

Scottish Public Pensions Agency NHS Pension Scheme (Scotland) Scottish Teachers' Pension Scheme Annual Audit Plan 2019/20



 AUDIT SCOTLAND

Prepared for Scottish Public Pensions Agency
January 2020



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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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.

Adding value

3. We aim to add value to the Scottish Public Pensions Agency (SPPA), NHS Pension Scheme (Scotland) and Scottish Teachers' Pension Scheme (the schemes) through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help SPPA promote improved standards of governance, better management and decision making and more effective use of resources.

4. SPPA is an executive agency of the Scottish Government and is responsible for administering the NHS Pension Scheme (Scotland) and Scottish Teachers' Pension Scheme. This plan covers the audit of SPPA and the schemes.

Audit risks

5. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following significant risks for SPPA and the schemes. We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1 2019/20 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements risks		
<p>1 Risk of material misstatement caused by management override of controls</p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> Detailed testing of journal entries. Review of accounting estimates. Focused testing of accruals and prepayments. Evaluation of significant transactions which are outside the normal course of business.

	Audit Risk	Source of assurance	Planned audit work
	(SPPA and schemes)		
2	<p>Risk of fraud over income</p> <p>The pension schemes receive a significant amount of income from over 1,000 employer bodies in addition to Scottish Government funding. The extent and complexity of the income means that, in accordance with ISA240, there is an inherent risk of fraud.</p> <p>(Schemes)</p>	<p>Key controls working effectively in the schemes contributions system (Epicor).</p> <p>Sound budgetary control and monitoring arrangements in place.</p>	<ul style="list-style-type: none"> • System review of Epicor focusing on key controls. • Sample testing of Epicor contributions from other audited bodies (NHS and councils) to ensure consistency with schemes records. • Evaluation of the accounting treatment of significant income transactions that are outside the normal course of business. <p>This work is designed to cover the audit assertions of cut-off, accuracy, valuation and allocation.</p>
3	<p>Risk of material fraud over expenditure</p> <p>The Financial Reporting Council's Practice Note 10 (revised) requires public sector auditors to consider the risk of fraud over expenditure, extending the requirements of ISA240. The extent of expenditure, for example benefits paid, means that there is an inherent risk of fraud.</p> <p>(SPPA and schemes)</p>	<p>Key controls working effectively in accounts payable and payroll.</p> <p>Key controls working effectively in the pensions administration (Altair) and the pensions payment systems in use during 2019/20 (Resourcelink and the enhanced Altair system from November 2019).</p>	<ul style="list-style-type: none"> • System review of accounts payable and payroll focussing on key controls for SPPA. • System reviews of Altair and Resourcelink and the enhanced Altair system focusing on key controls for the schemes. • Focused substantive testing on higher risk areas and more complex areas including new awards and deaths for the schemes. <p>The work planned is designed to cover the audit assertions of cut-off, accuracy, valuation and allocation.</p>
4	<p>Information supporting scheme valuations</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, mortality and demographic factors. There is a risk that the actuarial information for valuing the schemes is affected by incomplete or inaccurate information from SPPA, or the use of</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>	<ul style="list-style-type: none"> • Review of the work of GAD focusing on reliability, professional competence and capability. • Meet with GAD to discuss work practices, validation processes and quality review arrangements to determine whether reliance can be taken in relation to GAD's internal processes.

 Audit Risk	Source of assurance	Planned audit work
<p>unreasonable judgements and assumptions.</p> <p>(Schemes)</p>		<ul style="list-style-type: none"> Review reports to GAD supporting valuation data. Review PWC's report on public sector pensions which provides an assessment of GAD's actuarial processes and assumptions. <p>The work planned is designed to cover the audit assertions of accuracy, valuation and allocation.</p>

Wider dimension risks

<p>5 Financial sustainability</p> <p>The Scottish Government published its second Medium-Term Financial Strategy (MTFS) in May 2019. The MTFS sets out the main financial challenges facing the Scottish Government and provides the context for its spending review and the Scottish budget. The MTFS highlights the importance of financial sustainability and the Scottish Government's requirement for a more systematic link between budgets and what those budgets deliver.</p> <p>There is a risk that SPPA cannot demonstrate how it will manage its finances in the longer term and the outcomes it will deliver.</p> <p>(SPPA)</p>	<p>SPPA's rolling 2018-23 strategic plan is in place. SPPA is preparing draft budgets for the next four years as part of the Scottish spending review.</p> <p>SPPA's financial forecasts will be informed by the assumptions made as part of the TOM.</p>	<ul style="list-style-type: none"> Review SPPA's longer term financial plans and forecasts. Review efficiency savings reported by SPPA.
<p>6 Organisational change and capacity to deliver services</p> <p>SPPA has rolled out its TOM to the majority of the organisation and plans to fully implement it during 2019/20. The TOM has resulted in changes to how services are resourced and organised. SPPA has also made a number of new appointments to its senior leadership team. SPPA will need to manage the impact of this significant change on service delivery. SPPA does not have a workforce plan in place setting out the resources it requires to achieve its objectives.</p> <p>There is a risk that SPPA is not adequately organised and resourced to carry out its core functions and achieve planned efficiencies.</p> <p>(SPPA)</p>	<p>TOM due to be fully implemented in 2019/20.</p> <p>All vacant senior leadership posts have been filled.</p>	<ul style="list-style-type: none"> Review SPPA's progress in implementing the TOM. Review efficiency savings reported by SPPA. Review SPPA's progress in developing a workforce plan.

 Audit Risk	Source of assurance	Planned audit work
<p>7 Procurement arrangements</p> <p>We highlighted weaknesses in the procurement process for SPPA's PS Pensions project in our <i>Update on management of PS Pensions project</i> report, published in June 2019. These issues contributed to the failure of the project. SPPA is undertaking a new project to develop an integrated pensions payroll and administration system which may require another procurement exercise.</p> <p>There is a risk that SPPA does not learn lessons from the failure of the PS Pensions project and experiences similar issues with procurement of a new system. There is also a risk of procurement fraud if effective and appropriate arrangements are not in place.</p> <p>(SPPA)</p>	<p>SPPA uses Scottish Government framework arrangements for all its major procurements.</p> <p>SPPA is developing a procurement plan for its new system.</p>	<ul style="list-style-type: none"> Review SPPA's progress in implementing the recommendations of the <i>Update on management of PS Pensions project</i> report. Review procurement plan for new system. Review controls around the procurement process such as segregation of duties, registers of hospitality and gifts, staff training and whistle-blowing.

Source: Audit Scotland

6. As set out in ISA 240, there is a presumed risk of fraud in the recognition of income. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. We have rebutted the risk of material misstatement caused by fraud in income recognition for SPPA in 2019/20 because there no history of material misstatement or error in recording income and no requirement for additional audit procedures.

Reporting arrangements

7. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

8. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy.

9. We will provide an independent auditor's report to SPPA, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual accounts. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

10. Under the Public Finance and Accountability (Scotland) Act 2000 there is a requirement for the resource account of the Scottish Government to be presented to Parliament within nine months of the financial year – end, i.e. 31 December. Management are required to submit the SPPA audited financial statements by mid-July to meet the consolidation timetable.

Exhibit 2

2019/20 Audit outputs

Audit output	Target date	Committee date
Annual Audit Plan	15 January 2020	22 January 2020
Interim Management Report	14 April 2020	21 April 2020
Annual Audit Report for SPPA	13 July 2020	20 July 2020
Independent Auditor's Report for SPPA	13 July 2020	20 July 2020
Annual Audit Report for the schemes	22 September 2020	29 September 2020
Independent Auditor's Report for the schemes	22 September 2020	29 September 2020

Source: Audit Scotland

Audit fee

11. The proposed audit fee for the 2019/20 audits are:

- Scottish Public Pensions Agency: £25,700 (18/19: £25,190)
- NHS Pension Scheme (Scotland): £67,030 (18/19: £65,730)
- Scottish Teachers' Pension Scheme: £63,700 (18/19: £62,460).

12. In determining the audit fee we have taken account of the risk exposure of SPPA and the schemes, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package on 1 June 2020 for SPPA and 13 July 2020 for the schemes.

13. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

Responsibilities

Audit and Risk Committee and Accountable Officer

14. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

15. The audit of the financial statements does not relieve management or the Audit and Risk Committee, as those charged with governance, of their responsibilities.

Appointed auditor

16. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

17. Auditors in the public sector give an independent opinion on the financial statements and other information within the financial statements. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Financial Statements

18. The financial statements will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of SPPA and the schemes and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how SPPA and the schemes will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

19. We will give an opinion on whether the financial statements:

- give a true and fair view of the financial position of SPPA and the schemes and their income and expenditure
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
- the regularity of the expenditure and income.

Other information in the annual accounts

20. We also review and report on statutory other information published within the annual accounts including:

- For SPPA: the performance report, the accountability report including the governance statement and the remuneration and staff report
- For the schemes: the report of the managers and the governance statement.

21. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

22. We also review the content of the annual reports for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.



characteristics



responsibilities



principal activities



risks



governance arrangements

Materiality

23. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

24. We calculate materiality at different levels as described below. The calculated materiality values for SPPA and the schemes are set out in [Exhibit 3](#).

Exhibit 3 Materiality values

Scottish Public Pensions Agency Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2020 based on the latest budget projection for 2019/20.	£0.249 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 75% of planning materiality.	£0.186 million
Reporting threshold (i.e., clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 5% of planning materiality.	£12,000
NHS Superannuation Scheme (Scotland) Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of benefits payable for the year ended 31 March 2020 based on the latest budget projection for 2019/20.	£14.420 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 75% of planning materiality.	£10.815 million
Reporting threshold (i.e., clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 5% of planning materiality (capped at the maximum level).	£250,000
Scottish Teachers' Pension Scheme Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of benefits payable for the year ended 31 March 2020 based on the latest budget projection for 2019/20.	£11.820 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this	£8.865 million

Scottish Teachers' Pension Scheme Materiality

Amount

would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 75% of planning materiality.

Reporting threshold (i.e., clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 5% of planning materiality (capped at the maximum level).	£250,000
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Source: Audit Scotland

Timetable

25. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#).

Exhibit 4 Annual accounts timetable

 Key stage - SPPA	 Date
Working paper checklist	March 2020
Latest submission date of unaudited annual report and accounts with complete working papers package	1 June 2020
Latest date for final clearance meeting with Director of Finance	24 June 2020
Latest date for receipt of final annual report and accounts with audit adjustments	8 July 2020
Issue of letter of representation and proposed independent auditor's report and agreement of audited unsigned report and accounts	13 July 2020
Issue of Annual Audit Report to those charged with governance	13 July 2020
Latest date for signing of Scottish Government consolidation return	10 July 2020
Independent auditor's report signed	20 July 2020

Key stage – Pension Schemes

 Date

Working paper checklist	March 2020
Latest submission date of unaudited annual report and accounts with complete working papers package	13 July 2020
Latest date for final clearance meeting with Director of Finance	27 August 2020
Latest date for receipt of final annual report and accounts with audit adjustments	11 September 2020
Issue of letter of representation and proposed independent auditor's report and agreement of audited unsigned report and accounts	22 September 2020
Issue of Annual Audit Report to those charged with governance	22 September 2020
Independent auditor's report signed	29 September 2020
Latest date for signing WGA return	28 September 2020

Internal audit

26. Internal audit is provided by the Scottish Government Internal Audit Directorate. As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards. Subject to completion of this review we plan to use internal audit's work as outlined below.

Using the work of internal audit

27. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible to avoid duplication. From our initial review of internal audit plans we plan to consider internal audit's work in the following areas:

- Accounts Payable
- Workforce Planning: IT
- Data Quality: Pension Database Preparations
- Management Information.

Audit dimensions

28. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

Exhibit 5

Audit dimensions



Source: Code of Audit Practice

Financial sustainability

29. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of SPPA's financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place for SPPA and the schemes to address any identified funding gaps and ensure that funding identified is appropriate and sustainable.

Financial management

30. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether SPPA and the schemes have arrangements in place to ensure systems of internal control are operating effectively
- whether SPPA and the schemes can demonstrate the effectiveness of the budgetary control system in communicating accurate and timely financial performance
- how SPPA has assured itself that its financial capacity and skills are appropriate, including in its role as administrator of the schemes
- whether SPPA and the schemes have established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

Governance and transparency

31. 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. We will review, conclude and report on:

- whether SPPA can demonstrate that the governance arrangements in place are appropriate and operating effectively for SPPA and the schemes
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting
- the extent to which SPPA supports openness and transparency by making relevant information on SPPA and the schemes publicly available.

Value for money

32. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether SPPA can demonstrate:

- that value for money in the use of resources is being achieved
- that there are appropriate systems for measuring and reporting performance for SPPA and the schemes
- that there is sufficient focus on improvement and the pace of it
- progress in implementing the recommendations of our [Update on Management of PS Pensions project](#) report.

Independence and objectivity

33. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

34. The engagement lead (i.e. appointed auditor) for SPPA and the schemes is Stephen Boyle, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of SPPA and the schemes.

Quality control

35. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor’s report or opinion is appropriate in the circumstances.

36. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland have been commissioned to carry out external quality reviews.

37. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

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