

# Scottish Public Pensions Agency

2018/19 Annual Audit Report



 AUDIT SCOTLAND

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

July 2019

## 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

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## 2018/19 annual report and accounts

- 1 The financial statements of the Scottish Public Pensions Agency (SPPA) give a true and fair view of its financial position as at 31 March 2019 and its expenditure and income for 2018/19.
- 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 relevant legislation and directions made by Scottish Ministers.

## Financial management

- 4 SPPA has appropriate in-year financial management arrangements. It managed its finances in 2018/19 with an underspend of £1.4 million against its budget of £20.5 million.
- 5 SPPA has appropriate and effective internal controls in place for its key financial systems.

## Financial sustainability

- 6 SPPA is forecasting funding gaps within the next five years due to the closure of the PS Pensions project. As a consequence of the failure of the project SPPA requires additional revenue budget of £9.8 million between 2019/20 and 2022/23 and capital allocations of £13.6 million over the next five years. Its financial sustainability is dependent on the allocation of budget and the delivery of its longer term strategies.
- 7 SPPA should work to complete its longer term financial strategy and fully implement its target operating model.

## Governance and transparency

- 8 SPPA has adequate governance arrangements in place that support the scrutiny of decisions.
- 9 SPPA holds a significant amount of personal information. SPPA needs to finalise its digital strategy and refresh its Information Assurance Strategy to ensure its data remains secure.

## Value for money

- 10 SPPA closed its PS Pensions project in February 2018. The lack of a clear business case for the new system, an unrealistic timetable for the project, weaknesses in governance and project assurance arrangements, together with the contractor failing to deliver against project milestones were the key contributors to the closure of the project. SPPA failed to achieve value for money in this project.

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# Introduction

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1. This report summarises the findings from our 2018/19 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 January 2019 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](#).

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## Exhibit 1 Audit dimensions



Source: *Code of Audit Practice 2016*

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3. The main elements of our audit work in 2018/19 have been:

- a review of the SPPA's main financial systems resulting in a management letter being presented to the ARC on 29 April 2019
- an audit of SPPA's 2018/19 annual report and accounts including the issue of an independent auditor's report setting out my opinions
- consideration of the four audit dimensions of public audit.

## Adding value through the audit

4. We add value to SPPA through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements that have been accepted by management
- reporting our findings and conclusions in public
- highlighting and reporting on concerns or issues of public interest including those relating to governance and key SPPA projects
- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides
- Providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

5. In so doing, we aim to help SPPA promote improved standards of governance, better management and decision making and more effective use of resources.

## Responsibilities and reporting

6. 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 accountability report)
- Financial Statements and supporting notes.

7. SPPA is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity that enable the Management Advisory Board to successfully deliver its objectives in advising the Accountable Officer.

8. Our responsibilities as independent auditor are established by 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.

9. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on:

- the appropriateness and effectiveness of the performance management arrangements,
- the suitability and effectiveness of corporate governance arrangements,
- the financial position and arrangements for securing financial sustainability.

10. 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.

**11.** 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.

**12.** 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 any outstanding actions from last year and progress against these.

**13.** 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 2018/19 audit fee of £25,190 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

**14.** 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](http://www.audit-scotland.gov.uk) in due course.

**15.** We would like to thank all management and staff for their cooperation and assistance during the audit.

# Part 1

## Audit of 2018/19 annual report and accounts



### Main judgements

**The financial statements of the Scottish Public Pensions Agency (SPPA) give a true and fair view of its financial position as at 31 March 2019 and its expenditure and income for 2018/19.**

**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 relevant legislation and directions made by Scottish Ministers.**

SPPA's 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 opinions on the annual report and accounts

**16.** The annual report and accounts for the year ended 31 March 2019 were approved by the Audit and Risk Committee on 22 July 2019. We reported within the independent auditor's report that:

- 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 issued by Scottish Ministers
- 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 relevant legislation and directions made by Scottish Ministers.

**17.** 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

**18.** We received the unaudited annual report and accounts on 3 June 2019 in line with our agreed audit timetable.

**19.** 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

**20.** [Appendix 2](#) provides a description of those assessed risks of material misstatement in the annual report and accounts and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks.

**21.** We have no issues to report from our work on the risks of material misstatement highlighted in our 2018/19 Annual Audit Plan.

## Materiality

**22.** 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 and involves considering both the amount and nature of the misstatement.

**23.** Our initial assessment of materiality for the annual report and accounts was carried out during the planning phase of the audit and is summarised in [Exhibit 2](#). With regards to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively.

**24.** On receipt of the unaudited annual report and accounts we reviewed our materiality calculations and concluded that they remained appropriate.

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## Exhibit 2 Materiality values

Materiality level	Amount
Overall materiality	£165,000
Performance materiality	£124,000
Reporting threshold	£10,000

Source: Audit Scotland

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## Significant findings from the audit in accordance with ISA 260

**25.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures.

## Qualitative aspects of the audit

**26.** We have no significant findings to report around the qualitative aspects of the audit including the accounting policies, accounting estimates and significant financial statements disclosures of the 2018/19 accounting practices.

## How we evaluate misstatements

**27.** There were no material adjustments to the unaudited annual report and accounts arising from our audit. All individual misstatements which exceeded our reporting threshold have been amended in the audited financial statements.

## Follow up of prior year recommendations

**28.** SPPA has made some progress in implementing our prior year audit recommendations. However, recommendations still to be fully implemented include completion of a longer term financial strategy and digital strategy. These are reflected in the action plan in [Appendix 1](#).

# Part 2

## Financial management



### Main judgements

**SPPA has appropriate in-year financial management arrangements. It managed its finances in 2018/19 with an underspend of £1.4 million against its budget of £20.5 million.**

**SPPA has appropriate and effective internal controls in place for its key financial systems.**

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

### Financial performance in 2018/19

**29.** The main financial objective for SPPA is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers.

**30.** SPPA has reported an outturn of £19.1 million against its overall budget of £20.5 million for 2018/19 with an underspend of £1.4 million. The main reasons for the underspend include staff savings from delays in recruitment and an indexation gain on property, plant and equipment. SPPA's financial performance against Departmental Expenditure Limits (DEL) is shown in [Exhibit 3](#).

### Exhibit 3 Performance against DEL in 2018/19

Performance	Initial budget £m	Final budget £m	Actual Outturn £m	Over (under) spend £m
Resource DEL	17.1	17.1	16.1	(1.0)
Capital DEL	2.4	3.4	3.0	(0.4)
<b>Total DEL</b>	<b>19.5</b>	<b>20.5</b>	<b>19.1</b>	<b>(1.4)</b>

Source: Scotland's Budget: Draft Budget 2018/19, Spring Budget Revision 2018/19

### 2018/19 financial position

**31.** 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.

**32.** The financial statements show that SPPA has net assets of £12.7 million at 31 March 2019, a decrease of £4.6 million from the position reported last year. This is largely attributable to a decrease in other receivables, specifically the payment of pensions on behalf of the Police and Firefighters pension schemes. This figure can vary because of timing differences relating to the payment date.

**33.** SPPA's net operating costs for 2018/19 were £16.5 million – a decrease of £1.6 million from the 2017/18 position. The main reasons for this were:

- no intangible assets were written off in the year. This compares with last year where £1.6 million of intangible assets relating to the PS Pensions project were written off
- SPPA received income of £700,000 from a supplier following the settlement of a dispute.

## Budgetary processes

**34.** We reviewed SPPA's budget setting and monitoring arrangements. From our review of budget monitoring reports, review of committee papers and attendance at committees we confirmed that senior management and Management Advisory Board members receive regular, timely and up to date financial information on the financial position. The level of detail in these reports could, however, be enhanced to give non-executive directors a clearer overview of SPPA's finances.

**35.** We concluded that SPPA has adequate budgetary processes that allow members and officers to scrutinise its finances.

## Systems of internal control

**36.** 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.

**37.** Our findings from the review of systems of internal control were included in the management letter presented to the Audit and Risk Committee in April 2019. We concluded that the controls tested were appropriate and operating effectively. Our audit testing did not identify any significant 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.

## Internal audit

**38.** SPPA's internal audit function is carried out by the Scottish Government's Internal Audit Division. 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).

**39.** Audit Scotland carries out an annual review of the Scottish Government's Internal Audit Division. The 2018/19 review found clear improvements in the standard of internal audit work undertaken compared with 2017/18, and no areas of significant non-compliance with PSIAS.

**40.** 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 use the work of internal audit. There are no areas in which we placed formal reliance on the work of internal audit for SPPA however we considered internal audit report findings as part of our wider dimension audit work.

## Standards of conduct for prevention and detection of fraud and error

**41.** Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

**42.** We have reviewed the arrangements in place to maintain standards of conduct including the Framework Document and Civil Service and Members' Codes of Conduct. There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption.

**43.** We have concluded that SPPA has reasonable arrangements in place for the prevention and detection of fraud, error and irregularities, bribery and corruption. We note that although its Counter Fraud Policy has not been updated since 2014, the content remains relevant.

## National Fraud Initiative

**44.** The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity.

**45.** The matches investigated by SPPA relate only to the NHS Scotland and Scottish Teachers' pension schemes it administers. SPPA is pro-active in investigating matches and reporting the outcomes of NFI activity. It reports the outcome of the two-yearly NFI exercise to the Audit and Risk Committee.

## Dependency on key suppliers

**46.** The impact of a failure or collapse of a key supplier can be significant to an organisation and can result in either delays or non-completion of major contracts or, disruptions in the continued provision of vital services. This has brought into focus the risk of key supplier failure and the risk of underperformance in suppliers that are experiencing difficult trading conditions.

**47.** SPPA has a number of key suppliers and recognises the risk of *effective management of external suppliers* in its risk register. It has arrangements in place for managing the risk, such as:

- regular meetings or calls with key suppliers
- monitoring of key suppliers through media coverage
- considering effective management of external suppliers at the Audit and Risk Committee.

**48.** SPPA plans to increase its monitoring of key suppliers, with a focus on their financial sustainability. This includes implementing a contract management strategy for all its contracts. SPPA's work in this area has not progressed as quickly as planned. This is due to the impact on officer time of managing the closure of the PS Pensions Project and progressing the new Altair Improvement project to improve the current system for pensions administration and payroll.



### Recommendation 1

**SPPA should ensure it has effective arrangements in place for contract management and risk assessment of key suppliers. This includes having appropriate contingency planning in place to respond to the failure or collapse of a key supplier.**

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# Part 3

## Financial sustainability



### Main judgements

**SPPA is forecasting funding gaps within the next five years due to the closure of the PS Pensions project. As a consequence of the failure of the project SPPA requires additional revenue budget of £9.8 million between 2019/20 and 2022/23 and capital allocations of £13.6 million over the next five years. Its financial sustainability is dependent on the allocation of budget and the delivery of its longer term strategies.**

**SPPA should work to complete its longer term financial strategy and fully implement its target operating model.**

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

### Financial planning

**49.** SPPA published its 2019/20 draft budget in February 2019 with a total budget allocation of £23.2 million which is £3.7 million (19%) more than the initial 2018/19 budget allocation of £19.5 million. The additional funding requirement is due to:

- increased employer pension contributions
- additional staffing costs
- costs of tracking and maintaining Guaranteed Minimum Pensions liabilities
- the Altair Improvement project.

**50.** Despite an increase in funding, the 2019/20 budget shows a challenging position for SPPA. It reflects the impact of additional funding requirements from the closure of the PS Pensions project and commencement of the new Altair Improvement project.

**51.** The failure of the PS Pensions Project means that SPPA has been unable to progress strategic, business and workforce plans as originally intended. As a consequence, SPPA requires additional revenue budget of £9.8 million between 2019/20 and 2022/23, and capital allocations of £13.6 million over the next five years.

### Changing landscape for public financial management and medium to long term financial planning

**52.** Scottish public finances are fundamentally changing, with significant tax-raising powers, new powers over borrowing and reserves, and responsibility for some social security benefits. This provides the Scottish Parliament with more policy

choices but also means that the Scottish budget is subject to greater uncertainty and complexity.

**53.** A new Scottish budget process has been introduced, which is based on a year-round continuous cycle of budget setting, scrutiny and evaluation. As part of the new budget process, the Scottish Government published an initial five-year Medium-Term Financial Strategy (MTFS) in May 2018. The five-year outlook for the Scottish budget, set out in the MTFS, provides useful context for bodies' financial planning.

**54.** We reviewed the financial planning systems of SPPA and assessed how effective it is in identifying and addressing risks to financial sustainability across the medium and long term. SPPA is mainly funded from Scottish Government budget allocation (99% of income) and this is determined on an annual basis by the Scottish Government.

**55.** SPPA's 2018-23 Strategic Plan was presented to its Management Advisory Board (MAB) in July 2018. It is a rolling plan to allow SPPA to respond to changes in a complex environment. The Strategic Plan should include longer term financial planning. The plan outlines the requirement for SPPA to achieve an annual balanced financial position, but does not include any financial forecasts. There are also no details of the efficiencies SPPA plans to achieve from its Target Operating Model (TOM) to deliver future services more efficiently. The TOM has now been implemented for over 80% of the organisation.



## Recommendation 2

**SPPA should work to complete its longer term financial strategy to demonstrate how it plans to address the funding gaps from the closure of the PS Pensions project and ensure its finances are sustainable.**

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## EU Withdrawal

**56.** There remains significant uncertainty surrounding the terms of the UK's withdrawal from the European Union (EU). EU withdrawal will inevitably have implications for devolved government in Scotland and for audited bodies. 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 potential changes to migration are likely to affect the availability of the people and skills needed to deliver services.
- Funding – the extent to which potential changes to existing EU funding programmes are likely to affect the finances of public bodies and the activity that such funding supports.
- Regulation – the extent to which potential changes to EU regulations are likely to affect the activities of some public bodies.

**57.** 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 the scrutiny of decisions.**

**SPPA holds a significant amount of personal information. SPPA needs to finalise its digital strategy and refresh its Information Assurance Strategy to ensure its data remains secure.**

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.

### Governance arrangements

**58.** The governance arrangements for SPPA are set out within its Framework Document which was refreshed in December 2018.

**59.** 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 outputs and monitoring budgets, as well as discussing key business decisions.

**60.** During the year, new chairs were appointed to both the ARC and the MAB. The MAB is also now chaired by the Accountable Officer, SPPA's Chief Executive. This arrangement is consistent with [On Board: A Guide for Members of Management Advisory Boards](#). The SPPA Chief Executive should consider evaluating these new arrangements at the end of the financial year to determine whether they are sufficiently supporting her in her Accountable Officer role.



### Recommendation 3

**SPPA should review its new governance arrangements to ensure they sufficiently support the Accountable Officer.**

**61.** We completed a review of governance arrangements within SPPA and found that:

- Board members are generally provided with sufficient information to support them in their role. SPPA has held extraordinary ARC meetings to provide members with additional information on key business decisions

- Board members understand their roles and responsibilities. The terms of reference for the MAB, Pension Boards and Scheme Advisory Boards are on the SPPA website
- The ARC carries out annual self-assessments. It was compliant with the roles and remit as set out in its terms of reference during 2018/19
- Board members are given appropriate training to help them fulfil their responsibilities.

## Openness and transparency

**62.** There is an increasing focus on how public money is used and what is achieved. In that regard, openness and transparency supports understanding and scrutiny. Transparency means that the public have access to understandable, relevant and timely information about how the board is taking decisions and how it is using resources such as money, people and assets.

**63.** MAB minutes are now available on the SPPA's website. As we have previously reported, SPPA may wish to consider whether there are opportunities for it to further enhance transparency. This includes making MAB papers and ARC papers and minutes publicly available where appropriate.

## Performance report

**64.** In addition to the opinion on the performance report covered in Part 1 of this report, we also consider the qualitative aspects of the performance report included in the annual report and accounts. The purpose of a performance report is to provide information on a body, its main objectives and strategies, and the principal risks that it faces. It is required to provide a fair, balanced and understandable analysis of a body's performance and is essential in helping stakeholders understand the financial statements.

**65.** There are a number of characteristics of financial reporting which make for a high-quality performance report. We identified improvements in the performance report this year including:

- a more detailed analysis of performance, telling a single story
- a clear overview of SPPA's progress against its strategic aims.

## Transparent reporting of financial and performance information

**66.** The performance report in SPPA's 2018/19 accounts contains clear performance information. The performance against key business targets is compared over a five year period (see [Exhibit 5](#) in part 5 of this report).

## Information security

**67.** SPPA, in common with many other public sector bodies, is at risk from loss of personal data. It holds a significant amount of personal information. This means that a significant data loss or data theft could lead to financial and reputational losses for SPPA.

**68.** 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. Failure to comply with new GDPR data handling arrangements could result in SPPA incurring significant fines.

**69.** SPPA has included GDPR terms and conditions in all its high value contracts. Work is underway to ensure that all contracts are compliant. SPPA has prepared a draft GDPR compliance document.

**70.** SPPA's Information Assurance Strategy covers the period 2014 to 2018. It sets out the key legislation and governance affecting SPPA. This strategy needs to be updated to reflect the implementation of GDPR. SPPA has also not finalised its digital strategy due to the delay in implementing its Target Operating Model.



#### **Recommendation 4**

**SPPA should finalise and implement its digital strategy and refresh its Information Assurance Strategy to ensure its data remains secure.**

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# Part 5

## Value for money

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### Main judgements

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SPPA closed its PS Pensions project in February 2018. The lack of a clear business case for the new system, an unrealistic timetable for the project, weaknesses in governance and project assurance arrangements, together with the contractor failing to deliver against project milestones were the key contributors to the closure of the project. SPPA failed to achieve value for money in this project.

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

### Best value

**71.** *Ministerial guidance to Accountable Officers* for public bodies and the *Scottish Public Finance Manual* (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. SPPA's Framework Agreement was signed by Scottish Ministers in December 2018. It includes SPPA's vision to provide excellent customer service, combining skills and technology to maximise efficiency and deliver best value to taxpayers in Scotland.

### Management of PS Pensions project

**72.** In February 2018 SPPA closed its PS Pensions project to deliver a unified pension administration and payment system. The aims of the project included replacing existing systems to improve business efficiency and service quality for members, and to make financial savings in the longer term. The new system was to be operational by March 2017. The Auditor General reported on the implications for SPPA of the closure of the project in the Section 22 report *The 2017/18 audit of the Scottish Public Pensions Agency: Management of PS Pensions project* published in October 2018.

**73.** The Auditor General reported on SPPA's management of the project in the Section 23 report *Scottish Public Pensions Agency – Update on management of PS Pensions project* published in June 2019. This report sets out the history of the PS Pensions project and considers SPPA's management of the project. The key messages are in Exhibit 4 below.

## Exhibit 4

### Update on management of PS Pensions project – Key messages

1. SPPA did not prepare a clear business case for its new integrated pension administration and payment system (PS Pensions). It set an unrealistic 18-month timescale while SPPA was going through significant change. It did not adequately scrutinise the winning tender for the project which it identified as being abnormally low cost.
2. Changes in the leadership of SPPA and the management of the project made it more difficult for SPPA to manage the supplier and hold it to account. SPPA's governance and project assurance arrangements did not support effective scrutiny of the project.
3. Capita was not able to provide a working system and did not achieve any of the project milestones. This was a main contributor to the project failure. Capita paid SPPA £0.7 million in November 2018 following the conclusion of a legal process.
4. SPPA spent £6.3 million on the project and a further £2.4 million extending contracts with existing suppliers when the project failed to meet the original timetable. The failure of the project means SPPA has been unable to progress strategic, business and workforce plans as originally intended. As a consequence SPPA requires additional revenue budget of £9.8 million between 2019/20 and 2022/23, and capital allocations of £13.6 million over the next five years. SPPA failed to achieve value for money in this project.

Source: Audit Scotland: [Scottish Public Pensions Agency – Update on management of PS Pensions project](#)

74. SPPA is undertaking a new project to develop an integrated system, the Altair Improvement project, and has completed an exercise to learn lessons from the closure of the PS Pensions project. Senior officers within SPPA made an assessment against the five principles of a digital future, set out in the Audit Scotland report [Principles for a digital future: Lessons learned from public sector ICT projects](#), as part of the exercise and highlighted areas where SPPA can improve on for the new project.

75. The new project involves improving the current system for administration and payroll, and implementing member and employer web portals to allow customers to access and update their pension information online.



#### Recommendation 5

**SPPA should ensure effective arrangements are in place to support delivery of the Altair Improvement project. This includes clear governance arrangements and effective project management to ensure SPPA and its contractors have clear expectations from the outset.**

### Performance management

76. The performance of SPPA is monitored by the 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.

77. The MAB is kept well informed of performance across all areas of activity and responsibility for detailed review and scrutiny of performance lies with the Audit and Risk Committee (ARC) which meets quarterly. We regularly attend the ARC and review papers to gain an insight into how well performance is scrutinised.

**78.** We concluded that SPPA has an effective performance management framework in place which supports the achievement of value for money and continuous improvement in the way services are delivered.

### **Overview of service performance**

**79.** We reviewed the main performance indicators used by SPPA and trends over the five year period. These are summarised in [Exhibit 5](#).

## Exhibit 5

### Key performance indicators – trend analysis

Strategic Aim	KPI	2014/15	2015/16	2016/17	2017/18	2018/19
Service Delivery	Pay 100% of all existing pensions on due date	● 100%	● 100%	● 100%	● 100%	● 100%
	Pay 98% of new awards within one month of the due date	● 99%	● 99%	● 99%	● 100%	● 100%
	Ensure that a minimum of 95% of all new pension awards are correct at the point of authorisation	● 98%	● 97%	● 97%	● 97%	● 96%
Operational Excellence	Ensure that up-to-date and accurate data is held for a minimum of 97% (previously 95%) of active scheme members	● 94%	● 93%	● 92%	● 99%	● 100%
	Collect 96% of contributions by value within the period prescribed by legislation	● 99%	● 99%	● 99%	● 99%	● 99%
Customer First	Ensure that accurate annual benefit statements are available to 100% of active scheme members by 31 August	○ N/A	○ N/A	● 74%	● 83%	● 96%

Source: SPPA Annual Report and Accounts 2018-19

**80.** We note that SPPA has been consistently above target in the *Service Delivery* strategic aim. There has been improvement in *Operational Excellence* and the target has been met two years in a row.

**81.** Performance on delivering the strategic aim *Customer First* has been increasing over the last three years but improvements are required to meet the 100% statutory obligation. SPPA is currently addressing this issue through an improvement initiative which commenced in 2017/18.

### National performance audit reports

**82.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2018/19 several reports were published which are of direct interest to SPPA. These are outlined in [Appendix 3](#).

**83.** SPPA's ARC periodically considers relevant Audit Scotland reports.

# Appendix 1

## Action plan 2018/19



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p><b>Dependency on key suppliers</b></p> <p>SPPA has a number of key suppliers and recognises the risk of <i>effective management of external suppliers</i> in its risk register. SPPA plans to increase its monitoring of key suppliers, with a focus on their financial sustainability. This includes implementing a contract management strategy for all its contracts. SPPA's work in this area has not progressed as quickly as planned.</p> <p><b>Risk</b></p> <p>The impact of a failure or collapse of a key supplier can be significant and can result in either delays or non-completion of major contracts or, disruptions in the continued provision of vital services.</p>	<p>SPPA should ensure it has effective arrangements in place for contract management and risk assessment of key suppliers. This includes having appropriate contingency planning in place to respond to the failure or collapse of a key supplier.</p> <p><b>Paragraph 48</b></p>	<p>SPPA will review its contract management process ensuring at least annual reviews of high risk contracts. This will include a documented financial review, risk assessment and review of SPPA's contingency plans.</p> <p>Chief Financial Officer</p> <p>31.12.2019</p>
2	<p><b>Financial planning</b></p> <p>SPPA's 2018-23 Strategic Plan was presented to its Management Advisory Board in July 2018. It is a rolling plan to allow SPPA to respond to changes in a complex environment. The Strategic Plan should include longer term financial planning. The plan outlines the requirement for SPPA to achieve an annual balanced financial position, but does not include any financial forecasts. There are also no details of the efficiencies SPPA plans to achieve from its Target Operating Model to deliver future services more efficiently.</p>	<p>SPPA should work to complete its longer term financial strategy to demonstrate how it plans to address the funding gaps from the closure of the PS Pensions project and ensure its finances are sustainable.</p> <p><b>Paragraph 55</b></p>	<p>The Agency has committed to refreshing its existing strategies as part of its annual business planning. Preparation is underway to submit draft budgets for the next four years as part of the Scottish Spending Review. Part of the existing five-year rolling forecasting and budgeting plan draws upon work linking the Altair Improvement Programme benefits to efficiencies and their measurement. Forecasts will also be informed by the assumptions made as part of the Target Operating Model exercise.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p><b>Risk</b></p> <p>SPPA cannot demonstrate how it will manage its finances in the longer term.</p>		<p>Chief Financial Officer. 31.1.2020</p>
3	<p><b>Governance arrangements</b></p> <p>During the year, new chairs were appointed to both the ARC and the MAB. The MAB is also now chaired by the Accountable Officer, SPPA's Chief Executive. This arrangement is consistent with <a href="#">On Board: A Guide for Members of Management Advisory Boards</a>. The SPPA Chief Executive should consider evaluating these new arrangements at the end of the financial year to determine whether they are sufficiently supporting her in her Accountable Officer role.</p> <p><b>Risk</b></p> <p>SPPA cannot assurance itself that its governance arrangements support effective leadership and decision-making.</p>	<p>SPPA should review its new governance arrangements to ensure they sufficiently support the Accountable Officer.</p> <p><b>Paragraph 60</b></p>	<p>There is well established process of carrying out governance body annual self-assessments and individual members' year end appraisals. Where the assessment and appraisals identify deficiencies and/or training needs, these are addressed as part of an action plan. The post of Governance Manager is due to be filled imminently and the appointee will have ownership of actions.</p> <p>Governance Manager 31.3.2020</p>
4	<p><b>Information Security</b></p> <p>SPPA, in common with many other public sector bodies, is at risk from loss of personal data. It holds a significant amount of personal information. SPPA's Information Assurance Strategy covers the period 2014 to 2018. It sets out the key legislation and governance affecting SPPA. This strategy needs to be updated to reflect the implementation of the General Data Protection Regulation (GDPR). SPPA has also not finalised its digital strategy due to the delay in implementing its Target Operating Model.</p> <p><b>Risk</b></p> <p>A significant data loss or data theft could lead to financial and reputational losses for SPPA.</p>	<p>SPPA should finalise and implement its digital strategy and refresh its Information Assurance Strategy to ensure its data remains secure.</p> <p><b>Paragraph 70</b></p>	<p>The Agency has committed to refreshing its existing strategies as part of its annual business planning. Strategies such as Information Assurance are well progressed. Strategies are being coordinated through department heads. Hence Business Evolution will own the Digital Strategy.</p> <p>All temporary and permanent Department Heads 31.3.2020</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
5	<p data-bbox="256 412 624 472"><b>Management of PS Pensions project</b></p> <p data-bbox="256 488 624 792">SPPA closed its PS Pensions project in February 2018. The lack of a clear business case for the new system, an unrealistic timetable for the project and weaknesses in governance and project assurance arrangements contributed to the closure of the project.</p> <p data-bbox="256 808 624 898">SPPA is undertaking a new project to develop an integrated system.</p> <p data-bbox="256 913 624 947"><b>Risk</b></p> <p data-bbox="256 963 624 1115">SPPA does not learn lessons from the failure of the PS Pensions project and experiences similar issues with the Altair Improvement project.</p>	<p data-bbox="659 412 1026 716">SPPA should ensure effective arrangements are in place to support delivery of the Altair Improvement project. This includes clear governance arrangements and effective project management to ensure SPPA and its contractors have clear expectations from the outset.</p> <p data-bbox="659 732 826 763"><b>Paragraph 75</b></p>	<p data-bbox="1054 412 1430 562">Governance and project management arrangements in place since August 2018 will continue to be subject to independent review.</p> <p data-bbox="1054 577 1430 611">Head of Business Evolution</p> <p data-bbox="1054 627 1158 658">Ongoing</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
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Risk of management override of controls</b></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 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 course of normal 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 were 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><b>2 Risk of fraud over income</b></p> <p>SPPA receives income from Pension Sharing on Divorce (PSOD) as well as from Scottish Government. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p>	<p>System review of receivables system focusing on key controls.</p> <p>Sample testing of PSOD income to ensure consistency with records.</p> <p>Evaluations of the accounting treatment of significant income transactions that are outside the normal course of business.</p>	<p>We concluded that the controls tested were operating effectively. We did not identify any significant internal control weaknesses.</p> <p>A sample of PSOD income was tested and confirmed to SPPA records.</p> <p>Sample testing of income included significant transactions. None were found to be outside the normal course of business.</p>
<p><b>3 Risk of fraud over expenditure</b></p> <p>The Financial Reporting Council's Practice Note 10 (revised) requires public sector auditors to give consideration to the risk of fraud over expenditure, extending the requirements of ISA 240. The extent of expenditure, for</p>	<p>System review of accounts payable and payroll focusing on key controls for SPPA.</p>	<p>We concluded that the controls tested were operating effectively. We did not identify any significant internal control weaknesses.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>example benefits paid, means that that there</p>		
<p><b>4 Information supporting scheme valuations</b></p> <p>Decisions taken by SPPA for the schemes are reliant on the work of the Government Actuary Department (GAD). The actuarial valuation methodology relies on significant judgements and assumptions in relation to financial, morality and demographic factors.</p> <p>Pension liabilities are based on extracts of members' data incorporated in GAD's established roll forward methodology. SPPA needs to ensure that the implications of changes to membership profiles are completed timeously and in full to ensure that accurate information is transferred to GAD.</p> <p>There is a risk that the actuarial information for valuing the schemes could be affected by incomplete or accurate information, or the use of unreasonable judgements and assumptions.</p>	<p>Regular meetings and communication between SPPA and GAD. All key meetings are minuted.</p> <p>SPPA provides timely and accurate data to GAD.</p>	<p>This risk is specific to the pension schemes. The results will be detailed in the Scottish Teachers' Pension Scheme and NHS Pension Scheme Scotland Annual Audit Report.</p>
<p><b>5 Duplicate Payments</b></p> <p>During 2017/18 the SPPA found that they had made a large duplicate payment. As a result of this they undertook a review to identify potential further duplicate payments and found five overpayments totalling £205,000.</p> <p>Officers have reviewed the controls in place to prevent duplicate payments and have introduced quarterly reviews to identify potential duplicate payments.</p> <p>There is a risk that controls are not operating effectively and that more duplicate payments have been processed and remain undetected.</p>	<p>Review the process and controls in place over the duplicate payments.</p> <p>Review the internal audit report on duplicate payments.</p>	<p>This risk applies to the Teachers' and NHS Pension Schemes and will be covered in their Annual Audit Report.</p> <p>SPPA uses SEAS and this system will not allow the same payment to be made twice. We tested a sample of expenditure transactions, including lines with the same values. These were invoices for payments made monthly and not duplicate payments.</p> <p>We tested a sample of transactions with identical values and reviewed satisfactory backup that they were not duplicate payments.</p> <p>The internal audit report on duplicate payments is due to be presented to the ARC in July 2019.</p>

Audit Risk	Assurance procedure	Results and conclusions
<b>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</b>		
<p><b>6 Dependency on key suppliers</b></p> <p>Following the high profile collapse of public sector contractors, there has been a focus on key supplier failures and the risk of underperformance in suppliers who are experiencing difficult trading conditions.</p> <p>SPPA works with a number of key suppliers to provide the payment and administration of pensions across NHS, Teachers, Police and Fire.</p> <p>There is a risk that if any of SPPA's key suppliers has financial or service delivery concerns, pension payments may not be made and other key services may not be delivered.</p>	<p>Review the risk assessment process for new/renewed contracts.</p> <p>Review the business continuity arrangements in place for significant suppliers.</p> <p>Review any financial assessment of suppliers and establish if this is done on an on-going basis.</p> <p>Review SPPA's response to the PS Pensions project closure.</p> <p>Monitor the minutes of the new Project Board.</p> <p>Review progress of the delivery of the system against target dates.</p> <p>Review any technology assurance reviews carried out and SPPA's actions to address recommendations.</p>	<p>SPPA has identified key suppliers and has regular dialogue with them.</p> <p>A Contract Management Strategy is being developed and it will cover all contracts at SPPA.</p> <p>Financial assessment of suppliers is considered at the regular supplier-SPPA meetings. Going forward, SPPA will review the accounts of potential new and existing suppliers. We will review progress on this in our 2019/20 audit.</p> <p>SPPA is using lessons learned from the closure of the PS Pensions Project in developing a new system. There is a Project Board which meets monthly.</p> <p>The status of the <i>Altair Improvement Project</i> is considered at each meeting and an action log is kept.</p> <p>The status of the project as of the March 2019 technology assurance review is 'Green/Amber'. We will continue to review progress throughout the 2019/20 audit and beyond. SPPA continues to monitor the development of the <i>Altair Improvement Project</i>, and re-evaluates progress at each meeting.</p>
<p><b>7 Financial Management</b></p> <p>The Scottish Government published an initial five-year Medium Term Financial Strategy (MTFS) in May 2018. This sets out the Government's broad financial plans and projections for tax and spending to 2022/23, linked to expectations about the economy and the financial implications of existing policy commitments.</p> <p>As a result of the MTFS, the wider portfolio which SPPA is included in will be required to absorb a greater than 1% reduction in funding by 2020/21. SPPA will be required</p>	<p>Monitor work on the five-year rolling strategic plan.</p> <p>Monitor progress on the TOM.</p> <p>Review the most recent efficiency savings plans for SPPA.</p>	<p>The 2018-23 Strategic Plan was presented to the MAB in July 2018 as intended. It is a rolling plan to allow SPPA to respond to changes in a complex environment.</p> <p>The TOM has been implemented for over 80% of the organisation. SPPA is planning for it to be fully implemented by November 2019.</p> <p>SPPA faces a challenging financial environment. However, it managed its finances in 2018/19 with an underspend of £1.4 million against its budget of £20.5 million.</p> <p>As a consequence of the failure of the PS Pensions project SPPA</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>to make efficiency savings to contribute to the 1% reduction. With SPPA not yet in a position to make significant efficiency savings, there is a need to ensure that it has longer term financial planning in place.</p> <p>The Target Operating Model (TOM) is due to be complete by December 2019. Once implemented, SPPA expects that the TOM will allow it to make efficiencies.</p> <p>There is a risk that SPPA does not have appropriate long term financial planning to allow it to make the necessary savings required to operate with reduced funding.</p>		<p>requires additional revenue budget of £9.8 million between 2019/20 and 2022/23 and capital allocations of £13.6 million over the next five years.</p>
<p><b>8 Openness and Transparency</b></p> <p>There is increasing focus on how public bodies spend their money and the level of transparency in reporting. Openness and transparency supports understanding and scrutiny of the use of public money.</p> <p>The performance report, published alongside the annual accounts, is intended to provide readers with an understandable analysis of performance. Clear and timely financial performance reporting also supports openness and transparency. As we have reported previously, SPPA may wish to consider whether there are opportunities for it to further enhance transparency. This includes making Management Advisory Body (MAB) and Audit and Risk Committee (ARC) papers publicly available where appropriate.</p> <p>There is a risk that SPPA does not present sufficient information to allow adequate scrutiny of its performance</p>	<p>Review the extent to which SPPA makes Board and committee papers publicly available where appropriate.</p> <p>Review the disclosure in the performance report.</p>	<p>The new SPPA website went live in June 2019. The minutes for the Management Advisory Board are available. As are the minutes for the NHS, Teachers', Police and Fire Advisory Boards and Pension Boards.</p> <p>We identified improvements in SPPA's performance report this year.</p>
<p><b>9 Information Security</b></p> <p>The agency, in common with many other public sector bodies, is at risk from loss of personal data.</p>	<p>Review progress on the recommendations of the internal audit report on General Data Protection Regulations (GDPR).</p>	<p>High value contracts now include GDPR terms and conditions. SPPA is working to implement this for its remaining contracts. A GDPR Compliance document is in draft.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>The agency holds a large amount of personal information. There is a risk that a significant data loss or data theft could lead to financial and reputational losses for the agency.</p>	<p>Review the TOM to ensure that it covers data security and IT functionality arrangements.</p> <p>Review SPPA's policies and procedures for information security.</p> <p>Complete NFI questionnaire.</p>	<p>SPPA has not finalised its digital strategy due to the delay in implementing its Target Operating Model. SPPA's data security and IT functionality arrangements are due to be completed by November 2019.</p> <p>We reviewed information security policies at SPPA. In addition to existing policies, work is being carried out to improve and develop the existing arrangements. SPPA's Information Assurance Strategy needs to be updated to reflect the implementation of GDPR.</p> <p>The NFI questionnaire was completed for the NHS and Teachers' Pension Schemes. We found that there has been good engagement with the NFI exercise throughout the year.</p>
<p><b>10 Leadership and Governance</b></p> <p>The chair of the ARC and the chair of the MAB will both conclude their term of appointment in March 2019. This means that two new Non-executive members (NXMs) will be recruited and a new chair will require to be appointed for the ARC.</p> <p>There is a risk that the capacity of SPPA's NXMs will be reduced at a time when SPPA is going through a period of transformational change that requires NXM input to support the Accountable Officer.</p> <p>SPPA continues to operate with a number of temporary posts within the Senior Leadership Team. A reduced senior management capacity increases the risk of SPPA not achieving transformational plans.</p>	<p>Review the outcomes of the recruitment exercises.</p> <p>Assess how SPPA has assured itself it has sufficient capacity and skills to achieve its change and transformational plans.</p> <p>Review governance arrangements to ensure that they remain appropriate and are operating effectively.</p>	<p>New chairs for the MAB and ARC have been appointed. The MAB is now chaired by the Accountable Officer. This is the Chief Executive.</p> <p>SPPA is currently implementing its TOM. Job descriptions and roles have been restructured to work more efficiently for SPPA's needs. We will further review progress on the TOM when it has been fully implemented.</p> <p>We reviewed governance arrangements at SPPA and are satisfied they are operating adequately. A number of policies under development including the Digital Strategy and the Contract Management Strategy. We will review the progress of these as part of our 2019/20 audit work.</p>

# Appendix 3

## Summary of national performance reports 2018/19

		 <b>2018/19 Reports</b>	
Local government in Scotland: Challenges and performance 2018		<b>Apr</b>	
Councils' use of arm's-length organisations		<b>May</b>	 Scottish Fire and Rescue Service: an update
Scotland's colleges 2018		<b>Jun</b>	
		<b>Jul</b>	 The National Fraud Initiative in Scotland 2016/17
Forth Replacement Crossing		<b>Aug</b>	 Major project and procurement lessons
Children and young people's mental health		<b>Sept</b>	 Superfast broadband for Scotland: further progress update
NHS in Scotland 2018		<b>Oct</b>	
Health and social care integration: update on progress		<b>Nov</b>	 Local government in Scotland: Financial overview 2017/18
		Dec	
		Jan	
		Feb	
		<b>Mar</b>	 Local government in Scotland: Challenges and performance 2019

### The following reports may be of particular relevance to SPPA:

[The National Fraud Initiative in Scotland 2016/17](#) – July 2018

[Major project and procurement lessons](#) – August 2018

[The 2017/18 audit of the Scottish Public Pensions Agency: Management of PS Pensions project](#) – October 2018

[Scottish Public Pensions Agency – Update on management of PS Pensions project](#) – June 2019

# Scottish Public Pensions Agency

## 2018/19 Annual Audit Report

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