

Scottish Public Pensions Agency

Annual Audit Plan 2016/17



 AUDIT SCOTLAND

Prepared for the Scottish Public Pensions Agency

January 2017

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 and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and other relevant guidance. The plan identifies our audit work to provide an opinion on the financial statements and related matters. It also outlines the wider scope requirements of public audit in contributing to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Audit risks

2. We identified the following main risk areas for the Scottish Public Pensions Agency (SPPA), the NHS Pension Scheme (Scotland) and the Scottish Teachers' Pension Scheme. These are based on our discussions with staff, attendance at committee meetings and a review of supporting information. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1

Audit Risk	Management assurance	Planned audit work
Financial statement issues and risks		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p> <p>(Agency and Pension schemes)</p>	<p>Monthly performance reports to Directors and to the Senior Management Team.</p> <p>Procedural and guidance notes which support record keeping to prevent any override of controls.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>
<p>2 Risk of fraud over expenditure</p> <p>The Financial Reporting Council's Practice Note 10 (revised) requires auditors of public bodies to give consideration of the risk of fraud over expenditure. The extent of expenditure, for example, volume of benefits paid means that there is an inherent risk of fraud.</p> <p>(Agency and Pension Schemes)</p>	<p>Key controls working effectively in Altair and Resourcelink.</p> <p>Counter fraud arrangements are well established and working effectively.</p>	<p>System review of Altair and Resourcelink focusing on key controls.</p> <p>Focused substantive testing on higher risk areas and more complex areas including new awards and deaths.</p>

Audit Risk	Management assurance	Planned audit work
<p>3 Risk of fraud over income</p> <p>SPPA receive a significant amount of income from contributions in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p> <p>(Pension schemes)</p>	<p>Key controls working effectively in EPICOR.</p> <p>Counter fraud arrangements are well established and working effectively.</p> <p>Sound budgetary control and monitoring arrangements in place.</p> <p>Internal audit work on bank receipts and collection procedures.</p>	<p>System review of EPICOR focusing on key controls.</p> <p>Sample testing of contributions from other audited bodies (such as councils and health boards) to ensure consistency with SPPA records.</p> <p>Review of internal audit work on bank receipts and collection procedures.</p>
<p>4 Pension contributions</p> <p>Contributions income, as processed and recorded on EPICOR, is key in calculating scheme liabilities and current service costs. Robust procedures are required for reconciling income received to employers' annual returns to ensure that monies due from over 1,000 different employers are received timeously and in full. SPPA continue to develop the reconciliation process between EPICOR contributions and employers' annual returns.</p> <p>Failure to manage and reconcile contributions income effectively may impact on the schemes' liabilities and actuarial valuations.</p> <p>(Pension schemes)</p>	<p>EPICOR reports are prepared and reviewed regularly for unpaid contributions, overpayments, performance (for employer contributions), and overpayment ageing reports.</p>	<p>Review the progress of reconciliations, with timescales and targets agreed.</p> <p>Review of reconciliations during the financial statements audit.</p> <p>Sample testing of contributions from other audited bodies to ensure consistency with SPPA records.</p>
<p>5 Information supporting scheme valuations</p> <p>The decisions taken by SPPA in relation to the schemes are heavily 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.</p> <p>In addition, pension liabilities are based on extracts of members data incorporated in GAD's established roll forward methodology. SPPA needs to ensure that the implications of changes to membership profiles are completed timeously and in full to ensure that accurate information is transferred to GAD.</p>	<p>Regular meetings and communication between SPPA and GAD.</p> <p>The SPPA Operations team provides timely and accurate data reports to GAD.</p>	<p>Review the work of GAD focusing on reliability, professional competence and capability.</p> <p>Meet with GAD to discuss quality review processes to determine where reliance can be taken in relation to GAD's internal processes. In addition, review GAD's validation processes.</p> <p>Review reports to GAD supporting valuation data.</p> <p>Review PWC's report on assessing GAD's actuarial processes and assumptions.</p>

Audit Risk	Management assurance	Planned audit work
<p>There is a risk that the actuarial information for valuing the schemes could be affected by incomplete or inaccurate information, or the use of unreasonable judgements and assumptions.</p> <p>(Pension schemes)</p>		
Wider dimension risks		
<p>6 Financial sustainability and financial management</p> <p>SPPA do not currently have a long-term financial strategy. Developing and maintaining a long-term financial strategy will help set the context for annual budgets. It will also help clarify the financial sustainability of the organisation over an extended period and can help identify any problems with affordability at an early stage. A long-term financial strategy should have clear links to the Agency's strategic objectives, corporate plan, workforce plans and annual business plans.</p> <p>There is a risk that given the substantial changes in the organisation, decisions may be taken without a clear understanding of the financial implications beyond the current financial year and how they affect the overall financial sustainability of the Agency.</p>	<p>SPPA are preparing a new corporate plan extending to 2019/20 which will include a medium-term financial strategy.</p>	<p>Review progress in the development of longer-term financial planning.</p>
<p>7 Workforce planning</p> <p>Workforce planning is a key element of assessing and shaping the future requirements and structure of the organisation's workforce. Without an effective organisation-wide workforce plan, there is a risk that workforce decisions may be uncoordinated leading to decisions in one area having unintended consequences in another.</p> <p>SPPA is currently developing a longer-term workforce plan and establishing a target operating model as part of its transformation programme 'One SPPA'.</p>	<p>Management are working on a move towards a target operating model.</p> <p>An initial deadline of 31 July 2017 is currently under review with regard to the work on workforce planning.</p>	<p>We will monitor progress on workforce planning arrangements throughout the year.</p>

Audit Risk	Management assurance	Planned audit work
<p>8 Project 2017</p> <p>The Agency's Project 2017 features as a key risk on its risk register. The project, with a budget of £5.6 million, aims to deliver a bespoke unified pension administration and payment system for the Pension scheme accounts and it is therefore central to the Agency's effective operation. The size and scale of Project 2017 means it has significant financial, reputational and service delivery risks.</p> <p>It is therefore critical that the Agency ensures Project 2017 is properly managed to ensure its successful delivery and that the public and users get the full benefits of the investment.</p>	<p>The Scottish Government's ICT assurance team has reviewed and has given a 'go assessment' to the project.</p> <p>Gateway reviews have been carried out by the Scottish Government.</p> <p>Ongoing discussions with the contractor.</p>	<p>Review progress on the delivery of the system.</p> <p>Review the gateway review documentation and SPPA's actions to address any recommendations.</p> <p>Review the Scottish Government's ICT assurance report and SPPA's actions to address any recommendations.</p>

National Fraud Initiative

3. The National Fraud Initiative (NFI) is a data-matching exercise co-ordinated by Audit Scotland to aid the detection of fraudulent payments. The NFI allows public bodies to investigate matches and subsequently stop and recover payments where fraud or error exists. It also allows auditors to assess the arrangements that bodies have in place to prevent and detect fraud, including how they approach the NFI exercise itself.

4. The current data matching exercise collected data in October 2016 and investigation work is due to begin in January 2017. We will monitor SPPA's participation and progress with NFI and report progress in our Annual Audit Report.

Reporting arrangements

5. This annual audit plan will be published on our website, www.audit-scotland.gov.uk. We will also publish the planned audit outputs as detailed in [Exhibit 2](#) along with any other outputs on matters of public interest.

6. 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.

7. We will provide an independent auditor's report for the Agency and Pensions schemes to the Scottish Public Pensions Agency, the Scottish Parliament and the Auditor General for Scotland summarising the results of the audit of 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 course of the audit.

8. 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 the Scottish Parliament within nine months of the financial year end (i.e. 31

December). The Agency is therefore required to submit their audited financial statements in line with the Scottish Government's accounts consolidation timetable.

Exhibit 2

2016/17 Audit outputs

Audit output	Target date	Audit and Risk Committee Date
Interim audit report	18 April 2017	18 April 2017
ISA 260 report for Agency accounts	July 2017	July 2017 (TBC)
Annual Audit Report including ISA 260 requirements (for both Agency and Pension schemes)	25 September 2017	25 September 2017
Signed Independent Auditor's Report (Agency)	July 2017	as above
Signed Independent Auditor's Report (Pension schemes)	25 September 2017	as above

Audit fee

9. The proposed notional audit fees for the 2016/17 audits are:

- SPPA: £24,180
- NHS Pension Scheme (Scotland): £63,120
- Scottish Teachers' Pension Scheme: £59,980.

10. In determining the audit fee we have taken account of the risk exposure of the SPPA, 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 5 June 2017 for the Agency accounts and 17 July 2017 for the Pension scheme accounts.

11. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements 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 outwith our planned audit activity.

Responsibilities

Audit and Risk Committee and Accountable Officer

12. 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.

13. 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

14. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000, and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

15. Auditors in the public sector give an independent opinion on 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

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

- understanding the business of the SPPA including the Pension 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 the SPPA will include these in the financial statements for both the Agency and the Pension schemes
- 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.

17. We will give an opinion on the financial statements as to:

- whether they give a true and fair view of the financial position of the audited bodies and their expenditure and income
- 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.

Materiality

18. Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements. We calculate materiality at different levels as described below. The calculated materiality values for the SPPA are set out in [Exhibit 3](#).



Exhibit 3

Materiality values

Agency materiality level	Amount
Planning materiality - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at one per cent of gross expenditure for the year ended 31 March 2017 based on the budgetary forecast for 2016/17.	£0.185 m
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 per cent of planning materiality.	£0.139 m
Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements in excess of the reporting threshold amount. This has been calculated at approximately five per cent of planning materiality.	£0.010 m

NHS Pension Scheme (Scotland) materiality level	Amount
Planning materiality - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at one per cent of benefits paid for the year ended 31 March 2017 based on the latest audited accounts for 2015/16.	£10.978 m
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 90 per cent of planning materiality.	£9.880 m
Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements in excess of the reporting threshold amount. This has been calculated at one per cent of planning materiality.	£0.100 m

Scottish Teachers' Pension Scheme materiality level	Amount
Planning materiality - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at one per cent of benefits paid for the year ended 31 March 2017 based on the latest audited accounts for 2015/16.	£10.768 m
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 90 per cent of planning materiality.	£9.691 m
Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at one per cent of planning materiality.	£0.100 m

19. We review and report on other information published with the financial statements including the performance report, accountability report including the annual governance report and the remuneration and staff report. Any issues identified will be reported to the Audit and Risk Committee.

Timetable

20. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit and Risk Committee dates:

Exhibit 4

Financial statements timetable

 Key stage for Agency	 Date
Meeting with officers to clarify working paper expectations	March 2017
Latest submission date of unaudited Agency's financial statements with complete working papers package	5 June 2017
Latest date for final clearance meeting with Director of Finance	24 June 2017
Agreement of audited unsigned financial statements; Issue of ISA 260 report to those charged with governance	7 July 2017
Independent auditor's report signed	July 2017 (TBC)
Latest date for signing of SG consolidation return	July 2017 (TBC)

 Key stage for Pension schemes	 Date
Meeting with officers to clarify working paper expectations	March 2017
Latest submission date of unaudited Pension schemes' financial statements with complete working papers package	17 July 2017
Latest date for final clearance meeting with Director of Finance	11 September 2017
Agreement of audited unsigned financial statements; Issue of Annual Audit Report (for Agency and Pension schemes) including ISA 260 report to those charged with governance	25 September 2017
Independent auditor's report signed	25 September 2017
Latest date for signing of WGA return	29 September 2017

Internal audit

21. 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 and as part of our planning process we

carry out an assessment of the internal audit function. Internal audit is provided by the Internal Audit Department of the Scottish Government.

Adequacy of Internal Audit

22. We are currently undertaking a review of the Scottish Government's Internal Audit department. This will be reported to the Scottish Government Audit and Risk Committee in March 2017.

Areas of reliance

23. To support our audit opinion on the financial statements we intend to place formal reliance on the following planned internal audit reviews:

- Bank receipts and collection processes.

24. In respect of our wider dimension audit responsibilities we also plan to consider other areas of internal audit work including:

- Project 2017 (which will be a 'follow up' to the Scottish Government ICT assurance work)
- Customer satisfaction and culture (which is built in to all internal audits in year)
- Implications from the Milne v's GAD case.

Audit dimensions

25. 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



Financial sustainability

26. 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 the SPPA's financial sustainability. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We shall review selected aspects over our five year audit appointment and conclude on the following:

- the effectiveness of 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 to address any identified funding gaps
- whether SPPA can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

Financial management

27. 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 the following over our five year appointment:

- whether SPPA has arrangements in place to ensure systems of internal control are operating effectively
- whether SPPA can demonstrate the effectiveness of budgetary control systems in communicating accurate and timely financial performance
- how SPPA has assured itself that its financial capacity and skills are appropriate
- whether SPPA has established appropriate and effective arrangements for the prevention and detection of fraud and corruption. We will consider SPPA's response to the NFI exercise.

Governance and transparency

28. 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 the following over our five year appointment:

- whether SPPA can demonstrate that the governance arrangements in place are appropriate and operating effectively
- 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.

Value for money

29. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on the following over our five year appointment:

- SPPA can provide evidence that it is demonstrating value for money in the use of its resources
- SPPA can demonstrate that there is a clear link between money spent, output and outcomes delivered
- SPPA can demonstrate that outcomes are improving
- There is sufficient focus on improvement and the pace of it.

Independence and objectivity

30. Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. 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 in place robust arrangements to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland’s Ethics Partner.

31. The engagement lead for the SPPA is Stephen Boyle, Assistant Director. Auditing and ethical standards require the appointed auditor, Stephen Boyle, 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 the SPPA.

Quality control

32. 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.

33. 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 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, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

34. 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.

Scottish Public Pensions Agency

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