

Scottish Teachers' Pension Scheme and NHS Pension Scheme (Scotland)

2019/20 Annual Audit Report



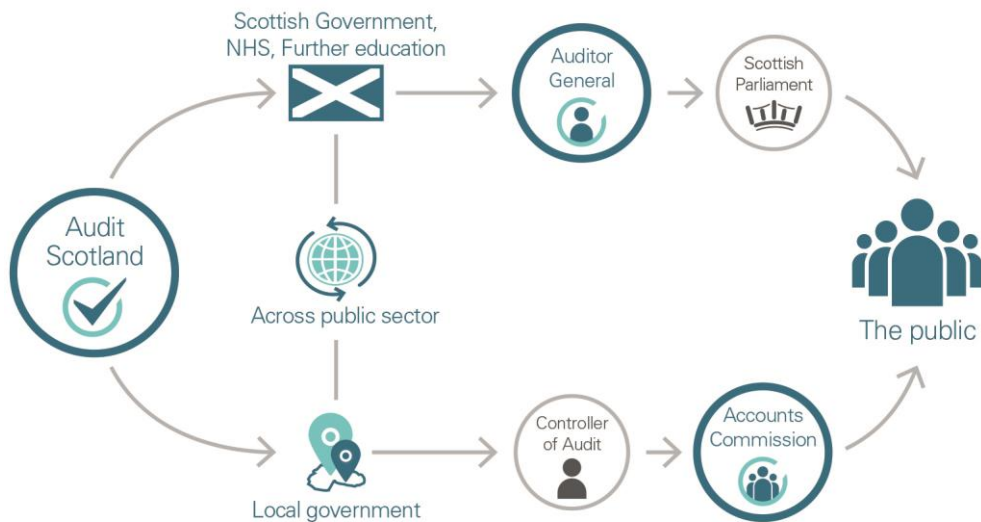
Prepared for the Scottish Public Pensions Agency and the Auditor General for Scotland

November 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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Key messages

2019/20 annual report and accounts

- 1 The financial statements of Scottish Teachers' Pension Scheme (STPS) and NHS Pension Scheme (Scotland) (NHSPSS) give a true and fair view of their financial position as at 31 March 2020 and their expenditure and income for 2019/20.
- 2 The other information in the annual report is consistent with the financial statements and prepared in accordance with legal requirements.
- 3 We agreed with officers to delay our audit by a month due to the impact of pensions legal judgements on the annual accounts process.

Financial management

- 4 STPS and NHSPSS have appropriate in-year financial management arrangements. Both schemes operated within their 2019/20 budget.
- 5 Systems of internal control operated effectively in 2019/20, with scope for improvement in some areas.

Financial sustainability

- 6 STPS and NHSPSS are unfunded pension schemes. Pension payments are funded, as they fall due, from the Scottish Government's annual managed expenditure budget. We are satisfied with the scheme manager's view that both schemes continue to be a going concern.

Governance and transparency

- 7 STPS and NHSPSS have adequate governance arrangements in place. The Scottish Public Pensions Agency must ensure it has the right capacity to support effective governance and scrutiny of the pension schemes.

Value for money

- 8 The 2020 STPS and NHSPSS annual benefits statements contained an unacceptable number of errors. Officers have put a plan in place to correct and reissue them by the end of November.

Introduction

1. This report summarises the findings from our 2019/20 audit of Scottish Teachers' Pension Scheme (STPS) and NHS Pension Scheme (Scotland) (NHSPSS).

2. The scope of our audit was set out in our Annual Audit Plan presented to the January 2020 meeting of the Audit and Risk Committee. This report comprises the findings from:

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

Exhibit 1 Audit dimensions



Source: *Code of Audit Practice 2016*

3. The main elements of our audit work in 2019/20 have been:

- an audit of STPS and NHSPSS's 2019/20 annual report and accounts including the issue of an independent auditor's report setting out my opinions
- a review of STPS and NHSPSS's key financial systems
- consideration of the four audit dimensions.

4. Since publication of the Annual Audit Plan, in common with all public bodies, STPS and NHSPSS have had to respond to the global coronavirus pandemic. This

affected the final month of the 2019/20 financial year and will continue to have a significant impact in 2020/21.

5. We reviewed our assessment of audit risks and planned audit work in June 2020 and concluded that they remained relevant. We re-issued our Annual Audit Plan in July 2020 to reflect changes to the audit timetable.

Adding value through the audit

6. We add value to STPS and NHSPSS through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

7. In so doing, we aim to help the Scottish Public Pensions Agency (SPPA), which is responsible for managing STPS and NHSPSS, to promote improved standards of governance, better management and decision making and more effective use of resources.

Responsibilities and reporting

8. SPPA has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual report and accounts for STPS and NHSPSS that are in accordance with the accounts direction from the Scottish Ministers.

9. SPPA is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity for STPS and NHSPSS.

10. 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. 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. 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 our audit. 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, the responsible officer(s) and dates for implementation. It also includes any outstanding actions from last year and progress against these.

Auditor Independence

13. 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 comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

14. 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 2019/20 audit fee of £63,700 for STPS and £67,030 for NHSPSS as set out in our Annual Audit Plan remain unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

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

16. We would like to thank all management and staff for their cooperation and assistance during the audit, particularly given the current challenges presented by the impact of Covid-19.

Part 1

Audit of 2019/20 annual report and accounts



Main judgements

The financial statements of STPS and NHSPSS give a true and fair view of their financial position as at 31 March 2020 and their expenditure and income for 2019/20.

The other information in the annual report is consistent with the financial statements and prepared in accordance with legal requirements.

We agreed with officers to delay our audit by a month due to the impact of pensions legal judgements on the annual accounts process.

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

Our audit opinions on the annual report and accounts are unmodified

17. The annual report and accounts for the year ended 31 March 2020 were approved by SPPA's accountable officer on 16 November 2020. We reported within the independent auditor's report that:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income were regular and in accordance with applicable enactments and guidance
- the audited part of the report of the managers 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.

18. The working papers provided to support the accounts were of a good standard and the audit team received support from finance staff which helped ensure the final accounts audit process ran smoothly.

Whole of Government Accounts

19. The deadline for submission of the required assurance statement to the National Audit Office has been extended to 4 December 2020. We are on course to meet this deadline.

Submission of the annual report and accounts to audit was delayed

20. There were delays to the STPS and NHSPSS resource accounts, prepared by the Government Actuary's Department (GAD), due to developments with the McCloud and Goodwin legal cases. GAD had to revise its calculations as a result

of decisions regarding these cases. The resource accounts support the content of much of the annual report and accounts, so the delay affected submission of the accounts to audit. We worked with SPPA and GAD to agree a new audit timetable and received the annual report and accounts for NHSPSS and STPS on 10 August 2020 and 17 August 2020 respectively. This was around a month later than originally planned.

Overall materiality is £11.4 million for STPS and £14.2 million for NHSPSS

21. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and the nature of a misstatement in the financial statements.

22. On receipt of the annual report and accounts for audit we reviewed our materiality bases and concluded that they remained appropriate. We updated the materiality amounts as shown in [Exhibit 2](#).

Exhibit 2 Materiality values

Materiality level - STPS	Amount
Overall materiality	£11.4 million
Performance materiality	£8.6 million
Reporting threshold	£250,000

Source: Audit Scotland

Materiality level - NHSPSS	Amount
Overall materiality	£14.2 million
Performance materiality	£10.7 million
Reporting threshold	£250,000

Source: Audit Scotland

Appendix 2 identifies the main risks of material misstatement and our audit work to address these

23. [Appendix 2](#) provides our assessment of risks of material misstatement in the annual report and accounts and any wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and indicate how the efforts of the audit team were directed. [Appendix 2](#) also identifies the work we undertook to address these risks and our conclusions from this work.

24. We have reported some issues from our work on the risks of material misstatement. These relate to improvements which could be made to systems of internal control and are included in the action plan at [Appendix 1](#).

We have one significant finding to report on the annual report and accounts

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 STPS and NHSPSS's accounting practices. The significant findings are summarised in [Exhibit 3](#).

Exhibit 3 Significant findings from the audit of financial statements

Issue	Resolution
<p>1. Valuation of pension liability</p> <p>The Supreme Court ruled last year that the UK Government had no grounds to appeal the McCloud judgement, regarding transitional provisions in public sector pensions being unlawfully age discriminatory. This means there may be a requirement to compensate pension scheme members for any discrimination suffered as a result of the transitional protections. The Government Actuary's Department (GAD) estimated past and future service costs for both pension schemes for the additional liability from this judgement and these were included as a provision in the 2018/19 STPS and NHSPSS annual accounts.</p> <p>HM Treasury published a consultation in July 2020 on changes to the McCloud transitional arrangements. This states that the changes should apply to all members who were in service on 31 March 2012 and 1 April 2015, including those with a break in service of less than five years. This represents a change in approach and GAD has revisited the calculations it made last year. It has estimated a negative past service cost of £340 million for STPS and £400 million for NHSPSS which have been included in the accounts. The current service cost for 2019/20 has also slightly reduced. The change in approach appears reasonable given the new information available.</p> <p>The Goodwin case is a legal challenge on survivor benefits. The case highlighted that male survivors of female scheme members remained entitled to a lower survivor benefit than a comparable same-sex survivor. The UK Government announced in July 2020 that changes are required to the Teachers' Pension Scheme (England and Wales) to address this discrimination, and in its opinion this difference in treatment will need to be remedied in other UK public service pension schemes. SPPA has instructed GAD to include past service costs of £175 million and £100 million in the STPS and NHSPSS accounts respectively. This approach appears prudent.</p> <p>The approach taken for both judgements appears reasonable but different approaches based on other assumptions, or different forms of remedy, may produce significantly different costs.</p>	<p>The approach taken in response to the McCloud and Goodwin judgements appears reasonable and is consistent with the treatment by GAD in other similar public sector pension schemes. GAD will keep this under review.</p>

There were no material misstatements arising from our audit

26. We did not identify any material misstatements or any misstatements above our reporting threshold.

STPS and NHSPSS have made progress on prior year recommendations

27. STPS and NHSPSS have made progress in implementing our prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

Part 2

Financial management



Main judgements

STPS and NHSPSS have appropriate in-year financial management arrangements. Both schemes operated within their 2019/20 budget.

Systems of internal control operated effectively in 2019/20, with scope for improvement in some areas.

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

SPPA is responsible for administering STPS and NHSPSS

28. STPS and NHSPSS are administered by SPPA. The cost of administering these schemes is included within SPPA's annual report and accounts. We have prepared a separate annual audit report which includes the findings of our audit of SPPA's annual report and accounts and consideration of the four audit dimensions.

STPS and NHSPSS operated within budget in 2019/20

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

30. STPS and NHSPSS are funded by Scottish Government annual managed expenditure (AME). Funding covers the cost of pension payments to retired members. STPS and NHSPSS's accrued resources are covered by one limit of £5,139.6 million. Total accrued resources were £4,352.0 million. The underspend in both schemes is mainly due to the negative past service costs and decrease in current service costs for the McCloud judgement (see [Exhibit 3](#)). STPS and NHSPSS's financial performance is shown in [Exhibit 4](#).

Exhibit 4

Performance against AME in 2019/20

Performance	Initial budget £m	Final budget £m	Actual outturn £m	Over/(under) spend £m
STPS	1,525.0	1,933.5	1,628.8	(304.7)
NHSPSS	3,020.0	3,206.1	2,723.2	(482.9)
Total budget limit	4,545.0	5,139.6	4,352.0	(787.6)

Source: Scottish Budget: 2019/20, The 2019/20 Spring Budget Revision, STPS and NHSPSS Annual Report and Accounts 2019/20

Budget processes were appropriate

31. We reviewed STPS and NHSPSS's budget setting and monitoring arrangements. SPPA's Management Advisory Board and Audit and Risk Committee receive regular finance updates on STPS and NHSPSS. These reports outline the financial position of the pension schemes and set out the assumptions on which the forecasts are based. We have confirmed from review of these reports, committee papers and attendance at committees that senior management and non-executive members receive regular and accurate information on the scheme's financial position.

Financial systems of internal control are operating effectively with scope for improvement in some areas

32. 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 STPS and NHSPSS have systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

33. We reviewed the controls within STPS and NHSPSS's key financial systems, which are operated by SPPA, and concluded that appropriate internal controls are in place and operating effectively. We did not identify any significant control weaknesses which could affect STPS and NHSPSS's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements. We did, however, identify some areas where controls could be strengthened. These are covered in the rest of this section.

34. We reviewed access rights to the Altair pensions administration system to ensure only current employees have access to the system. We found that two former employees still had access to the system. SPPA carries out six-monthly reviews of users to ensure systems access is restricted to appropriate people which means there can be a delay before leavers are identified. SPPA has confirmed that both users' access has now been removed.



Recommendation 1

SPPA should ensure user access is reviewed when staff changes are made.

35. The Altair system was upgraded in 2019/20 and is now also used for paying pensions. Officers produce a range of reports to reconcile pensions administration and payroll data and identify errors. SPPA do not retain any evidence to confirm these reports are reviewed and action has been taken where errors are identified.



Recommendation 2

SPPA should ensure checks on exception reports are formally evidenced.

36. The Epicor pensions contribution system is reconciled to the STPS and NHSPSS bank account on a monthly basis. A second officer reviews and authorises these reconciliations to ensure they have been prepared correctly and any differences have been investigated. We reviewed three reconciliations and found one where there was no evidence that the reconciliation had been reviewed.



Recommendation 3

SPPA should ensure evidence is retained to confirm bank reconciliations have been reviewed.

Part 3

Financial sustainability



Main judgements

STPS and NHSPSS are unfunded pension schemes. Pension payments are funded, as they fall due, from the Scottish Government's annual managed expenditure budget. We are satisfied with the scheme manager's view that both schemes continue to be a going concern.

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

We are satisfied with the scheme manager's view that STPS and NHSPSS both continue to be a going concern

37. The Scottish Government approved 2020/21 budgets for STPS and NHSPSS of £1,836.6 million and £3,548.5 million respectively. SPPA finance officers are responsible for preparing annual budget information to inform the budget allocations from the Scottish Government.

38. The most recent finance update to SPPA's Management Advisory Board outlined the financial position of STPS and NHSPSS at end August 2020. The pensions schemes have a combined underspend in resource costs (income less accrued costs) of £97 million and an underspend in cash requirements (income less pensions, lump sums and transfer payments) of £95 million. The budget is adjusted every year at the Scottish Government's Spring budget revision and UK Treasury supplementary estimate to ensure STPS and NHSPSS have funds to pay pensions.

39. The 2019/20 annual report and accounts show that:

- STPS has net liabilities of £43.5 billion, an increase of £6.8 billion
- NHSPSS has net liabilities of £76.6 billion, an increase of £14.1 billion.

40. STPS and NHSPSS are unfunded pension schemes, with funding for pension payments provided by the Scottish Government as they fall due. Pension liabilities can change significantly, year to year, due to changes in actuarial assumptions. SPPA prepares annual budgets for the pension schemes but does not plan beyond one year. This is reasonable given the difficulty in forecasting expenditure.

41. The scheme manager, SPPA, has concluded in the annual accounts that it is appropriate that the accounts of both schemes are prepared on a going concern basis. This is on the basis that funding to meet pension payments is made available from the Scottish Government's annual managed expenditure budget. We are satisfied with the scheme manager's view.

Part 4

Governance and transparency



Main judgements

STPS and NHSPSS have adequate governance arrangements in place. SPPA must ensure it has the right capacity to support effective governance and scrutiny of the pension schemes.

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.

Overall governance and transparency arrangements are adequate

42. STPS and NHSPSS are supported by pension boards and scheme advisory boards introduced under the Public Service Pensions Act 2013. The pension boards are responsible for assisting SPPA, the scheme manager, with the operational management of the schemes. The purpose of the scheme advisory board is to provide advice on the desirability of changes to scheme design and the implication of other policy issues. The pension board membership is comprised of employer and member representatives. The advisory board membership includes employers, members, and Scottish Government representatives.

43. SPPA has made appropriate adjustments to the governance arrangements for STPS and NHSPSS to respond to the Covid-19 pandemic. Recent pension board and scheme advisory board meetings have been conducted virtually.

44. In assessing governance and transparency arrangements we consider:

- board and committee structure and conduct
- overall arrangements and standards of conduct including those for the prevention and detection of fraud, error, bribery and corruption
- openness of board and committees
- public access to information via websites
- reporting of performance and whether this is fair, balanced and understandable.

45. We concluded that STPS and NHSPSS have adequate governance arrangements in place that support the scrutiny of decisions.

46. SPPA's Target Operating Model, which looks at the structures, skills and capacity needed to deliver services, has resulted in changes to how it supports pension scheme governance arrangements. This includes a new structure for the governance team which SPPA is in the process of implementing. We recommended in the 2019/20 SPPA annual audit report that SPPA should ensure it has the right capacity to support effective governance and scrutiny. We also recommended that SPPA should consider whether there are opportunities for it to

enhance transparency. For STPS and NHSPSS this includes making pension board and scheme advisory board papers publicly available where appropriate.

The governance statements prepared for STPS and NHSPSS could better reflect the risks faced by the pension schemes

47. The Government Financial Reporting Manual requires STPS and NHSPSS to prepare annual governance statements within the annual report and accounts. The Scottish Public Finance Manual (SPFM) provides guidance on the content of the governance statement.

48. The SPFM does not prescribe a format for the governance statement but sets out minimum requirements for central government bodies. This includes assessment of risk management arrangements and risk profile, with details of significant risk-related matters arising during the year. We concluded that the 2019/20 governance statements for STPS and NHSPSS comply with the minimum requirements of the SPFM but could more clearly describe the main risks faced by the pension schemes.



Recommendation 4

STPS and NHSPSS should ensure their annual governance statements better reflect significant risk-related issues arising during the year.

Part 5

Value for money



Main judgements

The 2020 STPS and NHSPSS annual benefits statements contained an unacceptable number of errors. Officers have put a plan in place to correct and reissue them by the end of November.

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

STPS and NHSPSS failed to meet the Pension Regulator's requirements for annual benefits statements

49. The performance of STPS and NHSPSS is monitored by SPPA's Management Advisory Board and the pension boards. The schemes' performance is measured against several performance targets set out in SPPA's Business Plan. Performance reports are presented in a "dashboard" form to allow board members to monitor progress against the performance targets. The reports include updates on performance against a range of key performance indicators and specific projects. The performance measures are the responsibility of SPPA as pension scheme managers. The reports show that SPPA has achieved the majority of its 2019/20 performance targets.

50. SPPA has responsibility for issuing annual benefits statements to members. The deadline for this is 31 August. SPPA was made aware, following customer enquiries, that the 2020 NHSPSS and STPS members statements contained an unacceptable number of errors. It has put a plan in place to correct and reissue them by the end of November. It has informed all stakeholders, including the Pensions Regulator which has accepted the revised plan. SPPA is investigating what caused this to happen.



Recommendation 5

SPPA should ensure the issue is rectified so that it can issue accurate, timely annual benefits statements to all members.

National performance audit reports

51. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2019/20 one report was published which is of direct interest to STPS and NHSPSS, see [Appendix 3](#).

52. SPPA's Audit and Risk Committee periodically considers relevant Audit Scotland reports.

Appendix 1

Action plan 2019/20



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Altair access rights</p> <p>We reviewed access rights to the Altair pensions administration system to ensure only current employees have access to the system. We found that two former employees still had access to the system. SPPA carries out six-monthly reviews of users to ensure systems access is restricted to appropriate people which means there can be a delay before leavers are identified. SPPA has confirmed that both users' access has now been removed.</p> <p>Risk</p> <p>Individuals gain unauthorised access to pensions information.</p>	<p>SPPA should ensure user access is reviewed when staff changes are made.</p> <p>Paragraph 34</p>	<p>Altair has been set up to expire user accounts after 3 months of inactivity.</p> <p>Obtain a list of leavers each month from Business Management and remove access rights.</p> <p>[Head of Digital Transformation IT Operations 30 November 2020]</p>
2	<p>Review of exception reports</p> <p>The Altair system was upgraded in 2019/20 and is now also used for paying pensions. Officers produce a range of reports to reconcile pensions administration and payroll data and identify errors. SPPA do not retain any evidence to confirm these reports are reviewed and action has been taken where errors are identified.</p> <p>Risk</p> <p>Incorrect pension payments are not identified and resolved.</p>	<p>SPPA should ensure checks on exception reports are formally evidenced.</p> <p>Paragraph 35</p>	<p>Details of the member of staff responsible for reviewing the reports will be recorded on the rota sheet maintained by the Payroll team in Customer Services.</p> <p>31 October 2020</p> <p>Improvements to the reports are being explored including obtaining the reports in CSV format rather than PDF so that the responsible officer can more easily interrogate the reports.</p> <p>31 March 2021</p> <p>[Head of Customer Services]</p>
3	<p>Bank reconciliations review</p> <p>The Epicor pensions contribution system is reconciled to the STPS and NHSPSS bank account on a monthly basis. A second officer reviews and authorises these reconciliations to ensure they have been prepared correctly and any differences have</p>	<p>SPPA should ensure evidence is retained to confirm bank reconciliations have been reviewed.</p> <p>Paragraph 36</p>	<p>Agreed - controls have been reviewed and enhanced</p> <p>[Head of Finance and Procurement – Immediate]</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>been investigated. We reviewed three reconciliations and found one where there was no evidence that the reconciliation had been reviewed.</p> <p>Risk</p> <p>Errors are not identified and investigated timeously.</p>		
4	<p>Governance statement disclosures</p> <p>The Scottish Public Finance Manual (SPFM) sets out minimum requirements for central government bodies' governance statements. This includes assessment of risk management arrangements and risk profile, with details of significant risk-related matters arising during the year. We concluded that the 2019/20 governance statements for STPS and NHSPSS comply with the minimum requirements of the SPFM but could more clearly describe the main risks faced by the pension schemes.</p> <p>Risk</p> <p>Governance statements do not present a complete picture of governance arrangements and risk-related matters.</p>	<p>STPS and NHSPSS should ensure their annual governance statements better reflect significant risk-related issues arising during the year.</p> <p>Paragraph 48</p>	<p>The Corporate Governance Statement forms part of the overall Annual Report and Accounts and will be considered as part of lessons learned from 2019-20 exercise and will be taken into account in the planning and preparation for the 2020-21 exercise.</p> <p>[Head of Business Affairs 31 July 2021]</p>
5	<p>Annual benefits statements</p> <p>SPPA has responsibility for issuing annual benefits statements to members. The deadline for this is 31 August. SPPA was made aware, following customer enquiries, that the 2020 NHSPSS and STPS members statements contained an unacceptable number of errors. It has put a plan in place to correct and reissue them by the end of November. It has informed all stakeholders, including the Pensions Regulator which has accepted the revised plan. SPPA is investigating what caused this to happen.</p> <p>Risk</p> <p>Members receive inaccurate information on their pensions.</p>	<p>SPPA should ensure the issue is rectified so that it can issue accurate, timely annual benefits statements to all members.</p> <p>Paragraph 50</p>	<p>The Agency's planning and preparation for issuing Annual Benefits Statements in 2021-22 will draw upon lessons learned in 2020-21.</p> <p>[Head of Customer Services 31 May 2021]</p>

Follow up of prior year recommendations



No.	Issue/risk	Recommendation	Agreed management action/timing
b/f 1	<p>Quality of data for actuarial valuation</p> <p>The Government Actuary's Department's (GAD) latest full actuarial valuations of the pension schemes were published in February 2019 based on membership data at 31 March 2016. GAD needed to make a considerable number of adjustments and assumptions to the data provided by officers to enable the valuation to be completed. This was due to the quality of the membership and movements data. In GAD's opinion these adjustments are reasonable and appropriate for the purposes of the actuarial valuation. However, GAD recommended in the report that management takes forward initiatives to improve valuation data quality before the next actuarial valuation as at 31 March 2020.</p> <p>Risk</p> <p>GAD noted that the uncorrected employer contribution rate and employer contribution correction cost in the report might have been different if more reliable data had been available.</p>	<p>Officers should ensure planned work to improve valuation data quality is completed before the next actuarial valuation gets underway.</p>	<p>In progress</p> <p>Officers have agreed a programme of actions to ensure improvements are made to the quality of data for the next actuarial valuation. This work is underway, and GAD has confirmed the issues it raised are being covered in its preparatory work with SPPA on the 2020 valuation.</p>
b/f 2	<p>Pension transfers</p> <p>During our testing we found a transfer to the STPS had been made in error to the NHSPSS. Officers carried out a review of all transfers and identified six with a total value of £1.0 million which had been wrongly coded to NHSPSS. This error was amended by management in the audited accounts of STPS and NHSPSS.</p> <p>Risk</p> <p>Income is incorrectly allocated and accounted for.</p>	<p>Officers should review the controls over income collection for the pension schemes.</p>	<p>Complete</p> <p>SPPA has reviewed and enhanced controls over income collection. We did not identify any issues from our testing of pension transfers.</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 to our wider responsibility under the [Code of Audit Practice 2016](#). We did not identify any wider dimension risks for STPS and NHSPSS.

Risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<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>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 which are outside the normal course of business.</p>	<p>We sample tested year end journals. No issues identified.</p> <p>We reviewed accounting estimates. No issues identified.</p> <p>We sample tested accruals and receivables. No issues identified.</p> <p>We found no evidence of transactions outside the normal course of business.</p> <p>From work carried out in year, we found no evidence of management override of controls.</p>
<p>2 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>System review of Epicor focusing on key controls</p> <p>Sample testing of Epicor contributions from other audited bodies (NHS and councils) to ensure consistency with schemes records.</p> <p>Evaluation of the accounting treatment of significant income transactions that are outside the normal course of business.</p>	<p>We identified an issue with the Epicor bank reconciliation key control (see Appendix 1 Action plan).</p> <p>We did not identify any issues from sample testing of Epicor contributions from other audited bodies.</p> <p>We did not identify any significant income transactions outside the normal course of business.</p>
<p>3 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 means that there is an inherent risk of fraud.</p>	<p>System reviews of Altair and Resourcelink and the enhanced Altair system focusing on key controls for the schemes.</p> <p>Focused substantive testing on higher risk areas and more complex areas including new awards and deaths.</p>	<p>We identified issues with Altair user access rights and reconciliation reports key controls (see Appendix 1 Action plan), we did not identify any Resourcelink issues.</p> <p>We did not find any issues from substantive testing of expenditure.</p>

Risk	Assurance procedure	Results and conclusions
<p>4 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 unreasonable judgements and assumptions.</p>	<p>Review of the work of GAD focusing on reliability, professional competence and capability.</p> <p>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.</p> <p>Review reports to GAD supporting valuation data.</p> <p>Review PWC's report on public sector pensions which provides an assessment of GAD's actuarial processes and assumptions.</p>	<p>We reviewed the reliability, professional competence and capability of GAD and found no issues.</p> <p>We discussed work practices, validation processes and quality review with GAD and concluded that arrangements are satisfactory allowing us to place reliance on GAD.</p> <p>We reviewed and agreed GAD reports to the figures and disclosures in the annual accounts and found no issues.</p> <p>PWC's report supported our judgement that we could rely on the work of GAD.</p>

Appendix 3

Summary of national performance reports 2019/20

		 2019/20 Reports	
		Apr	
Social security: Implementing the devolved powers		May	
Scotland's colleges 2019		Jun	 Enabling digital government
		Jul	
NHS workforce planning - part 2		Aug	
Finances of Scottish universities		Sept	
NHS in Scotland 2019		Oct	
		Nov	
Local government in Scotland: Financial overview 2018/19		Dec	
Scotland's City Region and Growth Deals		Jan	 Privately financed infrastructure investment: The Non-Profit Distributing (NPD) and hub models
		Feb	
		Mar	 Early learning and childcare: follow-up

The following report may be of interest to STPS and NHSPSS:

[*Enabling digital government*](#) – June 2019

Scottish Teachers' Pension Scheme and NHS Pension Scheme (Scotland)

2019/20 Annual Audit Report

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