

Scottish Public Pensions Agency

2017/18 Annual Audit Report



 AUDIT SCOTLAND

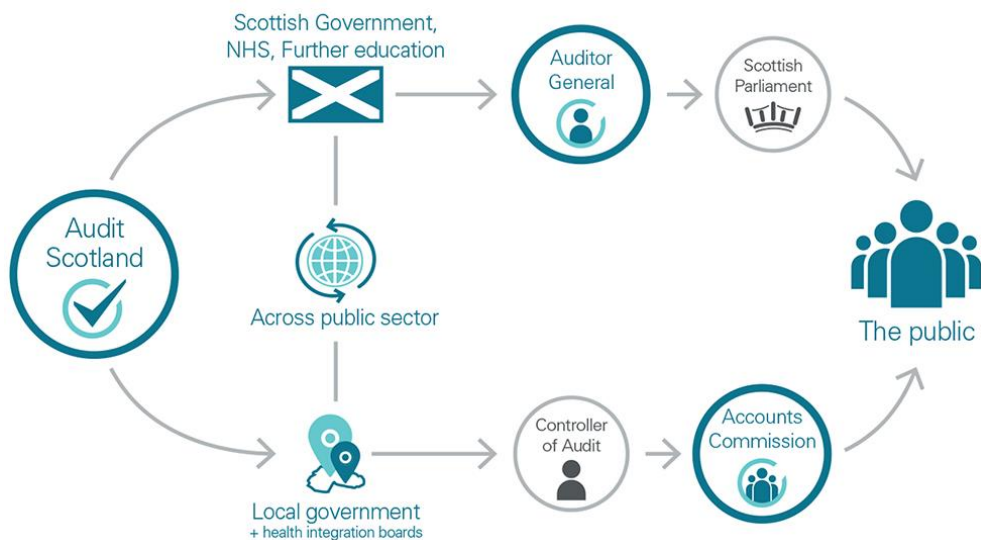
Prepared for the Scottish Public Pensions Agency and the Auditor General for Scotland

October 2018

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Key messages

2017/18 annual report and accounts

- 1 In our opinion the financial statements of the Scottish Public Pensions Agency (SPPA) give a true and fair view of its financial position and its net expenditure and income for the year.
- 2 The expenditure and income in the financial statements were in accordance with applicable enactments and guidance.
- 3 The audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the accounts direction.

Financial management

- 4 SPPA effectively managed its finances in 2017/18 with an underspend of £2.3 million against its budget of £20.4 million.
- 5 Systems of internal control operated effectively in 2017/18.

Financial sustainability

- 6 SPPA is forecasting budget gaps within the next five-year period. SPPA had planned to achieve savings through the implementation of a new and more efficient business model. Due to the closure of the PS Pensions Project, to develop an integrated pension administration and payment system, planned savings are no longer achievable.
- 7 SPPA should work to complete its strategic plan and longer term financial strategy.

Governance and transparency

- 8 SPPA has adequate governance arrangements in place that support scrutiny of decisions made by the Board.
- 9 There is scope for SPPA to enhance openness and transparency by making Board and Audit and Risk Committee papers publicly available where appropriate.

Value for money

- 10 SPPA closed its PS Pensions Project in February 2018. SPPA spent £6.3 million developing the new system. This includes the costs of extending contracts with suppliers of its current pensions systems. It has written off £1.6 million in capitalised intangible assets due to the closure of the project. SPPA and the contractor are now in a legal process to determine if either party was responsible for the unsuccessful implementation of this project.

Introduction

1. This report summarises the findings from our 2017/18 audit of the Scottish Public Pensions Agency (SPPA).

2. The scope of our audit was set out in our Annual Audit Plan presented to the 22 January 2018 meeting of the Audit and Risk Committee (ARC). This report comprises the findings from:

- an audit of SPPA's annual report and accounts
- consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1

Audit dimensions



Source: *Code of Audit Practice 2016*

3. The main elements of our audit work in 2017/18 have been:

- a review SPPA's main financial systems resulting in a management letter being presented to the ARC on 30 April 2018.
- an audit of SPPA's 2017/18 annual report and accounts including the issue of an independent auditor's report setting out our opinions
- consideration of the four audit dimensions.

4. SPPA has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual report and accounts that are in

accordance with the accounts direction from the Scottish Ministers. The SPPA annual report and accounts includes the following:

- Performance Report
- Accountability Report (which includes the Corporate Governance Report, Remuneration and Staff Report, and Parliamentary and Accountability Report)
- Financial statements and supporting notes.

5. SPPA is also responsible for establishing effective arrangements for governance, propriety and regularity that enable the board to successfully deliver its objectives.

6. Our responsibilities as independent auditors are outlined in the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#) and supplementary guidance, and International Standards on Auditing in the UK.

7. As public sector auditors we give independent opinions on the annual report and accounts. We also review and provide conclusions on the effectiveness of the performance management arrangements, suitability and effectiveness of corporate governance arrangements, and financial position and arrangements for securing financial sustainability. In doing this we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

8. This report raises matters from the audit of the annual report and accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to our attention during our normal audit work, and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

9. Our annual audit report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and the steps being taken to implement them.

10. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2017/18 audit fee of £24,480 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

11. Our aim is to add value to SPPA by increasing insight into, and offering foresight on, financial sustainability, risk and performance, by identifying areas of improvement and by recommending and encouraging good practice. In so doing, we aim to help promote improved standards of governance, better management and decision making and more effective use of resources.

12. This report is addressed to both SPPA and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

13. We would like to thank all management and staff who have been involved in our work for their cooperation and assistance during the audit.

Part 1

Audit of 2017/18 annual report and accounts



Main judgements

In our opinion the financial statements of the Scottish Public Pensions Agency give a true and fair view of its financial position and its net expenditure and income for the year.

The expenditure and income in the financial statements were in accordance with applicable enactments and guidance.

The audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the accounts direction.

Audit opinions on the annual report and accounts

14. The annual report and accounts for the year ended 31 March 2018 were approved by the Audit and Risk Committee (ARC) on 23 July 2018. We reported within our independent auditor's report that in our opinion:

- the financial statements give a true and fair view and were properly prepared
- expenditure and income were regular and in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the accounts direction.

15. Additionally, we have nothing to report in respect of misstatements in information other than the financial statements, the adequacy of accounting records and the information and explanations we received.

Submission of annual report and accounts for audit

16. We received the unaudited financial statements on 4 June 2018 in line with our agreed audit timetable.

17. The working papers provided with the unaudited financial statements were of a good standard and finance staff provided support to the audit team which helped ensure the final accounts audit process ran smoothly.

Risk of material misstatement

18. [Appendix 2](#) provides a description of those assessed risks of material misstatement that were identified during the planning process. These risks had the greatest effect on the overall audit strategy, the allocation of staff resources to the

The annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

audit and directing the efforts of the audit team. Also included within the appendix are wider audit dimension risks, how we addressed these and conclusions.

Materiality

19. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement. It is affected by our perception of the financial information needs of users of the financial statements.

20. Our initial assessment of materiality for the annual report and accounts was carried out during the planning phase of the audit. Specifically, regarding the annual report and accounts we assess the materiality of uncorrected misstatements, both individually and collectively.

21. On receipt of the annual report and accounts we reviewed our materiality calculations and concluded that they remained appropriate. These are summarised in [Exhibit 2](#).

Exhibit 2

Materiality values

Materiality level	Amount
Overall materiality	£0.183 million
Performance materiality	£0.137 million
Reporting threshold	£10,000

Source: Audit Scotland

How we evaluate misstatements

22. There were no material adjustments to the unaudited financial statements arising from our audit. All individual misstatements which exceeded our reporting threshold have been amended in the audited financial statements.

Significant findings from the audit in accordance with ISA 260

23. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance. In our view there are no significant findings arising from the audit.

Follow up of prior year recommendations

24. We have followed up actions agreed in 2016/17 to assess progress with implementation. We have reported progress of these prior year actions in [Appendix 1](#). They are identified by the prefix b/f (brought forward).

25. Five agreed actions were raised in 2016/17. Of these:

- Two have been fully implemented
- Two are not actioned or have been partly actioned
- One is no longer relevant.

26. Overall SPPA has made reasonable progress in implementing these actions. For actions not yet implemented, revised responses and timescales have been agreed with management, as set out in [Appendix 1](#).

Part 2

Financial management



Main judgements

SPPA effectively managed its finances in 2017/18 with an underspend of £2.3 million against its budget of £20.4 million.

Systems of internal control operated effectively in 2017/18.

Financial performance in 2017/18

27. The main financial objective for SPPA is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers. SPPA has reported an outturn of £18.1 million against its overall budget for 2017/18 of £20.4 million, which is an underspend of £2.3 million.

28. SPPA's performance against Departmental Expenditure Limits (DEL) is shown in [Exhibit 3](#).

Exhibit 3

Performance against DEL in 2017/18

Performance	Initial budget £m	Final budget £m	Actual outturn £m	Overspend/ (underspend) £m
Resource DEL	16.3	18.4	17.5	(0.9)
Capital DEL	2.0	2.0	0.6	(1.4)
Total DEL	18.3	20.4	18.1	(2.3)

Source: Scotland's Budget: Draft Budget 2017/18 (issued 15 Dec 2017), Spring Budget Revision 2017/18 (issued 8 Feb 2018)

29. The resource DEL underspend is due to SPPA retaining central funding for its PS Pensions Project in anticipation that implementation of the project would have progressed in 2017/18. The project was closed in February 2018.

30. The capital DEL underspend results from a write-off of assets previously capitalised in relation to the PS Pensions Project totalling £1.6 million. The underspend was offset by a gain on the revaluation of the SPPA offices of £0.3 million.

31. The increase in resource DEL budget was due to movements between directorates to support the administration of the Fire-fighters pension scheme, and to provide actuarial services to the NHS, Teachers, Police and Fire-fighters pension schemes.

Budgetary processes

32. We reviewed SPPA's budgetary processes and budget monitoring arrangements. From our review of budget monitoring reports, review of committee papers and attendance at committees we confirmed that senior management and members receive regular, timely and up to date financial information on the financial position.

33. We concluded that SPPA has strong budgetary monitoring and control arrangements that allow members and officers to carry out effective scrutiny of its finances.

Systems of internal control

34. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that SPPA has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

35. Our findings were included in a management letter presented to the ARC on 30 April 2018. We concluded that the controls tested were operating effectively. We did not identify any significant internal control weaknesses which could affect SPPA's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

Financial capacity

36. We consider that SPPA has suitably qualified and experienced officials leading the finance team, and there are sufficient financial skills, capacity and capability within the team.

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Part 3

Financial sustainability



Main judgements

SPPA is forecasting budget gaps within the next five-year period. SPPA had planned to achieve savings through the implementation of a new and more efficient business model. Due to the closure of the PS Pensions Project, to develop an integrated pension administration and payment system, planned savings are no longer achievable.

SPPA should work to complete its strategic plan and longer term financial strategy.

Financial planning

37. SPPA published its 2018/19 draft budget in February 2018 with a resource allocation of £17.1 million and a capital allocation of £2.4 million, giving a total budget of £19.5 million. This is £1.2 million (7%) more than the initial 2017/18 budget allocation. The increase is mainly due to SPPA receiving additional funding to continue its reconciliation exercise for Guaranteed Minimum Pensions. SPPA has completed a five-year budget forecast, covering 2018/19 to 2022/23, as shown in [Exhibit 4](#).

Exhibit 4

Five-year budget forecast

Funding	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Capital Surplus/(Shortfall)	(2.7)	(1.4)	(2.8)	(3.4)	(3.3)
Revenue Surplus/(Shortfall)	0	(0.3)	(2.9)	(2.9)	(3.7)
Non-Cash Surplus/(Shortfall)	0.2	(0.1)	(2.6)	(2.8)	(2.9)

Source: Draft Altair Business Case, SPPA Extraordinary Audit and Risk Committee, 21 May 2018

38. SPPA has identified significant budget gaps due mainly to the closure of its PS Pensions Project. The closure of the project means planned annual efficiency savings, through implementation of a new and more efficient business model, are not achievable. The capital budget shortfalls identified reflect the £18.4 million investment required to deliver the replacement project.

39. SPPA briefed Scottish Ministers on the funding shortfall before signing a contract extension with its existing pension software supplier. The Cabinet Secretary for Finance, Economy and Fair Work authorised SPPA's Chief Executive to make the legal commitment. Central budgets for 2018/19 and beyond will be set, therefore, taking account of the budget pressures outlined in SPPA's ministerial submission.

2017/18 financial position

40. The Statement of Financial Position summarises what is owned and owed by SPPA. This shows taxpayers' equity – an accounting measurement of the amount invested that has continuing public benefit. It shows how much of this has arisen from the application of revenues and that which has resulted through changes over time in the value of physical assets.

41. The financial statements show that SPPA had net assets of £17.3 million at 31 March 2018, an increase of £1.6 million from the 2016/17 position. The increase in net assets resulted from an increase in other receivables of £2.8 million due to the timing of payment of lump sums for Police and Fire pensions. This increase was offset by the write-off of assets previously capitalised in relation to the PS Pensions Project.

42. SPPA had net operating costs of £18.1 million in 2017/18, an increase of £0.4 million from the 2016/17 position. The main reasons for the increase in SPPA's expenditure were:

- an increase in staff costs of £0.7 million due to pay scale progression, the annual pay increase and staff costs relating to the PS Pensions Project not being capitalised
- an increase in other administration costs of £1.4 million due mainly to the cost of actuarial services for work on the 2016 pension scheme valuations
- £1.6 million cost of writing off PS Pensions assets.

These increases were offset by a £3.4 million reduction in depreciation.

Medium to long term financial planning

43. We reviewed the financial planning systems and assessed how effective they are in identifying and addressing risks to financial sustainability across the medium and long term.

44. We recognise that SPPA is mainly funded from Scottish Government budget allocation (99% of income) and this is determined on an annual basis by the Scottish Government. SPPA prepares rolling five-year forecasts for its revenue and capital budgets under different scenarios one of which modelled the impact of the closure of the PS Pensions Project on its financial position. SPPA is in the process of linking its five-year financial forecast to its five-year rolling Strategic Plan.

45. SPPA's three-year corporate plan was due to be presented to the Management Advisory Board (MAB) by the end of 2017. SPPA decided to extend the time frame of the plan from three to five years, which resulted additional work to complete the final plan. The corporate plan, which SPPA now refer to as its five-year rolling strategic plan, is due to be presented to the July 2018 meeting of the MAB. This will include a medium term financial strategy.

46. SPPA has developed a people strategy which aligns closely with the Scottish Government's 2020 workforce plan. SPPA's strategy has five key themes covering areas including supporting and influencing leaders, organisational change, and customer engagement. Staff costs represent the majority of SPPA's expenditure meaning it is important SPPA's financial plans are closely linked to its people strategy.

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.



Recommendation 1

SPPA should work to complete its five-year strategic plan setting out its strategic objectives and how these will be delivered within funding allocations. This should include a longer term financial strategy with clear links to its people strategy.

Ending of public sector pay cap

47. The end of the public sector pay cap will make it more challenging for SPPA to operate within its allocated budget. SPPA took account of the implications of the end of the public sector pay gap in preparing its budget for 2018/19.

EU withdrawal

48. There remains significant uncertainty about the detailed implications of EU withdrawal (i.e. Brexit). It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce – the extent to which changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.
- Funding – the extent to which potential changes to funding flows are likely to affect the finances of the organisation and the activity that such funding supports.
- Regulation – the extent to which potential changes to regulation across a broad range of areas overseen at an EU level are likely to affect the activities of the organisation.

49. SPPA has assessed the implications of EU withdrawal on its operations. It has concluded, after a review, that potential changes to regulation are unlikely and would have little direct impact on SPPA and the pension schemes it administers. SPPA receives no EU funding and most of its workforce are residents of the local area.

Part 4

Governance and transparency



Main judgements

SPPA has adequate governance arrangements in place that support scrutiny of decisions made by the Board.

There is scope for SPPA to enhance openness and transparency by making Board and Audit and Risk Committee papers publicly available where appropriate.

Governance arrangements

50. The governance arrangements for SPPA are set out within its framework document which was refreshed in November 2017.

51. The corporate governance framework within SPPA is centred around the Management Advisory Board (MAB). The MAB is the main forum for discussing strategic priorities and ensuring effective governance. The MAB's responsibility is to support the Accountable Officer. It does not have a formal decision making or scrutiny role. It is supported by the Audit and Risk Committee (ARC) which is a non-executive committee of the board. The ARC's responsibilities include reviewing risk management, internal and external audit, audit outputs and monitoring budgets, as well as discussing key business decisions.

52. We completed a review of the governance arrangements within SPPA and our key findings are:

- Board members are generally provided with sufficient, detailed information to support them in their role. SPPA has held extraordinary ARC's to provide members with additional information on key business decisions.
- The chair and other Board members understand their roles and responsibilities. The Terms of reference for the MAB have been updated to reflect that the chair of the MAB should review the performance of Board members. This is outstanding for 2017/18, however discussions are underway to align with Scottish Government guidance.
- Registers of interest are completed by all non-executive directors on an annual basis.
- An interim Head of Governance has been appointed for SPPA and has been tasked with improving its governance arrangements. This includes the governance arrangement for the Scheme Boards. There are still improvements to be made to improve transparency and ensure that the role of the MAB is clear. SPPA is making progress in making these improvements.
- Board members are given appropriate training to help them fulfil their responsibilities. This includes a financial workshop which the newly

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.

appointed non-executive directors have attended and which is being rolled out to all Board members.

- The MAB undertook a self-assessment in July 2017. It made recommendations for improvements to areas including performance reporting, secretariat support and the quality of Board papers.

53. We have concluded that SPPA has adequate governance, decision making and scrutiny arrangements in place and is taking steps to further strengthen its governance arrangements.

Transparency

54. Transparency means that the public have access to understandable, relevant and timely information about how SPPA is taking decisions and how it is using resources such as money, people and assets.

55. The minutes from the MAB are published on the SPPA website, however MAB papers and ARC agendas, papers and minutes are not published.

56. As we have reported previously, SPPA may wish to consider whether there are opportunities for it to further enhance transparency. This includes making MAB and ARC papers publicly available where appropriate.

Risk management

57. SPPA has a Risk Governance Group (RGG) in place to ensure that its risk environment is reviewed regularly and key risks are recorded in its risk register. The quarterly minutes of the RGG are presented to the ARC for consideration.

58. We reviewed the corporate risk register and concluded that it covers the key elements required to manage each risk including:

- risk owner
- impact and likelihood
- risk rating
- risk target
- actions to mitigate and manage the risk.

59. The risk register is a standing item on the ARC agenda. The risk register is reviewed at each meeting with the risks being considered and the rating of each risk being re-assessed based on any new information. This ensures that the risk register is updated on an ongoing basis and SPPA is aware of any newly emerging risks.

60. We have concluded that SPPA's risk management processes are operating effectively.

Internal audit

61. SPPA's internal audit function is carried out by the Scottish Government's Internal Audit Directorate. Each year we consider whether we can rely on internal audit work to avoid duplication of effort. When we plan to place reliance on internal audit work we carry out an assessment of the internal audit function to ensure that it is sufficient in terms of documentation standards, reporting procedures, quality, and is performed in accordance with Public Sector Internal Audit Standards (PSIAS). Audit Scotland has completed a review of the Scottish Government's Internal Audit Directorate.

62. The review concluded that internal audit meets some PSIAS, but also does not comply with significant aspects of the standards. Improvements are required to meet both PSIAS and the Scottish Government's own Internal Audit Manual (IAM).

63. The review found no areas where the underlying evidence would suggest an incorrect audit opinion or conclusion. However, the review identified non-compliance with PSIAS and the IAM in:

- audit planning
- audit documentation
- clearing audit findings and reports
- management review.

64. Non-compliance with PSIAS and the IAM compromises audit quality and may affect the credibility of audit work undertaken and the reputation of internal audit in providing audit services to the Scottish Government and associated public bodies.

65. We reviewed SPPA's internal audit arrangements in accordance International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent we could rely on the work of internal audit. There are no areas in which we will be placing formal reliance on the work of internal audit for SPPA however we have considered other internal audit report findings and work as part of our wider dimension audit work.

Governance Statement

66. HM Treasury's Financial Reporting Manual (the FReM) states that SPPA must prepare an annual governance statement within the annual report and accounts. Guidance is set out within the Scottish Public Finance Manual (SPFM) for the content of the governance statement and provides assurances around the achievement of the organisation's strategic objectives.

67. The SPFM does not prescribe a format for the annual governance statement but sets out minimum requirements for central government bodies. The process undertaken by management included conducting an assurance mapping exercise and working to an assurance plan that assessed the evidence underpinning the preparation of the governance statement.

68. We concluded that the 2017/18 governance statement complies with the guidance issued by the Scottish Ministers and, based on our knowledge and work performed, presents a comprehensive picture of governance arrangements and matters.

Cyber security

69. The Scottish Government issued a Public Sector Action Plan on Cyber Resilience in November 2017. This requires all public sector bodies to carry out a review to ensure their cyber security arrangements are appropriate.

70. SPPA is strengthening its cyber resilience arrangements. SPPA completed its Cyber Essentials pre-assessment by the required date of the end of March 2018 and is on track to achieve full compliance with the Cyber Essentials Plus accreditation by the end of October 2018.

General Data Protection Regulation

71. The new General Data Protection Regulation (GDPR) came into force on 25 May 2018. This replaced the UK Data Protection Act 1998. As a regulation, all EU member states must implement it in the same way. GDPR sets out more requirements than the DPA and has introduced new and significantly changed data protection concepts.

72. GDPR introduces a wide range of new rights for individuals in respect of their personal data. These include the right to be forgotten, the right to object to certain processing activities and to decisions taken by automated processes. Failure to comply with new GDPR data handling arrangements could result in SPPA incurring significant fines.

73. Internal audit has assessed the readiness of several public-sector bodies for the new GDPR arrangements. The report was presented to the ARC in April 2018. Internal audit concluded that SPPA was best prepared, of the six bodies assessed, for GDPR. SPPA received an overall green rating which gives a high level of assurance over the arrangements in place.

74. There has been a recent data breach within SPPA. Confidential member information was sent to other scheme members in error. This is an issue which SPPA have classed as human error and not serious enough to require a mandatory referral to the UK Information Commissioner's Office, however it has voluntarily referred itself. This incident highlights that further work is required to improve data security.

Part 5

Value for money



Main judgements

SPPA closed its PS Pensions Project in February 2018. SPPA spent £6.3 million developing the new system. This includes the costs of extending contracts with suppliers of its current pensions systems. It has written off £1.6 million in capitalised intangible assets due to the closure of the project. SPPA and the contractor are now in a legal process to determine if either party was responsible for the unsuccessful implementation of this project.

Performance management

75. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. 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, in conjunction with SPPA agree to undertake local work in this area.

76. The performance of SPPA is monitored by the Management Advisory Board (MAB) against several performance targets which are set out in the SPPA's Business Plan which is revised annually. The performance reports provided are in a "dashboard" form to monitor progress against the performance targets.

Value for money is concerned with using resources effectively and continually improving services.

PS Pensions Project

77. SPPA introduced its Business Transformation Programme 2013-2018 in December 2013. This included a project to develop an integrated pension administration and payment system designed to make efficiencies and help meet the additional requirements of the Public Sector Pensions Act 2013, which introduced career average revalued earnings (CARE) pension schemes and new governance arrangements for public pension schemes.

78. The Scottish Government procurement directorate advised SPPA to undertake a procurement exercise for the new system, which was planned to be operational by March 2017.

79. In October 2015, SPPA awarded a £5.6 million contract to Capita Employee Solutions (Capita) to deliver a bespoke unified pensions administration and payment system for the pension schemes, known as 'Project 17' but subsequently renamed 'PS Pensions'. The aims of the project included; replacing existing systems to improve business efficiency, to improve service quality for members, and to make financial savings in the longer term.

80. Following extra-ordinary ARC and MAB meetings in February 2018, the Chief Executive decided to close the project immediately. The Chief Executive advised the ARC and the MAB that the Cabinet Secretary was content with this decision.

81. The ARC and the MAB were advised that SPPA has spent approximately £6.3 million on the project. This includes payments to Capita, staff costs, hardware and the costs of extending contracts with suppliers of its current pensions systems. SPPA has written off £1.6 million in capitalised assets that will no longer be used, representing all software and hardware associated with the project.

82. The closure of the PS Pensions Project means that SPPA has not been able to progress its strategic, business and workforce plans as originally intended. SPPA has also not been able to implement its digital strategy. Implementation of its Target Operating Model (TOM) to deliver future services more efficiently has been delayed. However, SPPA is using work currently underway on the TOM to prepare for delivering the new services it will provide. This includes identifying the range of skills its workforce needs and how its resources are optimally organised.

83. SPPA's finance department is the first part of the business to begin implementing the TOM approach. The finance department are delivering services such as procurement, payroll, business planning and risk based on a new departmental structure. In the first quarter of 2018/19 it produced new job descriptions to ensure it has sufficient skills, competences and capability going forward. Later this year, the department plans to use grading of posts, a skills audit and a workforce plan to inform the resources required to complete the TOM approach.



Recommendation 2

SPPA should work to complete and implement its Target Operating Model, workforce plan and digital strategy.

84. A business case was presented to meetings of the ARC and MAB in April and May 2018 to outline the options available for a new integrated pensions project. SPPA's preferred solution was to agree a contract variation with its existing pension administration software supplier to deliver an improvement programme and to further extend the contract. SPPA entered into a maintenance and development agreement with the supplier on 6 July 2018. This agreement will run to March 2024.

85. Together with their legal advisors, SPPA and Capita are now in discussions to establish if either party bears any responsibility for the unsuccessful implementation of the PS Pensions project. We will make judgements on the reasons behind the closure of the project once any legal process has concluded.

National performance audit reports

86. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2017/18 several reports were published which are of direct interest to the SPPA. These are outlined in [Appendix 3](#).

87. SPPA's ARC periodically considers relevant Audit Scotland reports.

Appendix 1

Action plan 2017/18

2017/18 recommendations for improvement



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Strategic plan and financial strategy</p> <p>SPPA's three-year corporate plan was due to be presented to the Management Advisory Board (MAB) by the end of 2017. SPPA decided to extend the time frame of the plan from three to five years, which resulted additional work to complete the final plan. The corporate plan, which SPPA now refer to as its five-year rolling strategic plan, is due to be presented to the July 2018 meeting of the MAB. This will include a medium term financial strategy.</p> <p>Risk</p> <p>SPPA cannot demonstrate how it will meet its strategic objectives and how it will manage its finances in the medium to long term.</p>	<p>SPPA should work to complete its five-year strategic plan setting out its strategic objectives and how these will be delivered within funding allocations. This should include a longer term financial strategy with clear links to its people strategy.</p> <p>Paragraph 46</p>	<p>A five-year strategic plan setting out the Agency's strategic objectives and supported by 5-year rolling budgeting and forecasting will be presented to MAB in July 2018. The Agency is budget constrained and has sought additional resource and capital funding from Scottish Ministers to meet the increased costs associated with the extension of the contract with the existing pension software supplier to 2023. Based on the Business Case approved by MAB in May 2018 a decision will be taken in 2020 on its procurement options. At this point the Agency will have put into place a new Target Operating Model and have the output from a demand-led workload model available underpinned by a costed workforce plan. In the meantime, business cases will be prepared to prioritise the use of the Agency's resources and projects taken forward which facilitate the achievement of the Agency's strategic objectives.</p> <p>Responsible Officer: Head of Governance/CEO</p> <p>Timeline: 31 March 2019</p>
2	<p>Target Operating Model, workforce plan and digital strategy</p> <p>SPPA has not be able to progress its strategic, business and workforce plans as originally intended. Implementation of its Target</p>	<p>SPPA should work to complete and implement its Target Operating Model, workforce plan and digital strategy.</p> <p>Paragraph 83</p>	<p>Work on the Target Operating Model has continued independently of the decision to close the PS Pensions project. Finance and Policy functions will have a new structure and matching job descriptions by the end of</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>Operating Model (TOM) to deliver future services more efficiently has been delayed. SPPA has also not been able to finalise its digital strategy.</p> <p>Risk</p> <p>SPPA is not able to efficiently deliver the level and quality of services expected by its stakeholders.</p>		<p>quarter 2 2018. The same exercise for Corporate Services and Customer Services will follow in quarters 3-4. The Target Operating Model will align with the digital strategy and staff and financial resources necessary to achieve the 5-year rolling Strategic Plan</p> <p>Responsible Officer: Head of People Services/Director of Digital Transformation</p> <p>Timeline: 31 March 2019</p>

Follow up of prior year recommendations

b/f	<p>1. Corporate plan and financial strategy</p> <p>In April 2016 the SPPA Corporate Board drafted a 2016/17 corporate plan which was expected to cover the years 2016-19. However, this was not published. A one-year business plan was prepared, but this did not cover the wider strategic objectives for SPPA.</p> <p>We have been advised that a new three-year corporate plan covering the period to 2019/20 will be developed. This will include a medium term financial strategy.</p> <p>Risk</p> <p>There is no formalised strategic level plan in place to demonstrate how SPPA will meet its strategic objectives and how finances will be managed in the medium to long term.</p>	<p>SPPA should work to complete a corporate plan which sets out its strategic objectives and how these will be delivered within funding allocations. This should include a longer term financial strategy, with clear links to its People Strategy and annual business plans.</p>	<p>This recommendation has not been actioned. See action plan point 1 above.</p>
b/f	<p>2. Governance Framework Document</p> <p>The governance arrangements for SPPA are set out in its Framework Document 2012-2015 which has been extended to cover 2015/16 and</p>	<p>SPPA, together with its sponsor directorate, should review and update its Governance Framework Document to ensure it sets out a clear vision and direction for the Agency.</p>	<p>The Framework Document has been updated and reviewed and is now up to date.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>2016/17. Elements of the document are out of date. The Agency has advised that this will be reviewed in full in 2017/18.</p> <p>Risk</p> <p>Without regular review of key governance documents, there is a risk that obligations to Scottish Ministers and stakeholders may not be fully met.</p>		
b/f	<p>3. Register of Interests</p> <p>We noted that at the May 2017 MAB, non-executive directors agreed that they would complete register of interest forms annually.</p> <p>In addition to annual declarations of interest for non-executive directors of the MAB, members of the ARC, Pension Boards and executive directors should also complete an annual declaration of interest form. Maintaining an up to date register of interests is an important means of demonstrating and ensuring openness and transparency in organisational decision making.</p> <p>Risk</p> <p>SPPA may not be able to demonstrate the probity of key organisational decisions.</p>	<p>All Board members should complete a declaration of interests at least annually and ensure that any changes in their interests are notified to the Agency</p>	<p>A register of interests is now maintained and completed by non-executive directors, members of the ARC and Pension Boards and executive directors.</p>
b/f	<p>4. PS Pensions Project</p> <p>Due to the size and scale of the PS Pensions Project it continues to present significant financial, reputational and service delivery risks to SPPA. SPPA needs to closely manage the PS Pensions Project to ensure successful delivery of the project within its revised budget and in line with the new timetable for implementation.</p> <p>The increase in the duration of the project and the fixed price</p>	<p>Successful implementation of PS Pensions remains a significant risk for the Agency and SPPA should continue to work to ensure effective management and scrutiny to allow successful delivery.</p> <p>Relationships with the supplier must be managed effectively to ensure the success of the project.</p>	<p>SPPA has closed the PS Pensions Project. This recommendation is therefore no longer relevant.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>contract creates a supply side risk.</p> <p>Risk</p> <p>The project does not achieve its intended aims and there are further delays in its implementation. The supplier might determine that the contract is no longer commercially viable and may seek to end the contract and not continue with the project.</p>		
b/f	<p>5. Workforce plan</p> <p>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.</p> <p>Work is ongoing in relation to the Target Operating Model (TOM) which is looking at how SPPA sees itself in the longer term and is being led by the Chief Executive. This will guide decisions on services which will be offered, the required skills, how the new IT system will support this work and how the Agency is structured to deliver them. Workforce planning will be a key element of this project.</p> <p>Risk</p> <p>Without an overarching workforce plan, changes to service delivery in one area may have unplanned or unintended effects on other areas of the business and the leadership team cannot manage workforce changes to ensure that the organisation is making best use of its staff resources to achieve its objectives.</p>	<p>SPPA should develop an approach to workforce planning as part of its Target Operating Model to ensure it has appropriate resources to meet the future needs of the business.</p>	<p>This recommendation has not been actioned. See action plan point 2 above.</p>

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit Risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>Sample tested journals created during the year and at year end. No issues identified.</p> <p>Accounting estimates were reviewed and no issues identified.</p> <p>Focused testing on accruals and prepayments was carried out and no issues identified.</p> <p>There was no evidence of transactions outside the course of normal business.</p> <p>From work carried out in year, there was no evidence of management override of controls.</p>
<p>2 Risk of fraud over expenditure</p> <p>The Financial Reporting Council's Practice Note 10 (revised) requires auditors of public bodies to give consideration of the risk of fraud over expenditure. The extent of expenditure, for example, volume of benefits paid means that there is an inherent risk of fraud.</p>	<p>System review of accounts payable and payroll focusing on key controls for the agency.</p> <p>Review internal audit work on the agency's ability to deliver business as usual.</p>	<p>We concluded that the controls tested were operating effectively. We did not identify any significant internal control weaknesses</p> <p>Trade payables and non-current asset additions and disposals were sample tested and no issues identified.</p> <p>A review of the ability to deliver business as usual has been reviewed. No significant issues were noted from the report.</p>
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
<p>3 Financial sustainability and financial management</p> <p>The agency prepares rolling three-year forecasts for revenue and capital, and uses scenario planning to support work on business cases. The agency is extending this to</p>	<p>Monitor progress and work on moving to a five-year rolling budget.</p>	<p>There has been a delay to the implementation of the strategic plan. A five-year strategic plan is expected to be finalised in July 2018. This will include a medium term financial strategy. See action plan point 1 in Appendix 1.</p>












Audit Risk	Assurance procedure	Results and conclusions
<p>rolling five-year forecasts for revenue and capital.</p> <p>This longer term financial strategy should clearly link to the agency's strategic objectives, strategic plan, workforce plan, digital strategy and annual business plans.</p> <p>There is a risk that the agency's objectives and plans and its financial strategy are not aligned. This could lead to decisions being made without a clear understanding of the longer term financial implications for the agency.</p>		
<p>4 Workforce planning</p> <p>A workforce plan, with appropriate succession planning for key posts, should be part of the agency's arrangements to support business change. Service redesign is likely to affect the agency's resource requirements.</p> <p>The agency is working on a Target Operating Model (TOM). This will guide decisions on the services the agency provides, the resources required, and how the PS Pensions integrated administration and pension payment system will support this work. Workforce planning will be a key element of this project.</p> <p>Without effective workforce planning, there is a risk that changes to service delivery in one area may have unplanned or unintended effects on other areas of the business.</p>	<p>Review the agency's progress in developing its workforce plan and TOM. Review completed sections when available.</p>	<p>There has been a delay in development of the workforce plan, which is incorporated within SPPA's target operating model (TOM). See action point 2 in Appendix 1.</p>
<p>5 Vision and strategic direction</p> <p>In April 2016 the SPPA Corporate Board drafted a strategic plan which was expected to cover 2016 to 2019. This was not published. A one-year business plan was prepared, but this did not cover the wider strategic objectives for SPPA. The agency plans to issue an updated draft corporate plan to the</p>	<p>Review strategic plan on its completion.</p> <p>Review Digital Strategy on its completion.</p>	<p>There has been a delay to the implementation of the strategic plan. A five-year strategic plan is expected to be finalised in July 2018. See action plan point 1 in Appendix 1.</p> <p>There has also been a delay to the development of SPPA's Digital Strategy. See action plan point 2 in Appendix 1.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Management Advisory Board (MAB) in April 2018.</p> <p>The agency's Digital Strategy is also currently being revised. This work has been delayed due to the progress of the PS Pensions Project.</p> <p>There is a risk that without a strategic plan, the agency cannot demonstrate how its objectives will be met in the medium to longer term.</p>		
<p>6 Cyber and data security</p> <p>The agency, in common with other public sector bodies, is at risk from cyber attacks and losses of personal data.</p> <p>In late 2017, the Scottish Government issued 'A Cyber Resilience Strategy for Scotland: Public sector action plan 2017-2018' which details a number of key actions which the agency will be required to complete throughout 2018. These include preparing cyber incident response plans, a cyber security strategy and resilience training.</p> <p>General data protection regulations (GDPR) also come into force in May 2018 and strengthen data protection regulations and increase fines for breaches.</p> <p>The agency holds a large amount of personal information. There is a risk that a cyber attack or significant data loss could lead to financial and reputational losses for the agency.</p>	<p>Review the IT Resilience review and monitor the agency's actions to address recommendations.</p> <p>Review the governance arrangements put in place to manage cyber resilience arrangements.</p> <p>Review progress in achieving Cyber Essentials.</p> <p>Monitor cyber security updates in the Scottish Public Finance Manual (SPFM) to ensure the agency complies with the new requirements as they are published.</p> <p>Review progress update to the Keeper of Records, including review of any actions which the agency has to implement.</p> <p>Monitor progress in preparation for GDPR, including review of the agency's work plan for GDPR implementation.</p>	<p>Internal audit's IT Resilience review is not yet available.</p> <p>SPPA is making good progress towards achieving Cyber Essentials Plus Accreditation by October 2018. SPPA is undertaking a pre-assessment required as part of the process to attain the accreditation.</p> <p>SPPA has updated the Keeper of Records and is using this as a means of demonstrating compliance.</p> <p>SPPA was given a "green" rating from internal audit in relation to its readiness for GDPR. This gives a high level of assurance over the arrangements in place</p> <p>There has been a recent data breach within SPPA. Confidential member information was sent to other scheme members in error. SPPA has voluntarily referred itself to the UK Information Commissioner's Office. This incident highlights that further work is required to improve data security.</p>
<p>7 PS Pensions Project</p> <p>The agency's PS Pensions Project continues to be a red risk on its risk register. The project, with a budget of £5.6 million, aims to deliver a bespoke unified pension administration and payment system for the pension scheme accounts and it is therefore central to the agency's effective operation. There has been a delay in the go-live date and the agency is targeting a</p>	<p>Monitor the minutes of the PS Pensions Project Board.</p> <p>Review progress of the delivery of the system against target dates.</p> <p>Review any additional health check or gateway reviews carried out and the agency's actions to address recommendations.</p>	<p>The PS Pensions project has been closed.</p> <p>We have reviewed the write off assets because of the closure of the project and are satisfied with the accounting treatment.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>reduced scope implementation in October 2018.</p> <p>Due to the size and scale of the project it continues to present significant financial, reputational and service delivery risks to the agency.</p>	<p>Review the agency's actions to address recommendations from previous health checks.</p>	

Appendix 3

Summary of national performance reports 2017/18

		 2017/18 Reports	
		Apr	
		May	
Common Agricultural Policy Futures programme: further update		Jun	 Scotland's colleges 2017
		Jul	 NHS workforce planning
Self-directed support: 2017 progress report		Aug	
Equal pay in Scottish councils		Sept	
Transport Scotland's ferry services		Oct	 NHS in Scotland 2017
Local government in Scotland: Financial overview 2016/17		Nov	
		Dec	
		Jan	
Early learning and childcare		Feb	
Managing the implementation of the Scotland Acts		Mar	

Central Government relevant reports

[Managing the implementation of the Scotland Acts](#) – March 2018

Scottish Public Pensions Agency

2017/18 Annual Audit Report

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