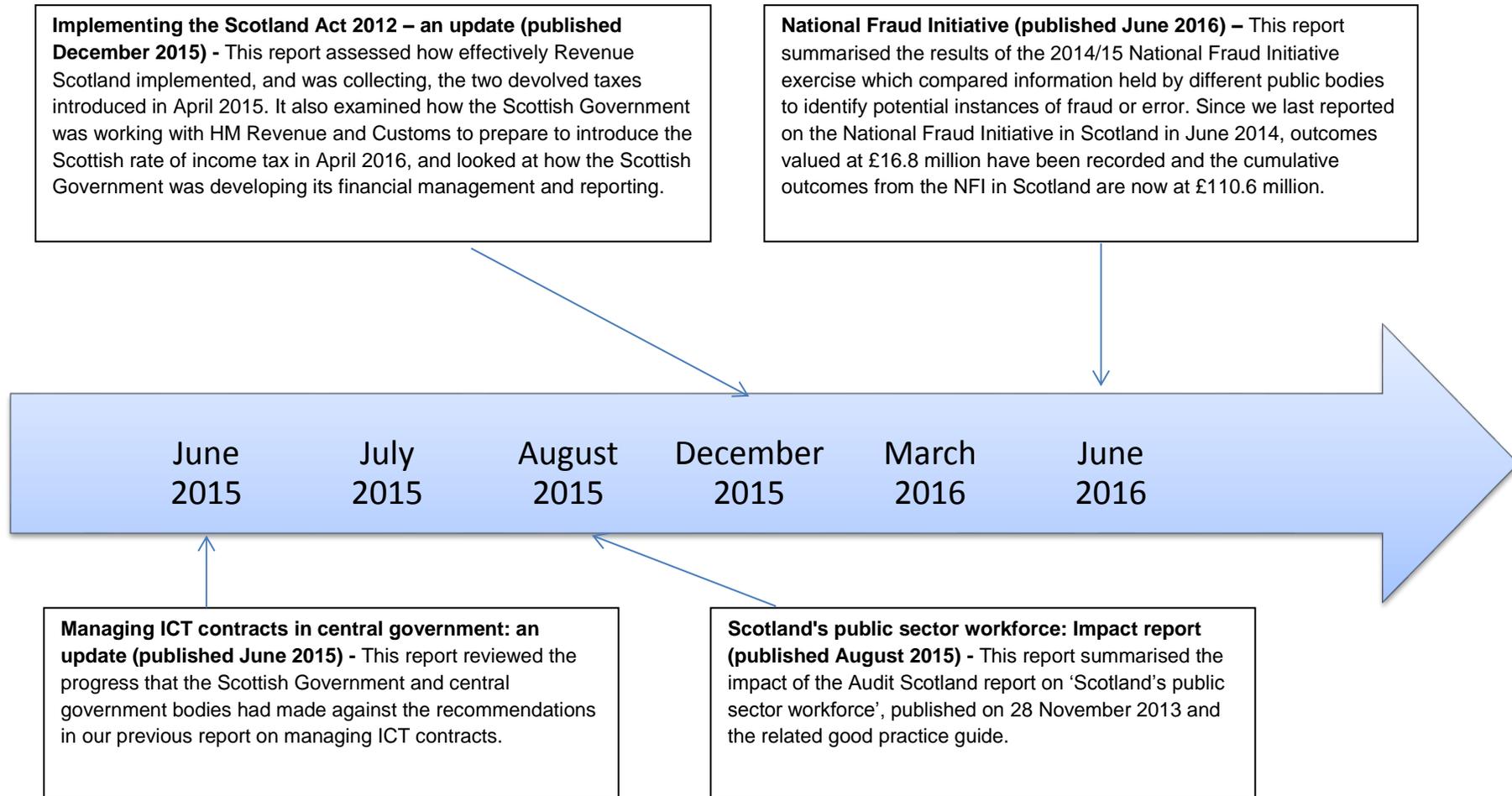
Audit Risk	Assurance procedure	Results and conclusions
		be carried out in October 2016.
Wider dimension issues and risks		
<p>Restructuring of the annual report (Agency corporate risk)</p> <p>The 2015/16 FReM has been extensively re-written and the reporting requirements within the Annual Report and Accounts have changed significantly compared to previous years.</p> <p><i>There is a risk that the annual report may not be in line with the FReM.</i></p>	<ul style="list-style-type: none"> Review annual report against the revised FReM requirements. Review the disclosures to ensure consistency with the financial statements and our knowledge of the Agency. 	<p>The Annual Report and Accounts 2015/16 were reviewed against the new FReM requirements. No areas of non-compliance were identified.</p> <p>The disclosures in the Performance Report and the Accountability Report were reviewed and found to be consistent with the financial statements and our knowledge of SPPA.</p>
<p>Pension Boards (Pension Schemes risk)</p> <p>The Public Service Pensions Act 2013 required new governance arrangements to be established from 1 April 2015 for the pension Schemes, to reinforce the importance of transparency and accountability. The first meetings of the Pension Boards have been held, however arrangements for these boards remain at early stages of development. Further work requires to be done by SPPA to evaluate and strengthen internal controls in this area.</p> <p><i>There is a risk that pension board</i></p>	<ul style="list-style-type: none"> Meetings with SPPA to discuss further developments. Maintain an overview of the progress of governance arrangements, through review of relevant papers and meetings with SPPA staff. 	<p>We reviewed the minutes of Scheme Advisory Board meetings (to date, Pension Board minutes have not been published), the frequency of meetings, and the terms of reference for the Boards. We also discussed Pension Board developments with SPPA staff.</p> <p>We concluded that governance arrangements are bedding in. SPPA and the Board members are taking action to develop these governance arrangements.</p> <p>A review of Pension Boards and Scheme Advisory Boards, led by KPMG, is underway and due to be completed in 2017.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p><i>arrangements may not be in line with the required compliance framework.</i></p>		
<p>Business change and workforce planning (Agency corporate risk)</p> <p>SPPA is developing a new business change programme, focussing on service redesign for the future delivery of digital services. This may well require different skills and resourcing models to deliver. Workforce planning is a key part of assessing and shaping an organisation’s new workforce structure. The Agency does not have an up to date overarching workforce plan in place. Development of a workforce plan, with appropriate succession planning for key posts, should form part of the SPPA’s arrangements to support business change.</p> <p><i>There is a risk that delays in completing the workforce plan will limit the effectiveness of SPPA’s planning for future service delivery.</i></p>	<ul style="list-style-type: none"> Monitoring of the governance and reporting arrangements for the new business change programme through review of committee and board papers and regular engagement with key SPPA staff. Review of the SPPA's response to the recommendations in the 2013 national performance audit report <i>Scotland's Public Sector Workforce</i>. 	<p>We reviewed relevant committee papers and met with SPPA staff to discuss progress.</p> <p>We undertook a review of SPPA’s response to the <i>Scotland’s Public Sector Workforce</i> national performance audit report: see paragraphs 69-73.</p> <p>Workforce planning will be an integral part of the “One SPPA” transformation programme and the introduction of a new approach to workforce planning forms part of SPPA’s nine-point people action plan. However, until these plans are progressed, the Agency has no overarching workforce plan in place.</p>

Appendix II: Summary of local audit reports 2015/16



Appendix III: Summary of Audit Scotland national reports 2015/16



Appendix IV: Action plan

No.	Paragraph ref.	Issue/Risk/Recommendation	Management action/response	Responsible officer / Target date
1.	31	<p>Strategic Planning</p> <p>SPPA has not updated its corporate plan. The most recent plan covered 2012/13-2014/15 and was extended into 2015/16 to allow a new 3 year plan to run alongside available funding, as set out in the UK Comprehensive Spending Review. There is not a current strategic level plan in place to demonstrate how SPPA will deliver its activities and remain within its funding allocation.</p> <p>Risk: SPPA cannot demonstrate how it will deliver its key priorities within available resources over the longer term.</p> <p>Recommendation: SPPA's corporate plan should be updated to set out the key priorities for SPPA and show at a high level how these will be delivered within its funding allocation. The plan should link to other strategic planning elements including longer term financial planning and the new People Strategy.</p>	<p>The Corporate Plan is in the process of being updated to take account of:</p> <ul style="list-style-type: none"> Planned implementation of a new integrated pension administration and payroll system, via Project 2017 The role out of a wider business change programme "One SPPA" including our new People Strategy The budget allocation for 2017/18. 	<p>Chief Executive Officer</p> <p>31 December 2016</p>

No.	Paragraph ref.	Issue/Risk/Recommendation	Management action/response	Responsible officer / Target date
2.	57	<p>Transparency</p> <p>We reported last year, with reference to the “On Board” guidance to board members of public bodies, that as SPPA holds its Board and Committee meetings in private, there was a risk that it was not seen as open and transparent in its decision making.</p> <p>SPPA agreed management actions in the action plan of last year’s Annual Audit Report. In January 2016 the Agency appointed a Business Manager to head up a Secretariat reporting to the Chief Executive. It is planned that the Secretariat will assist, alongside communication colleagues, in developing clear policies and associated processes and establishing required resources, as part of a wider review of the transparency and accountability agenda within SPPA. However, developments in this area have slipped. Board and Committee meetings are still held in private and committee minutes are not published. There is also a significant time lag between Board meetings and the minutes being made publicly available.</p> <p>Risk: SPPA’s decision making may not be seen as open and transparent.</p> <p>Recommendation: SPPA should revisit this area and ensure that it is able to demonstrate openness and transparency in its organisational decision making processes.</p>	Further work is planned via the Agency Secretariat and will be reflected in the SPPA’s Publication Scheme.	Chief Executive Officer 30 September 2017

No.	Paragraph ref.	Issue/Risk/Recommendation	Management action/response	Responsible officer / Target date
3.	65	<p>National Fraud Initiative</p> <p>SPPA actively investigates NFI data matches and NFI has a high profile in the organisation. The Agency agreed last year that further work on data matches relating to deferred members would be carried out, but this work has not taken place.</p> <p>Risk: Potential outcomes relating to deferred members may not be identified and scheme records may therefore be inaccurate or out of date.</p> <p>Recommendation: SPPA should carry out the planned review of data matches for deferred members. The data matches from the 2016/17 NFI exercise will be available in early 2017.</p>	<p>For the first time the NFI exercise provided the Agency with data relating to the deaths of deferred members in the NHS and Teachers' schemes. SPPA has now carried out an examination of that data, allowing it to categorise the records concerned to determine where payments may still be due.</p> <p>Bearing in mind that, in some cases, a great number of years have passed since these members last had contact with the Agency, consideration is now being given to determine the best method to progress matters.</p>	<p>Director of Operations 31 March 2017</p>
4.	73	<p>Workforce planning</p> <p>Workforce planning is a key part of assessing and shaping an organisation's new workforce structure.</p> <p>The Agency's new transformation programme ('One SPPA') is underway and as part of this transformation programme SPPA are planning a service redesign project (Target Operating Model). Workforce planning will be an integral part of this project. However, the Agency currently has no overarching</p>	<p>This is part of the One SPPA programme which features in the draft Corporate Plan. It is also a key aspect of work to establish an appropriate target operating model.</p>	<p>Chief Executive Officer 31 July 2017</p>

No.	Paragraph ref.	Issue/Risk/Recommendation	Management action/response	Responsible officer / Target date
		<p>workforce plan in place and succession planning arrangements are unclear.</p> <p>Risk: Delays in developing a long-term workforce plan will limit the effectiveness of SPPA's planning for future service delivery.</p> <p>Recommendation: Development of a workforce plan, with appropriate succession planning for key posts, should form part of SPPA's strategic planning arrangements.</p>		