

Scottish Teachers' Pension Scheme NHS Pensions Scheme (Scotland)

Report on the 2005-06 Audit

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Executive Summary

Introduction

In 2005-06 we audited the financial statements of the Scottish Teachers' Pension Scheme and the NHS Pension Scheme (Scotland) and reviewed aspects of performance management and governance. This report sets out our key findings.

Financial Statements

We have given an unqualified opinion on the financial statements of both Schemes for 2005-06.

At the planning stage we identified fifteen main audit risks which informed our audit procedures. From our audit work we can conclude that these risks are being satisfactorily managed by Scottish Public Pensions Agency (SPPA).

Governance

In general, SPPA corporate governance and control arrangements operated satisfactorily in the period under review as reflected in the Statements on Internal Control (SIC). The Statement prepared for the Teachers' Scheme reports concerns relating to data deficiencies and a number of problems relating to annual pension increases following the introduction of the new payroll system (Resourcelink). We have also found the work of the internal audit service to be satisfactory and continue to place formal reliance on its work.

Performance Management

During 2005-06 we completed a baseline analysis of SPPA's management arrangements for achieving Best Value. We found that although SPPA's procedures were generally under development, progress in delivering Best Value was being made.

We carried out an overview of SPPA's management arrangements in relation to the requirements of the Scottish Executive's Efficient Government Initiative. SPPA has committed itself to delivering more than £635K in savings from its own running costs over the three year period to 2007-08. Delays in the implementation of the NHS payroll function may impact on the achievement of the planned savings.

I would like to record my thanks to management and staff for their co-operation and assistance.

Bill Convery CPFA, Assistant Director, November 2006



Introduction

Scope of the Audit

1. This report summarises the findings from our 2005-06 audit of the schemes. The scope of the audit was set out in our Audit Risk Analysis and Plan (ARAP), which was submitted to the Audit Committee on 24 March 2006. This plan described the work we planned to carry out on financial statements, governance and performance.
2. This report to management sets out our findings from the review carried out. The weaknesses outlined are only those which have come to our attention during the course of our normal audit work and are not necessarily, therefore, all the weaknesses which may exist. Although we include a number of specific recommendations in this report to strengthen internal control, it is the responsibility of management to determine the extent of the internal control system appropriate to the schemes. We would stress, however, that an effective internal control system is an essential part of the efficient management of any organisation.
3. The contents of this report have been agreed with relevant officers to confirm factual accuracy.
4. This is the final year of a five year audit appointment. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of the SPPA during the course of our appointment. This report will be submitted to the Auditor General for Scotland and will be published on our website at www.audit-scotland.gov.uk.
5. We note that Audit Scotland has been appointed as external auditors of the Schemes for the period 2006/07 to 2010/11. In compliance with International Standards on Auditing and general good practice we will rotate some staff who have worked on this audit for a number of years.

Outcome on Risks Identified in the Audit Risk Analysis and Plan

6. SPPA shares its financial systems and corporate governance arrangements with the Scottish Teachers Pension Scheme (STPS) and the NHS Pension Scheme, Scotland (NHSPS). At the planning stage we identified fifteen main audit risks which informed our audit procedures in respect of the Agency and the two Pension Scheme Resource Accounts.
7. The outcome against planned activity is summarised at Appendix A. We can conclude from the results of our work on these risks that they are being satisfactorily managed by SPPA and do not



indicate areas of material concern. Further issues in relation to the implementation of the NHS Payroll project are noted at Paragraph 28.

Prior Period Follow Up

8. Three issues were identified in our Report on the Audit for 2004-05. We are satisfied that action has now been satisfactorily on two of these issues and comments on the payroll project issue are included in the SIC.

Management Action

9. Audit recommendations, together with management comments, on those areas where further improvements could be achieved are included in the action plan at Appendix B of this report.



Financial Statements

Our Responsibilities

10. We audit the financial statements and give an opinion on whether:

- they give a true and fair view, of the financial position of the Scottish Teachers' Pension Scheme Scotland and the NHS Pension Scheme (Scotland) at 31 March 2006 and the net outgoings and cash flows for the year then ended; and
- in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

11. We also review the Statement on Internal Control by:

- considering compliance with Scottish Executive guidance
- considering the adequacy of the process put in place by the Accountable Officer to obtain assurances on systems of internal control
- assessing whether disclosures in the Statement are not inconsistent with the information emerging from our normal audit work.

Overall Conclusion

12. We have given an unqualified opinion on the financial statements of the schemes for 2005-06. We are able to conclude that the financial statements of the schemes give a true and fair view of the financial position for the period from 1 April 2005 to 31 March 2006 and that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and relevant guidance.

13. Following discussion with the Finance Manager, a date of 31 July 2006 was agreed for the provision of the accounts for audit. Accordingly audit work was scheduled to achieve a certification date that would permit the laying of the accounts before the Scottish Parliament by the end of December. Accounts were duly submitted on the agreed date and the completion timetable achieved.



Financial Performance

14. The Budget Scotland act 2005 prescribes for the financial year 2005-06 both the financial limits on the issue of resources by the Schemes and how these resources can be used. The Schemes operated within the resource limit and used the resources appropriately.

Statement on Internal Control

15. A draft Statement on Internal Control was presented to the Audit Committee on 21 November 2006 and signed by the Chief Executive on 23 November 2006. This set out the arrangements operated for risk identification and review, management of identified risks and assurance of effectiveness.
16. We are satisfied that the Statement complies with Scottish Executive guidance, the process put in place by the Accountable Officer to obtain assurances on systems of internal control is adequate and the contents of the Statement are not inconsistent with the information emerging from our normal audit work.

ISA 260: Communication of Audit Matters to Those Charged with Governance

17. My responsibilities in relation to the communication of audit matters to those charged with governance are covered in International Standard on Auditing 260 and outcomes against the requirements of the Standard were reported in a letter to the Accountable Officer and presented to the Audit Committee on 21 November 2006.
18. The accounts have been prepared in accordance with the Government Financial Reporting Manual (FReM). There are no other significant judgements included in the accounts on which we wish to comment.
19. As part of the audit process we identified a number of accounting adjustments that were required:
 - An adjustment increasing contributions by £22m and current service cost by £26m to reflect additional service arising from Agenda for Change which was recommended by the Actuary (NHS scheme)
 - An adjustment increasing debtors (cash in transit) by £12m to account for a delayed Paymaster General Transfer (NHS scheme)
 - An adjustment increasing debtors (cash in transit) by £4.6m to account for a delayed Paymaster General Transfer and late receipts of £0.9m (Teachers scheme)



20. In addition there were a small number of unadjusted errors which individually and cumulatively are not material to the financial statements.

Issues Arising

21. We would like to draw attention to the following issue arising from our audit of the financial statements:

Agenda for Change

- The accounts presented for audit did not include provision for the additional current service cost arising from the impact of Agenda for Change. The process of identifying and agreeing the appropriate adjustment delayed completion of the audit.(NHS Scheme)

Action Point 1



Governance

Introduction

22. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of an organisation. This section sets out the main findings arising from our review of the scheme's corporate governance as it relates to:
- fraud prevention and detection arrangements
 - systems of internal control
 - review of internal audit.

Overall Conclusion

23. During our audit we reviewed the governance systems operating at SPPA In general, we are content that they are soundly based. No frauds were identified in 2005-06.

Systems of Internal Control

24. We carried out an assessment of the system and controls in relation to Transfers In for both Schemes. We were generally satisfied with the overall processes in place, however we noted that in respect of transfers in to the NHS Scheme, the B1 Northgate check takes place before options taken has been completed by the A3. There is a risk that input errors and/ or fraud is not detected.

Review of Internal Audit

25. SPPA recognises that internal audit is a key element of the internal control system set up by management. A strong internal audit function is necessary to ensure the continuing effectiveness of the internal control system that has been established. To maximise the reliance that external audit can place on internal audit and to avoid duplication of effort, the adequacy of internal audit is assessed each year.
26. Internal audit services are provided by the Scottish Executive Audit Unit (SEAU). Our colleagues responsible for the audit of the Scottish Executive completed a full review of the internal audit function provided by the SEAU, in accordance with International Auditing Standard 610, during 2004-05. This review concluded that the internal audit service operated in accordance with Government Internal Audit Standards in adopting a risk based audit approach in planning and undertaking their work. This audit also identified some areas for improvement. During 2005-06, our colleagues assessed the



SEAU's progress in implementing the agreed action plan resulting from the work done in 2004-05 and the extent to which reliance could be placed on the work of internal audit for 2005-06. This follow up review confirmed that the SEAU continues to comply with Government Internal Audit Standards and identified that the SEAU had made some progress in implementing recommendations from the 2004-05 review. This satisfactory evaluation of the internal audit service allows us to place reliance on a number of aspects of the SEAU's work during 2005-06.

27. On 19 September 2006 the Internal Audit concluded on the basis of work undertaken during the year that they can provide substantial assurance in overall terms in respect of the systems of control.

Issues Arising

28. We would like to draw attention to the following issue arising

Implementation of NHS Payroll Project

- The latest timescale for implementation of the new system is extremely tight and there are risks around recruitment and training of staff and of undertaking sufficient testing.

Action Point 2



Performance Management

Introduction

29. This section covers our assessment of the way in which SPPA secures value for money in the use of its resources. This year we focussed on two main areas:

- Efficient Government
- Best Value.

Efficient Government

30. The Efficient Government initiative is a 5 year programme with the aim of reducing waste, bureaucracy and duplication in Scotland's public sector. The primary objective is to deliver the same services with less money or to enable frontline services to deliver more or better services with the same money. The Efficient Government Plan sets targets to achieve of £745 million (rising to £900 million) of cash-releasing savings and £300 million (rising to £600 million) of time-releasing savings, by 2007-08.
31. SPPA has committed to achieving cash releasing savings of £635k over the three year period from 2005-06 to 2007-08. Savings will be generated from reducing staff numbers for core activities and bringing the NHS payroll function in-house.
32. During 2005-06 Audit Scotland completed a management arrangements diagnostic on Efficient Government activities across a number of Central Government organisations including SPPA. It aimed at providing baseline information on arrangements across a range of Efficient Government related topics.
33. Overall we concluded that, at the time of our audit in March 2006, systems to monitor the expected savings were adequate. However, since this date, the implementation timetable for bringing the NHS payroll function in-house has been delayed until January 2007 which is likely to impact on the savings generated over the three year period.
34. The Auditor General is preparing an interim report on progress made on the implementation of the Efficient Government Agenda for submission to the Audit Committee of the Scottish Parliament.



Best Value

35. There is no statutory duty of Best Value in the wider public sector in Scotland (the Scottish Executive and its Executive Agencies, Executive NDPBs, and the NHS). Instead, the Scottish Executive issued high level guidance in May 2003, followed by more detailed draft secondary guidance in August 2003. This duty can be described as:
- to make arrangements to secure continuous improvement in performance (while maintaining an appropriate balance between quality and cost)
 - to have regard to economy, efficiency and effectiveness, and the equal opportunity requirements
 - to contribute to the achievement of sustainable development.
36. In May 2005, Ministers decided that they would not bring forward legislation which extends Best Value in the wider public sector. However, as Ministers do wish to encourage and embed the principles of Best Value across the wider public sector, revised guidance was issued in May 2006.
37. For 2005-06 Audit Scotland reviewed how well advanced arrangements are in place by public bodies across the central government sector to demonstrate Best Value, and to identify areas of good practice. As part of this review we completed a Best Value analysis to establish baseline information on the management arrangements in place within SPPA. The overall aim of this analysis was to establish the organisation's arrangements for taking forward the Best Value agenda and demonstrating continuous improvement.
38. Overall, we assessed SPPA's arrangements to secure Best Value as being under development but indicating progress. We note that key performance targets are identified in the three year corporate plan. The corporate plan is supported by five annual directorate business plans. We also note that the Agency has established an Environmental Group which includes staff representatives from across the Agency.
39. The results of the national review across the wider public sector are currently being discussed with the Scottish Executive.



National Studies

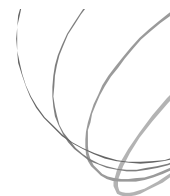
40. Reports published by the Auditor General for Scotland, which may be of interest to the Agency, are summarised at Appendix B.

Public Sector Pension Schemes in Scotland

41. In June 2006, the Central Government team within the Public Reporting Group of Audit Scotland published a report on the six main public sector pension schemes in Scotland. The largest pension scheme examined covers local government. The other five main schemes, including the STPS and the NHSPS, are unfunded. The main messages from this report include:
- the combined funding shortfall and unfunded liabilities of these six pension schemes in Scotland may be as high as £53 billion;
 - greater life expectancy is increasing the value of pension liabilities, as pensions will need to be paid for a longer time; and
 - the value of pension liabilities is also increasing because of accounting changes.

Relocation of Scottish Executive Departments, Agencies and NDPBs

42. The Central Government team within the Performance Audit division of Audit Scotland has recently published on behalf of the Auditor General a study entitled "Relocation of Scottish Executive Departments, agencies and NDPBs". The study analysed the benefits and efficiencies of relocating government departments to new areas of Scotland.
43. Key findings in the report include that:
- there is some limited evidence of efficiency gains from relocation, such as lower staff turnover and reductions in sick leave in specific relocations, but wider benefits have not so far been measured
 - the estimated cost per job for the relocation of individual organisations range between a saving of £33,000 per job and a cost of £45,000 per job
 - the Executive does not have explicit targets for relocation and it has not identified areas of the country expected to benefit from its policy
 - In some cases, new or revised criteria to identify potential sites for relocation were introduced late in the review process.
44. SPPA was one of the organisations surveyed and details were provided in Appendix 3: Case study narratives. The key points made were that :



- The organisation was unable to provide detailed evidence in relation to several aspects of the review, primarily due to the elapsed time since the events
- There have been improvements in staff turnover and sick absence levels



Appendix A: Outcome on Risks Identified in the Audit Risk Analysis and Plan

Risk	Management assurances	Planned audit action	Outcome
<p>1. Data deficiency (and specification) issues could impact on the timeliness and accuracy of full actuarial valuations. NHSPS/ STPS</p>	<p>The scope of the Pension Change Project includes obtaining the support and involvement of key stakeholders to ensure that the new system meets all of the Agency's business requirements.</p> <p>Key tasks for 2005/06 include agreeing revised specification of STPS tables with GAD and providing the data necessary to update NHS and STPS valuations.</p> <p>Commitment to reduce bulk repair backlog to frictional levels (NHSPS — 15,000 member records/ STPS — 5,000 member records) by 31/3/06.</p> <p>An independent data audit is included within the scope of the Pension Change Project.</p>	<p>Follow up - Report on the 2004/05 Audit.</p> <p>Track progress with GAD valuations.</p> <p>Review GAD valuation reports on completion.</p> <p>Review bulk repair monitoring arrangements.</p> <p>Obtain confirmation of completed data audit and implementation of recommendations.</p>	<p>The operations team met with GAD to clarify the specifications/tables required for valuation purposes. A revised specification was agreed with GAD.</p> <p>The Teachers 2005 data and the 2004 NHS data are with GAD and final reports are expected in the latter half of 2007.</p> <p>Bulk repair statistics regularly feature in the Director of Operations paper to the fortnightly Senior Management Team meetings. The Business Plan for the Operations Directorate includes a specific target to "work with ISU to reduce bulk repair facility to frictional levels". Performance against these targets is reported on a quarterly basis to the Executive Management Team and Management Board.</p> <p>Consultants were appointed to carry out the data audit and their report highlights the size of the problem and what could be done to ease migration. It will be used by SPPA to target resources to maximise the impact in the short term.</p>



Risk	Management assurances	Planned audit action	Outcome
<p>2. There is a risk that the Agency fails to introduce the public sector pension reforms and the new IT system doesn't meet the needs of the new schemes. Corporate</p>	<p>Pension Change Project—the Agency has established a dedicated project team to develop and implement the new IT system and related tasks.</p> <p>Continued monitoring of developments relating to public sector pension reforms.</p> <p>Negotiation of extension to Northgate contract for administration of the old schemes and interim solution to the new schemes.</p> <p>Performance monitoring arrangements:</p> <ul style="list-style-type: none"> • Performance target 5—Develop and implement the IT systems necessary to support the reforms to the public sector pension schemes by April 2008; and • Performance target 6—Introduce and manage effectively the reforms to the public sector pension schemes by the specified target dates in 2006. <p>Gateway review.</p> <p>Internal Audit review - Pension Reform (April 2006—Sept 2007).</p>	<p>Continue to monitor developments relating to pension reform through review of minutes and media reports.</p> <p>Review corporate plan performance monitoring arrangements (specifically in relation to targets 5 and 6).</p> <p>Obtain confirmation of Northgate contract extension.</p> <p>Obtain confirmation of completed Gateway reviews and implementation of recommendations.</p> <p>IT audit liaison with Internal Audit and review of Internal Audit report and/ or working papers (2006/07).</p>	<p>A detailed project plan for the Pensions Change Project has been established.</p> <p>An invitation to tender for the new IT system was issued to 5 suppliers and an evaluation of the suppliers' proposals is currently underway. A recommendation on the preferred supplier is expected to be made to the project board on the 24th November.</p> <p>Corporate plan performance (see outcomes at risk 3).</p> <p>The Northgate contract has been extended to 2008 with an option of another 6 months if required.</p> <p>Gateway Reviews 0 (Strategic Assessment), 1 (Business Justification) and 2 (Procurement Strategy) have been completed to date. Gateway Review 2 was given an amber rating. Gateway Review 3 is scheduled to take place in December.</p> <p>IT audit liaison is ongoing with Internal Audit.</p>



Risk	Management assurances	Planned audit action	Outcome
<p>3. There is a risk that current performance management monitoring is not sufficient to provide useful information for management and to ensure deliverability of objectives. For example, formal systems (and associated documentation) to measure performance are not fully developed resulting in a risk that performance is incorrectly measured.</p> <p>Corporate</p>	<p>Ongoing development of performance management systems.</p> <p>Quarterly key performance indicators - corporate plan targets.</p> <p>Monthly performance statistics—key workflow processes.</p> <p>Internal Audit review - Validation of Agency Performance (April 2006 — Sept 2007).</p>	<p>Monitor the action taken to develop and refine performance management processes within the Agency.</p> <p>Review of Internal Audit report and/ or working papers (2006/07).</p>	<p>Performance management/ measurement has continued to evolve during 2005/06.</p> <p>The Agency 2005-08 corporate plan has 2 levels of performance statistics:</p> <ul style="list-style-type: none"> • 9 key performance indicators (KPIs); and • 27 key targets. <p>Performance against the KPIs is reported on a quarterly basis to the Executive Management Team (EMT) and Management Board. The monitoring/ measurement criteria for each KPI are linked with key target completion dates as appropriate.</p> <p>The corporate plan is supported by annual area business plans. Each plan identifies a number of tasks for the business area.</p> <p>The key targets are drawn from the critical items contained in the tasks identified in area business plans. Formal reporting on quarterly progress against these targets has also been introduced.</p>



Risk	Management assurances	Planned audit action	Outcome
<p>4. Risk of non compliance with guidance and financial thresholds applying in relation to the employment of consultants. SPPA</p>	<p>Management have agreed to ensure that all staff involved in arranging future consultancies are familiar with prescribed guidance.</p> <p>Internal Audit review —Direct Running Costs (annual).</p>	<p>Review of Internal Audit report and/ or working papers.</p>	<p>This issue has been raised again by Internal Audit in the current year. We will follow up in 2006-07.</p>
<p>5. The Agency has conflicting priorities arising from reducing staff numbers, increasing business in relation to existing schemes and additional tasks relating to pension reforms. Corporate</p>	<p>Business planning and performance monitoring arrangements.</p> <p>Identification of efficiency savings and income generation opportunities.</p> <p>Review of operational processes to identify opportunities for efficiency improvements. Specific action includes scanning centre review, consideration of procedures for PSOD cases, correspondence monitoring and implementing recommendations of the EDM working group.</p> <p>Ideas on the longer term organisation of the operations directorate to be considered as part of the review of SPPA structure being undertaken in 2006.</p>	<p>Track management assurances.</p>	<p>The scanning review is completed, PSOD procedures are in place and the results of the EDM review have been passed to the IT procurement project. The recommendations on monitoring correspondence will be included in the specification of the replacement system.</p> <p>The review of the SPPA structure is now complete and a presentation of the recommendations has been made. A written report is expected shortly. The transition to the new organisation will be in two stages - April 2007 and April 2009. The main change is that all activities which support operations will be managed by operations and the remaining activities of HR/ Facilities/ Finance and Business Development will be managed separately.</p>



Risk	Management assurances	Planned audit action	Outcome
<p>6. Risk that efficient government delivery and management arrangements are not fully developed. Corporate</p>	<p>Scottish Executive monitoring/ reporting arrangements.</p> <p>Business planning and monitoring arrangements.</p> <p>Performance monitoring arrangements: Performance target 9 —Meet annual requirements for corporate governance and organisational efficiency within prescribed deadlines.</p>	<p>Audit Scotland diagnostic tool.</p>	<p>We have completed an Efficient Government diagnostic. We are content that SPPA are addressing the requirements of the Scottish Executive programme. The findings of the Audit Scotland diagnostic will be reported in due course.</p>
<p>7. Risk that best value delivery and management arrangements are not fully developed. Corporate</p>	<p>The SPPA Finance Team has undertaken a comprehensive review of Best Value by comparing arrangements within the Agency with the requirements of the Scottish Executive Draft Secondary Guidance on the Duty on Accountable Officers to Ensure Arrangements are in Place to Secure Best Value. An action plan, which identifies areas for improvement and the responsible officer and expected completion date for each area, has been developed.</p> <p>Performance monitoring arrangements: Performance target 9 —Meet annual requirements for corporate governance and organisational efficiency within prescribed deadlines.</p>	<p>Audit Scotland diagnostic tool.</p>	<p>We have completed a Best Value diagnostic. We are content that, in general, SPPA are properly developing arrangements to secure Best Value. The Agency has well developed procedures in some areas. The findings from the Audit Scotland diagnostic will be reported in due course.</p>



Risk	Management assurances	Planned audit action	Outcome
<p>8. The contract with Paymaster (1836) Ltd for the provision of NHS payroll services has been delayed until June 2006. There is a risk that appropriate arrangements to transfer this function in-house are not in place prior to the agreed date. NHSPS</p>	<p>The Agency has established a dedicated project team to make the necessary arrangements for the successful transfer of the NHS pension payroll function from Paymaster Ltd to SPPA. The team has prepared a detailed project plan which includes critical dates and key decision dates. A risk log and testing programme have also been developed.</p> <p>Rolling contingency plan to address delays in the transfer timetable.</p> <p>Regular progress reports to the Executive Management Team.</p> <p>Internal Audit review - NHSPS Transfer of Paymaster Function.</p>	<p>Track progress with transfer arrangements.</p> <p>IT audit liaison with Internal Audit and review of Internal Audit report and/ or working papers.</p>	<p>The progress of the Payroll Project has been reported on a regular basis to the Senior Management Team (SMT). The target date for "going live" was the 6 July.</p> <p>At the SMT meeting on the 31st July it was agreed that because of the ongoing problems with the Teachers system that the target date for the full implementation of the NHS payroll would be delayed until January 2007. A SMT meeting was held on the 17th October with the purpose of considering two options for the payroll project. These options were to implement the project or cancel it. The SMT concluded that the project should go ahead but further testing was required. This was carried out that day and the SMT agreed that the next immediate steps were to produce a detailed implementation plan by the 10th November, authorise recruitment of staff and consider the resourcing implications as part of the implementation plan.</p> <p>Payments of new awards by the new system are planned to start on the 17th November with recurrent pensions paid through the new system in January.</p> <p>We note the tight timescale between the implementation plan being</p>



Risk	Management assurances	Planned audit action	Outcome
			<p>produced and the target date for going live in January. We are concerned that this timescale will be extremely tight for recruiting and training staff and carrying out the testing. See paragraph 28 and action plan point 2.</p>
<p>9. Risk of incorrect award payments and/ or service credits arising from lack of high level internal control procedures. STPS/ NHSPS</p>	<p>Internal audit reviews:</p> <ul style="list-style-type: none"> Awards, Payments and Benefit Statements (annual); and Transfers (April 2006 —Sept 2007). 	<p>Review of Internal Audit reports and/ or working papers.</p> <p>System overviews —transfers in and transfers out.</p>	<p>In their report on “Superannuation Awards & Payments 2005/06” Internal Audit could only provide limited assurance on the effectiveness of the operations and controls. This was based on:</p> <ul style="list-style-type: none"> the lack of high-level management controls, particularly management information and independent checking of awards; and issues associated with the implementation of Resourcelink software and project management arrangements for the NHSPS payroll migration. <p>Internal Audit’s subsequent “Report on Internal Audit Activities in 2005/06” presented at the last Audit Committee stated that a number of these controls had been strengthened since the audit.</p>



Risk	Management assurances	Planned audit action	Outcome
			<p>Internal Audit have not yet issued their final report on Transfers. Indications from the work so far is that substantial assurance will be given; transfers were accurately calculated, remittances were received/ disbursed timeously and properly posted to SEAS. Some controls could be improved including the implementation of high-level management review and input of factors into look-up tables.</p> <p>In our Report entitled "Systems Overview -Transfers" we indicated that the overall processes were generally satisfactory. We noted one significant weakness in checking procedures for NHS Transfers In.</p>
<p>10. There is a history of non compliance with the Budget Act — resource outturn in excess of expenditure (excess contributions and/ or excess expenditure). NHSPS/ STPS</p>	<p>Budget monitoring provides some assurance in this area. However, unexpected developments outwith the control of the Agency could result in a breach of Budget Act.</p>	<p>Financial statements audit —regularity tests.</p>	<p>The resource outturn of NHSPS and STPS are within the Budget Act total.</p>
<p>11. Failure to implement annual return reconciliations - payments remitted by employers may not match the contributions recorded on annual returns and input to Northgate. NHSPS/ STPS</p>	<p>Management accept the requirement for an ETB to provide a complete trail from ledger to accounts.</p>	<p>Follow up - Management Letter 2004/05.</p>	<p>We are content that proper ETBs have been produced to support the STSS and NHS Account disclosures for 2005/06.</p>



Risk	Management assurances	Planned audit action	Outcome
<p>12. Failure to implement annual return reconciliations - payments remitted by employers may not match the contributions recorded on annual returns and input to Northgate. NHSPS/ STPS</p>	<p>The Agency is in the process of developing an appropriate reconciliation system.</p>	<p>Follow up - Management Letter 2004/05.</p>	<p>Little progress has been made.</p> <p>For NHS:</p> <ul style="list-style-type: none"> • Work on the process for GPs has started. The Circular has been re-drafted to give clearer instructions to GPs and summary annual returns from around 80% GP practices were received however follow up of discrepancies was not actioned; • the software to access Northgate data has not been developed; and • Work has not started on MHAs. <p>Work has not started on the Teachers Scheme.</p> <p>This requirement has been included in the Pension Change Project specification.</p>



Risk	Management assurances	Planned audit action	Outcome
13. Failure to monitor contribution ratios—impact on completeness, accuracy and validity of contributions received from employers. NHSPS/ STPS	Management have agreed to review procedures and take action as necessary.	Follow up - Management Letter 2004/05.	We are content that SPPA are making progress in implementing procedures. For 2005/06 they have revised the tolerance levels; issued standard letters as the first stage of investigation; followed up some cases further and resolved outstanding queries or made corrections as appropriate. SPPA could not, however, demonstrate to us that all cases breaching tolerance levels had been followed up and resolved.
14. The system for identifying year end creditors is not operating effectively resulting in a risk that the disclosed figure is understated. STPS .	Finance will liaise with Operations staff to ensure a suitable checking regime is in place for 2005/06 creditor balances.	Follow up - Report on the 2004/05 Audit.	Our audit indicated that the process for identifying creditors from BACS system payments in the subsequent year had worked effectively. However, we found that manual payments through CHAPS and BACS had been omitted from the creditors schedule in two instances. This omission resulted in a £170,289 understatement of creditors. We have reported this as an unadjusted error.
15. Risk of pension payments to deceased pensioners. STPS/ NHSPS	Participation in bi-annual National Fraud Initiative (NFI). New procedures introduced to the STPS to recover overpayments directly from bank accounts - consistent with NHSPS.	Monitoring of compliance with NFI requirements.	The 2004/05 NFI Report identified overpayments & forward savings of £4.2m in NHSPS and £1.1m in STPS in the financial year. The next NFI will take place in 2006-07 and we will continue to follow up the findings.



Appendix B: Action Plan: Recommendations for Further Improvements

Action Point	Para. No	Issue, Risk and Audit Recommendation	Importance	Management Response	Responsible Officer	Target Date
1	21	<p>Agenda for Change</p> <p>The accounts presented for audit did not include provision for the additional current service cost arising from the impact of Agenda for Change. The process of identifying and agreeing the appropriate adjustment delayed completion of the audit. (NHS Scheme)</p> <p><i>We recommend that a detailed review is carried out of the Actuarial Valuations to ensure that the accounts reflect all potential charges.</i></p>	High	Accepted. Through discussions with our Actuaries and NHS colleagues, we have taken steps to ensure there is no re-occurrence in 2006-07, of the particular problem and we will undertake a thorough review of the Actuarial report. The Agency feel it important, however, to note that it acted quickly to amend data once it was informed of the mistake.	Finance Manager	July 2007
2	28	<p>NHS Payroll Project</p> <p>The latest timescale for implementation of the new system is extremely tight and there are risks around recruitment and training of staff and of undertaking sufficient testing.</p> <p><i>We recommend that the date for going live is kept under review and appropriate action is taken if there are any risks to the control environment for pension payments.</i></p>	High	Accepted. There is a comprehensive plan to support the project (including a thorough testing programme) and the Project Manager discusses progress at each senior management meeting. In addition, we have added parallel running for a month to give some breathing place. There is a contingency plan in place to continue with current provider until we are satisfied the system is ready to go live.	Chief Executive (Senior Responsible Officer)	February 2007

Appendix C: Auditor General for Scotland published reports

Auditor General for Scotland

Relocation of Scottish Executive departments, agencies and NDPBs (published 21/9/2006)

1,653 posts have been transferred from Edinburgh and a further 1,164 posts have been created outside the city. Audit Scotland found that most of the reviews arose from the creation or restructuring of organisations, or from breaks in property leases. Only two of 38 reviews were the result of potential efficiency improvements identified by the organisations in their business plans. In most cases, it was not clear whether relocation would deliver wider policy objectives.

Accounts Commission and Auditor General for Scotland

Public sector pension schemes in Scotland (published 20/06/2006)

The six main public sector pension schemes in Scotland will provide retirement benefits to about 950,000 people. Nearly one in five people living in Scotland has some entitlement to a public sector pension.

Accounts Commission and Auditor General for Scotland

No hiding place: the National Fraud Initiative in Scotland (published 17/05/2006)

Scotland's councils have worked with other public bodies to identify £15m worth of fraud and errors in a national detection exercise.

Auditor General for Scotland

Leadership development. How Government Works (published 17/11/2005)

Scotland's public sector has good examples of investment in leadership but many individual organisations do not have clear policies and most are unable to link the spending to improvements in their performance. Public bodies need to do more to track the £5m they invest each year in leadership development and make sure it results in better managed organisations and better public services, says Audit Scotland.

Auditor General for Scotland

Scottish Executive: supporting new initiatives. How Government Works (published 10/11/2005)

Last year the Scottish Executive launched new initiatives amounting to £1.4 billion. The management of these projects is generally sound, but making changes could help to improve control of the funding and allow better assessment of whether the money is helping to achieve policy aims.

*Scottish Teachers' Pension Scheme
NHSPension Scheme (Scotland)
Report on the 2005-06 Audit*

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