

Scottish Public Pensions Agency NHS Pension Scheme (Scotland) Scottish Teachers' Pension Scheme Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for Scottish Public Pensions Agency
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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of Scottish Public Pensions Agency (SPPA), NHS Pension Scheme (Scotland) (NHSPSS) and Scottish Teachers' Pension Scheme (STPS). The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of SPPA, NHSPSS and STPS' annual report and accounts, and provision of Independent Auditor's Reports
- an audit opinion on regularity and other statutory information published within the annual report and accounts including the Performance Report, the Governance Statement and the Remuneration and Staff Report (SPPA) and the Report of the Scheme's Managers and the Annual Governance Statement (NHSPSS and STPS)
- consideration of arrangements in relation to the audit dimensions that frame the wider scope of public sector audit: financial management, financial sustainability, governance and transparency and value for money
- consideration of Best Value arrangements
- review SPPA's participation in the National Fraud Initiative.

Impact of Covid-19

2. The coronavirus disease (Covid-19) pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future.

3. Audit Scotland continues to assess the risks to public services and finances from Covid-19 across the full range of our audit work. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

Adding value

4. We aim to add value to SPPA, NHSPSS and STPS through our external audit by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we will help SPPA, NHSPSS and STPS promote improved standards of governance, better management and decision making and more effective use of resources. Additionally,

we attend meetings of the Audit and Risk Committee and actively participate in discussions.

Respective responsibilities of the auditor and SPPA, NHSPSS and STPS

5. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and the organisations we audit. Key responsibilities are summarised below.

Auditor responsibilities

6. 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.

7. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. 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.

SPPA, NHSPSS and STPS' responsibilities

8. SPPA, NHSPSS and STPS are responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

9. Also, SPPA, NHSPSS and STPS 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 deliver their objectives.

Managing the transition to 2022/23 audits

10. Audit appointments are usually for five years but were extended to six years due to Covid-19. 2021/22 is the final year of the current appointment and we will work closely with our successors to ensure a well-managed transition.

Financial statements audit planning

Materiality

11. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the matter arising.

Materiality levels for the 2021/22 audit

12. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for SPPA, NHSPSS and STPS are set out in [Exhibit 1](#).

Exhibit 1

2021/22 Materiality levels for SPPA

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 2022 based on the latest budget projection for 2021/22.	£0.25 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 assessed performance materiality at 75% of planning materiality.	£0.19 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.	£12,000

Source: Audit Scotland

2021/22 Materiality levels for NHSPSS

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 2022 based on the 2020/21 audited financial statements.	£14.76 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 assessed performance materiality at 75% of planning materiality.	£11.07 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.	£250,000

Source: Audit Scotland

2021/22 Materiality levels for STPS

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 2022 based on the 2020/21 audited financial statements.	£11.55 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 assessed performance materiality at 75% of planning materiality.	£8.66 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.	£250,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

13. Our risk assessment draws on our cumulative knowledge of SPPA, NHSPSS and STPS, their major transaction streams, key systems of internal control and risk

management processes. Also, it is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

14. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2021/22 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by the management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of its ability to override controls that otherwise appear to be operating effectively. (SPPA, NHSPSS and STPS)</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"> • Assess the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Test journals at the year-end and post-closing entries and focus on significant risk areas. • Consider the need to test journal entries and other adjustments during the period. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. • We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments.
<p>2. Information supporting scheme valuations</p>	<p>Regular meetings and communication between SPPA</p>	<ul style="list-style-type: none"> • Review of the work of GAD focusing on reliability, professional competence, and capability.

Significant risk of material misstatement	Sources of assurance	Planned audit response
<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>(NHSPSS and STPS)</p>	<p>and GAD. All key meetings are minuted. SPPA provides timely and accurate data to GAD.</p>	<ul style="list-style-type: none"> • 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. • Review reports to GAD supporting valuation data. • Commission review of GAD by independent expert.

Source: Audit Scotland

15. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statements*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements.

16. We consider the risk of fraud to be low for SPPA because, excluding Scottish Government funding, we expect SPPA's income to be immaterial.

17. We also do not consider this to be a significant risk for NHSPSS and STPS. In previous years we found that controls operated adequately, and we found no material errors or misstatements. NHSPSS and STPS' income comes mainly from individual pension contributions and transfers into the schemes. The high volume of transactions means that the likelihood of fraud resulting in a material misstatement to the financial statements is low.

18. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition.

19. We consider this risk to be low for SPPA because the majority of SPPA's expenditure is in areas which are stable and predictable. Staff costs, IT maintenance and the actuarial services contract with GAD represented 82% of SPPA's 2020/21 operating costs.

20. We also do not consider this risk to be significant for NHSPSS and STPS. We found controls were operating adequately last year and we have not identified any fraudulent payments from our previous audit work. NHSPSS and STPS' expenditure is on individual pension payments, lump sums and transfers out of the scheme. The high volume of transactions means the likelihood of fraud resulting in a material misstatement to the financial statements is low.

21. For both risk areas for SPPA we have not included specific work in our audit plan over and above our standard audit procedures.

22. For NHSPSS and STPS, we consider there to be risks of material misstatement for fraud over recognition of revenue and fraud related to expenditure recognition. As noted above we do not consider these risks to be significant but we will carry out some specific work to address them including sample testing of pension contributions and substantive testing of higher risk and more complex pension payments.

Other areas of audit focus

23. As part of our assessment of audit risks, we have identified one other area where we consider there are also risks of material misstatement to the financial statements.

24. SPPA has material year-end receivables and payables relating to the payment of pensions on behalf of Police Service of Scotland and Scottish Fire and Rescue Service. The accuracy of these balances depends on information held out with SPPA's main financial systems which increases the risk that these balances could be misstated.

25. Based on our assessment of the likelihood and magnitude of the risk and the outcome of 2020/21 audit work, we do not consider this to be a significant risk. We will keep this area under review as our audit progresses and we will carry out the same audit procedures as last year. If our assessment of risk changes and we consider this risk to be significant, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.

Audit risk assessment process

26. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available as the audit progresses. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

Audit dimensions and Best Value

Introduction

27. The [Code of Audit Practice](#) sets out the four dimensions that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the audit dimensions in audited bodies.

Audit dimensions

28. The four dimensions that frame our audit work are shown in [Exhibit 3](#).

Exhibit 3

Audit dimensions



Source: Code of Audit Practice

29. In summary, the four dimensions cover the following:

- **Financial management** – financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Financial sustainability** – 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).

- **Governance and transparency** – 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.
- **Value for money** – value for money refers to using resources effectively and continually improving services.

Duty of Best Value

30. Ministerial Guidance to Accountable Officers for public bodies and the **Scottish Public Finance Manual** (SPFM) explain that accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will be carrying out a high-level review to confirm that such arrangements are in place within SPPA.

Audit dimension risks

We have identified audit risks in the areas set out in [Exhibit 4](#). This exhibit sets out the risks, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risks.

Exhibit 4

2021/22 Audit dimension risks

Description of risk	Sources of assurance	Planned audit response
<p>1. Financial sustainability</p> <p>SPPA has forecast significant annual revenue budget deficits from 2022/23 and unfunded project costs. This highlights the increasingly challenging financial climate it is operating in.</p> <p>We have reported in previous years that SPPA’s strategic plans and five-year budgets do not set out the actions SPPA is taking to ensure its finances are sustainable.</p> <p>There is a risk that SPPA cannot demonstrate how</p>	<p>SPPA has prepared and submitted a five-year financial forecast in support of the Scottish Government’s resource spending review for 2022-23 to 2026-27. This will form the basis for medium term strategic and short-term business planning.</p>	<ul style="list-style-type: none"> • Review SPPA’s longer term financial plans and forecasts. • Review efficiency savings reported by SPPA.

Description of risk	Sources of assurance	Planned audit response
<p>it will manage its finances in the longer term.</p> <p>(SPPA)</p>		
<p>2. Leadership and management capacity</p> <p>SPPA has implemented a new executive team structure consisting of four senior officers and the chief executive. Three of the senior officer posts have been filled on an interim basis with permanent recruitment planned. This is happening during a period of change and challenge for SPPA. We also note that several other key posts are vacant, including in the finance team. SPPA has agreed a key business priority to develop a comprehensive workforce plan.</p> <p>There is a risk that SPPA is not adequately organised and resourced and does not have the leadership capacity needed to ensure it achieves its strategic objectives.</p> <p>(SPPA)</p>	<p>SPPA is aiming to formalise its workforce plans to support strategic and business plans, including addressing succession planning and skills shortages by August 2022.</p>	<ul style="list-style-type: none"> • Review SPPA's progress in developing a workforce plan • Review SPPA's progress with the pension platform programme. • Review the Accountable Officer's arrangements for securing Best Value.

Source: Audit Scotland

Reporting arrangements, timetable, and audit fee

Reporting arrangements

31. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 5](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

32. 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 officers to confirm factual accuracy.

33. 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 report and accounts. We will provide SPPA and the Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

34. [Exhibit 5](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the statutory deadline of 31 October 2022.

Exhibit 5 2020/21 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	31/03/2022	24/03/2022
Independent Auditor's Report (SPPA)	31/10/2022	29/09/2022
Independent Auditor's Reports (NHSPSS and STPS)	31/10/2022	By 31/10/2022
Annual Audit Report	31/10/2022	By 31/10/2022

Source: Audit Scotland

Timetable

35. To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. This includes ensuring the SPPA unaudited annual report and accounts include a complete performance report. We have included a proposed timetable for the audit at [Exhibit 6](#) that has been discussed with management.

36. Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. To this end, 2021/22 is a transition year with the reporting deadline brought forward by one month compared to the last two years. We are identifying ways to work more efficiently to expedite the 2021/22 audits whilst at the same time maintaining high standards of quality.

37. We will continue to work in close partnership with management to ensure clear expectations over timescales and the requirement for high quality unaudited accounts and supporting working papers. We will discuss progress with management and finance officers over the course of the audit.

Exhibit 6

Proposed annual report and accounts timetable

 Key stage - SPPA	 Provisional Date
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	11 July 2022
Latest date for final clearance meeting with the Head of Finance, Procurement and Risk	2 September 2022
Issue of Letter of Representation and proposed Independent Auditor's Report	22 September 2022
Agreement of audited and unsigned annual report and accounts	29 September 2022
Signed Independent Auditor's Report	29 September 2022
Latest date for signing of Scottish Government consolidation return	19 August 2022 (To be confirmed)

**Key stage – NHSPSS and STPS****Provisional Date**

Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	8 August 2022
Latest date for final clearance meeting with the Director of Finance, Procurement and Risk	17 October 2022
Issue of Letter of Representation and proposed Independent Auditor's Report	By 24 October 2022
Issue of SPPA, NHSPSS and STPS Annual Audit Report to those charged with governance.	By 24 October 2022
Agreement of audited and unsigned annual report and accounts	By 31 October 2022
Signed Independent Auditor's Report	By 31 October 2022
Latest date for WGA assurance	To be confirmed

Audit fee

38. The proposed audit fees for the 2021/22 audits are:

- Scottish Public Pension Agency: £26,880 (2020/21: £26,340)
- NHS Pension Scheme (Scotland): £70,090 (2020/21: £68,700)
- Scottish Teachers' Pension Scheme: £66,630 (2020/21: £65,290)

39. In determining the audit fee, we have taken account of the risk exposure of the SPPA, NHSPSS and STPS, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit.

40. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts or the absence of adequate supporting working papers, 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.

Other matters

Internal audit

41. International standards on Auditing (UK) 610: *Considering the work of internal audit* requires us to:

- consider the activities of internal audit and their effect on external audit procedures
- obtain an understanding of internal audit activities to inform our planning and develop an effective audit approach that avoids duplication of effort
- perform a preliminary assessment of the internal audit function when there is scope for relying on internal audit work which is relevant to our financial statements' responsibilities
- evaluate and test the work of internal audit, where use is made of that work for our financial statements responsibilities to confirm its adequacy for our purposes.

42. We plan to consider the findings of the following internal audit reviews:

- Corporate governance
- Capacity and capability
- Three follow-up reports.

Independence and objectivity

43. Auditors appointed by the Auditor General for Scotland 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.

44. 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.

45. The joint engagement leads for SPPA, NHSPSS and STPS are Gemma Diamond and Mark Roberts, Audit Directors, and Gemma Diamond is the appointed auditor. 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

46. International Standard on Quality Control (UK) 1 (ISQC1) requires a system of quality control to be 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.

47. 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 (ICAS) have been commissioned to carry out external quality reviews.

48. 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 leads.

Scottish Public Pensions Agency NHS Pension Scheme (Scotland)

Scottish Teachers' Pension Scheme

Annual Audit Plan 2021/22

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

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