

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

2017/18 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Scottish Teachers' Pension Scheme and NHS Pension Scheme (Scotland) and the Auditor General for Scotland

September 2018

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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.



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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

2017/18 annual report and accounts

- 1** In our opinion the financial statements of Scottish Teachers' Pensions Scheme (STPS) and NHS Pensions Scheme (Scotland) (NHSPSS) give a true and fair view of the financial position and their expenditure and income for the year.
- 2** The expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance.
- 3** The other information in the annual report and accounts was consistent with the financial statements and prepared in accordance with legal requirements.

Financial management

- 4** STPS and NHSPSS operated within their 2017/18 budget.
- 5** Systems of internal control operated effectively in 2017/18.

Financial sustainability

- 6** STPS and NHSPSS are unfunded pension schemes. Funding to meet pension payments as they fall due is made available from the Scottish Government's annual managed expenditure budget. We are satisfied with the scheme managers' view that both schemes continue to be a going concern.

Governance and transparency

- 7** STPS and NHSPSS have adequate governance arrangements in place that support the scrutiny of decisions made by the pension boards. However there is scope to further strengthen these arrangements.
- 8** STPS and NHSPSS have improved their process for issuing annual benefit statements to scheme members. Further work is required to meet the 100% target for the issue of annual benefits statements by the end of August annual deadline.

Value for money

- 9** STPS and NHSPSS have effective performance management arrangements in place.

Introduction

1. This report summarises the findings from our 2017/18 audit of Scottish Teachers' Pensions 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 22 January 2018 meeting of the Audit and Risk Committee (ARC). This report comprises the findings from:

- an audit of the 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 2017/18 have been:

- a review of STPS and NHSPSS main financial systems resulting in a management letter being presented to the ARC on 30 April 2018
- an audit of the STPS and NHSPSS 2017/18 annual report and accounts including the issue of independent auditor's reports setting out our opinions
- consideration of the four audit dimensions.

4. STPS and NHSPSS have primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual report and accounts

that are in accordance with the accounts direction from the Scottish Ministers. The STPS and NHSPSS annual report and accounts includes the following:

- Accountability Report (which includes the Report of the Managers, Statement by the Actuary, Statement of Accountable Officer's responsibilities, Governance statement and Statement of Parliamentary Supply)
- Financial statements and supporting notes.

5. STPS and NHSPSS are also responsible for establishing effective arrangements for governance, propriety and regularity that enable the pension boards to successfully deliver its objectives.

6. Our responsibilities as independent auditors are outlined in 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.

7. As public sector auditors we give independent opinions on the annual report and accounts. We also review and provide conclusions on the effectiveness of the performance management arrangements, suitability and effectiveness of corporate governance arrangements, and financial position and arrangements for securing financial sustainability. In doing this we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

8. This report raises matters from the audit of the annual report and accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

9. Our annual audit report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and the steps being taken to implement them.

10. 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 2017/18 audit fee of £63,880 for NHSPSS and £60,700 for STPS as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

11. Our aim is to add value to STPS and NHSPSS by increasing insight into, and offering foresight on, financial sustainability, risk and performance, by identifying areas of improvement and by recommending and encouraging good practice. In so doing, we aim to help promote improved standards of governance, better management and decision making and more effective use of resources.

12. This report is addressed to the Scottish Public Pension Agency, who manage the STPS and NHSPSS, and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

13. We would like to thank all management and staff who have been involved in our work for their cooperation and assistance during the audit.

Part 1

Audit of 2017/18 annual report and accounts



Main judgements

In our opinion the financial statements of both the Scottish Teachers' Pensions Scheme and the NHS Pensions Scheme (Scotland) give true and fair views of their financial positions and their expenditure and income for the year.

The expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance.

The other information in the annual reports and accounts was consistent with the financial statements and prepared in accordance with legal requirements.

Audit opinions on the annual report and accounts

14. The annual report and accounts for the Scottish Teachers' Pension Scheme Scotland (STPS) and NHS Pension Scheme (Scotland) (NHSPSS) for the year ended 31 March 2018 were approved by the Audit and Risk Committee (ARC) on 21 September 2018. We reported within both independent auditor's reports that in our opinion:

- the financial statements give a true and fair view and were properly prepared
- expenditure and income were regular and in accordance with applicable enactments and guidance
- 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 accounts direction.

15. Additionally, we have nothing to report in respect of misstatements in information other than the financial statements, the adequacy of accounting records and the information and explanations we received.

Submission of annual report and accounts for audit

16. We received the unaudited financial statements on 16 July 2018 in line with our agreed audit timetable.

17. The working papers provided with the unaudited financial statements were of a good standard and finance staff provided support to the audit team which helped ensure the final accounts audit process ran smoothly.

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

Whole of Government Accounts

18. We are auditing the consolidation packs for STPS and NHSPSS for the whole of government accounts. We anticipate submitting our assurance statement to the National Audit Office by the 30 September 2018 deadline.

Risk of material misstatement

19. [Appendix 2](#) provides a description of those assessed risks of material misstatement that were identified during the planning process. These risks had the greatest effect on the overall audit strategy, the allocation of staff resources to the audit and directing the efforts of the audit team.

Materiality

20. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement. It is affected by our perception of the financial information needs of users of the financial statements.

21. Our initial assessment of materiality for the annual report and accounts was carried out during the planning phase of the audit. Specifically, regarding the annual report and accounts we assess the materiality of uncorrected misstatements, both individually and collectively.

22. On receipt of the annual report and accounts we reviewed our materiality calculations and concluded that they remained appropriate. These are summarised in [Exhibit 2](#).

Exhibit 2

Materiality values

Materiality level – STPS	Amount
Overall materiality	£10.922 million
Performance materiality	£9.829 million
Reporting threshold	£100,000

Source: Audit Scotland

Materiality level – NHSPSS	Amount
Overall materiality	£12.222 million
Performance materiality	£11 million
Reporting threshold	£100,000

Source: Audit Scotland

How we evaluate misstatements

23. There were no material adjustments to the unaudited financial statements arising from our audit. All individual misstatements which exceed our reporting threshold have been amended in the audited financial statements.

Significant findings from the audit in accordance with ISA 260

24. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance. In our view there are no significant findings arising from the audit.

Part 2

Financial management



Main judgements

STPS and NHSPSS operated within their 2017/18 budget.

Systems of internal control operated effectively in 2017/18.

Management of the pension schemes

25. STPS and NHSPSS are administered by the Scottish Public Pensions Agency (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.

Financial performance in 2017/18

26. 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.

27. STPS and NHSPSS are funded through annually managed expenditure (AME). This budget covers the cost of pension payments to retired members of each scheme. The accrued resources for the pensions schemes are covered by one limit of £4,568.5 million as detailed in the Budget (Scotland) Act 2017. The schemes financial performance against AME is shown in [Exhibit 3](#). The total combined accrued resources were £4,550.8 million which is within the combined limit.

Exhibit 3

Performance against AME in 2017/18

Performance	Draft budget £m	Final budget £m	Actual outturn £m	Overspend/ (underspend) £m
STPS	1,229.6	1,579.6	1,571.1	(8.5)
NHSPSS	2,176.8	2,988.9	2,979.7	(9.2)
Total Budget limit	3,406.4	4,568.5	4,550.8	(17.7)

Source: Draft Budget 2017/18 (issued 15 Dec 2017), Spring Budget Revision 2017/18 (issued 8 Feb 2018)

28. The increase in the AME budget is due to the discount rate being reduced by HM Treasury which meant funding to the schemes needed to be increased. This is because as the discount rate decreases it drives up the value of pension benefits and increases current service costs. This accounts for £1,115.1 million of the increase to AME.

Budgetary processes

29. We reviewed the STPS and NHSPSS' budgetary processes and budget monitoring arrangements. From our review of budget monitoring reports, committee papers and attendance at committees we confirmed that senior management and members received regular, timely and up to date financial information on the financial position.

30. We concluded that STPS and NHSPSS have adequate budgetary monitoring and control arrangements that allow members and officers to carry out effective scrutiny of their finances.

Systems of internal control

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

32. Our findings were included in the management letter presented to the ARC on 30 April 2018. We concluded that the controls tested were operating effectively. No significant internal control weaknesses were identified during the audit which could affect the ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

Financial capacity

33. We consider that the SPPA have suitably qualified and experienced officials leading the finance team, and there are sufficient financial skills, capacity and capability within the team.

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

Part 3

Financial sustainability



Main judgements

STPS and NHSPSS are unfunded pension schemes. Funding to meet pension payments as they fall due is made available from the Scottish Government's annual managed expenditure budget. We are satisfied with the scheme managers' view that both schemes continue to be a going concern.

Financial planning

34. The Scottish Government published its 2018/19 draft budget in February 2018 with an AME allocation of £2.905 billion for NHSPSS. This is an increase of £0.7 billion (33%) on the 2017/18 initial budget allocation. The AME allocation for STPS is £1.496 billion which is £0.3 billion (22%) higher than the 17/18 initial budget allocation. The increases in AME funding reflect the change in the discount rate set by HM Treasury for post-employment benefits.

2017/18 financial position

35. The 2017/18 financial statements show that:

- NHSPSS has net liabilities of £62.1 billion, an increase of £2.4 billion
- STPS has net liabilities of £36.2 billion, a decrease of £0.1 billion

The increase in NHSPSS's net liabilities is mainly due to the current service cost increasing due to a reduction in the discount rate set by HM Treasury. There was also an increase in STPS as a result of the reduction in the discount rate, however this has been offset by changes in mortality and demographic assumptions. This gives a net decrease of £0.1 billion for 2017/18.

36. STPS and NHSPSS are unfunded pension schemes, with funding for pensions payments being provided by the Scottish Government as they fall due. A review of going concern has been completed by the scheme finance managers. We have reviewed this and concluded that we are satisfied both schemes continue to be a going concern.

EU withdrawal

37. There remains significant uncertainty about the detailed implications of the UK's withdrawal from the EU. It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce – the extent to which changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour

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

- Funding – the extent to which potential changes to funding flows are likely to affect the finances of the organisation and the activity that such funding supports.
- Regulation – the extent to which potential changes to regulation across a broad range of areas overseen at an EU level are likely to affect the activities of the organisation.

38. SPPA has assessed the implications of EU withdrawal on its operations. It has concluded, after a review, that potential changes to regulation are unlikely and would have little direct impact on SPPA and the pension schemes it administers. SPPA receives no EU funding and most of its workforce are residents of the local area.

Part 4

Governance and transparency



Main judgements

STPS and NHSPSS have adequate governance arrangement in place that support the scrutiny of decisions made by the pension boards. However there is scope to further strengthen these arrangements.

STPS and NHSPSS have improved their process for issuing annual benefit statement to scheme members. Further work is required to meet the 100% target for the issue of annual benefits statements by the end of August annual deadline.

Governance arrangements

39. STPS and NHSPSS are supported by pension boards and scheme advisory boards introduced under the Public Service Pensions Act 2013. Each scheme has its own pension board and scheme advisory board.

40. The purpose of the scheme advisory board is to provide advice to the responsible authority on the desirability of changes to scheme design and the implication of other policy issues. The pension boards are responsible for assisting SPPA (the scheme administrator) with the operational management of the scheme. The pension board membership is comprised of employer and member representation, as well as a chair and vice-chair. The advisory board membership is comprised of employer, member representation and representatives from and on behalf of the Scottish Government, as well as a chair and vice chair.

41. An independent review of SPPA, STPS and NHSPSS governance arrangements was completed by independent consultants in March 2017. The review made 18 recommendations for improvement. SPPA has started to implement some of the review recommendations for STPS and NHSPSS:

- The review highlighted that the expectations of members of pension boards should be outlined to members. As a result, pension board roles have been reviewed and clarified. The terms of reference for the pension boards have also been refreshed.
- The review recommended that all board members received annual training. Training plans have been developed and are being updated on an ongoing basis. These plans have been tailored to ensure that they are relevant to each board. There have been induction sessions for new members of pension boards and scheme advisory boards and members were provided with an induction pack. Members have undertaken online training provided by the Pensions Regulator.
- The review recommended that training logs were submitted for all board members. As a result, SPPA's governance team are improving the recording of pension board members training and continuous professional development.

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.

- The review noted that information on the SPPA website is not up to date. A website refresh is underway which will ensure that information on pensions boards remains current.
- Due to the size of the STPS boards, the review recommended that membership be reduced from 14 to ten or fewer. SPPA is in discussions with the STPS boards to ensure they can reduce their membership whilst still fulfilling their responsibilities.
- The review recommended that succession planning for pension board members was implemented to ensure a balance between experience and new ideas. STPS and NHSPSS are making progress with staggered tenure dates being introduced.
- As recommended by the review, formal distribution of minutes between pension boards and scheme advisory boards has been established.

42. There are still some actions to be taken, which will be addressed in the remainder of 2018. This work is being completed as part of a wider governance review led by SPPA's Interim Head of Governance. We have noted that less progress has been made in implementing the actions for the scheme advisory boards compared to the pension boards.

43. The NHSPSS pension board has three employer vacancies. NHSPSS should ensure these vacancies are filled so that the views of employers are adequately represented at board meetings.



Recommendation 1

STPS and NHSPSS should complete planned work to address the recommendations from the independent review of governance arrangements. The schemes should focus on the recommendations for the scheme advisory boards where less progress has been made.

44. We have concluded that STPS and NHSPSS have adequate governance, decision making and scrutiny arrangements in place, however there is scope for improvement. STPS and NHSPSS are taking steps to strengthen these arrangements following the independent review.

Transparency

45. Transparency means that the public have access to understandable, relevant and timely information about how the pension boards are taking decisions and how they are using resources such as money, people and assets.

46. The minutes and agendas from the pension board meetings and the minutes of the advisory board meetings are published on the SPPA website following approval of the minutes. The papers for the scheme and advisory boards are not published. Where papers are provided consideration should be given as to whether these could be made publicly available.

Risk management

47. SPPA as the pension scheme administrator, has a Risk Governance Group (RGG) in place to ensure that its risk environment is reviewed regularly, and key risks are recorded in its risk register. The quarterly minutes of the RGG are presented to the ARC for consideration.

48. We reviewed the corporate risk register and concluded that it covers the key elements required to manage each risk including:

- risk owner
- impact and likelihood
- risk rating
- risk target
- actions to mitigate and manage the risk.

49. The risk register is a standing item on the ARC agenda. The risk register is reviewed at each meeting with the risks being considered and the rating of each risk being re-assessed based on any new information. This ensures that the risk register is updated on an ongoing basis and SPPA is aware of any newly emerging risks.

50. We have concluded that risk management processes for STPS and NHSPSS are operating effectively.

Internal audit

51. The internal audit function for STPS and NHSPSS is carried out by the Scottish Government's Internal Audit Directorate. Each year we consider whether we can rely on internal audit work to avoid duplication of effort. When we plan to place reliance on internal audit work we carry out an assessment of the internal audit function to ensure that it is sufficient in terms of documentation standards, reporting procedures, quality, and is performed in accordance with Public Sector Internal Audit Standards (PSIAS). Audit Scotland has completed a review of the Scottish Government's Internal Audit Directorate.

52. The review concluded that internal audit meets some PSIAS, but also does not comply with significant aspects of the standards. Improvements are required to meet both the PSIAS and the Scottish Government's own Internal Audit Manual (IAM).

53. The review found no areas where the underlying evidence would suggest an incorrect audit opinion or conclusion. However, the review identified non-compliance with PSIAS and the IAM in:

- audit planning
- audit documentation
- clearing audit findings and reports
- management review.

54. Non-compliance with PSIAS and the IAM compromises audit quality and may affect the credibility of audit work undertaken and the reputation of internal audit in providing audit services to the Scottish government and associated public bodies.

55. We reviewed the pensions schemes' internal audit arrangements in accordance with International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent we could rely on the work of internal audit. This involved reviewing the processes in place and re-performance of a sample of internal audit work to ensure that we came to the same conclusions. We have placed reliance on the work internal audit completed on new awards and lump sums as part of the Business as Usual audit. We have also considered other internal audit report findings and work as part of our wider dimension audit work.

Governance Statement

56. HM Treasury's Financial Reporting Manual (the FReM) states that STPS and NHSPSS must prepare annual governance statements within the annual reports and accounts. Guidance is set out within the Scottish Public Finance Manual (SPFM) for the content of the governance statement and provides assurances around the achievement of the organisation's strategic objectives.

57. The SPFM does not prescribe a format for the annual governance statement but sets out minimum requirements for central government bodies. The process undertaken by management included conducting an assurance mapping exercise and working to an assurance plan that assessed the evidence underpinning the preparation of the governance statement.

58. We concluded that the 2017/18 governance statements for STPS and NHSPSS comply with the guidance issued by the Scottish Ministers and, based on our knowledge and work performed, present a complete picture of governance arrangements and matters.

National Fraud Initiative

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

60. The matches for the 2016/17 NFI exercise were identified are as follows:

- 2,659 matches for deceased pensioners. These were reviewed, and 1,012 cases are currently under investigation
- 1,990 matches for deferred members (against deceased records). All matches have been investigated and the members' records have been updated on the system.
- 6,947 matches for re-entered employment. 1,055 of these cases have been investigated and the appropriate action taken

61. SPPA, on behalf of STPS and NHSPSS, has been proactive in investigating matches and progress is reported regularly at the Audit and Risk committee. The matching process has identified overpayments totalling £318,000 (£230,000 for STPS and £98,000 for NHSPSS) which is being pursued.

Annual benefit statements

62. The Pensions Regulator requires pension schemes to provide annual benefit statements to all members by 31 August each year. Pension schemes are required to self-report to the Pensions Regulator if they fail to do this. STPS and NHSPSS did not achieve this in 2016/17 and reported themselves to the Pensions Regulator.

63. SPPA implemented a project plan to make improvements to the process of issuing annual benefit statements. This included making visits to local authorities to highlight the importance of submitting employer returns on a timely basis. SPPA also increased the number of its staff supporting the annual benefit statement exercise. The progress of the 2018 exercise at 21 August 2018 is outlined at [Exhibit 4](#).

Exhibit 4

Annual benefit statement performance

Pension scheme	Issued by 31/08/2017 (actual) %	Issued by 31/08/2018 (estimate) %	Difference %
STPS schemes	73.60	95.40	21.80
NHSPSS schemes	85.64	94.00	8.36

Source: SPPA

64. There has been a significant improvement in the issue of 2017/18 annual benefit statements for both schemes. 21.80% and 8.36% more annual benefits statements have been issued for STPS and NHSPSS respectively. Despite this, the 100% target has not been reached and STPS and NHSPSS will be required to again self-report to the Pensions Regulator.

Part 5

Value for money



Main judgements

STPS and NHSPS have effective performance management arrangements in place.

Performance management

65. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. The Auditor General may require that we consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value. Where such requirements are not specified we may, in conjunction with STPS and NHSPSS, agree to undertake local work in this area.

66. The performance of STPS and NHSPSS is monitored by the Management Advisory Board (MAB) and the pensions boards. The schemes performance is measured against several performance targets which are set out in SPPA's business plan which is revised annually. The performance reports provided are in a "dashboard" form to monitor progress against the performance targets.

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

National performance audit reports

67. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2017/18 several reports were published which are of direct interest to STPS and NHSPSS. These are outlined in [Appendix 3](#).

68. The ARC periodically considers relevant Audit Scotland reports, although it could do so in a more systematic manner.

Appendix 1

Action plan 2017/18

2017/18 recommendations for improvement



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Governance review recommendations</p> <p>An independent review of pensions board governance made 18 recommendations to improve governance arrangements. STPS and NHSPSS have taken action against most recommendations but further work is required to implement some of the recommendations. This work is being completed as part of a wider governance review led by SPPA's Interim Head of Governance.</p> <p>Risk</p> <p>Weaknesses in governance arrangements identified from the independent review are not sufficiently addressed.</p>	<p>STPS and NHSPSS should complete planned work to address the recommendations from the independent review of governance arrangements. The schemes should focus on the recommendations for the scheme advisory boards where less progress has been made.</p> <p>Paragraph 43</p>	<p>The recommendations relating to these schemes have been implemented. Since the latter half of 2017, training for the Scheme Advisory Boards has been focused on the scheme valuations. Following the completion of this valuation cycle in 2019, the SABs will put in place training programmes to cover the wider range of interests. SPPA will revisit the question of the size of the larger, Teachers', SAB during the forthcoming appointments process. Availability of papers will be significantly improved through SPPA's website review project which is due to finish in June 2019</p> <p>Responsible Officer: Lorimer MacKenzie, Head of Policy</p> <p>Timeline: June 2019</p>

Appendix 2

Significant audit risks identified during planning












The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit Risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<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>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>Sample tested journals created during the year and at the year end. No issues identified.</p> <p>Accounting estimates were reviewed and no issues identified.</p> <p>Focused testing on accrual and prepayments was carried out and no issues identified.</p> <p>There was no evidence of transactions outside the course of normal business.</p> <p>From work carried out in year, there was no evidence of management override of controls.</p>
<p>2 Risk of fraud over income</p> <p>The schemes receive a significant amount of income in contributions, from over 1,000 employer bodies, in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA 240, there is an inherent risk of fraud.</p>	<p>System review of Epicor focusing on key controls.</p> <p>Review of work carried out by the agency to migrate data from Epicor 9 to Epicor 10.</p> <p>Sample testing of contributions from other audited bodies (councils, health boards) to ensure consistency with the agency's records.</p>	<p>Completed high level system review of Epicor including checking contribution records. No fraud risks identified.</p> <p>Contribution records from audited bodies (councils and health boards) were compared to Epicor records and no differences were identified.</p> <p>Epicor 10 was not implemented until August 2018 and therefore we will review this at the interim stage of our 2018/19 audit.</p> <p>There were no fraud risks identified in relation to income.</p>
<p>3 Risk of fraud over expenditure</p> <p>The Financial Reporting Council's Practice Note 10 (revised) requires public sector auditors to give consideration to the risk of fraud over expenditure. The extent of expenditure, for example</p>	<p>System review of Altair and Resourcelink 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 for the schemes.</p>	<p>We concluded that the controls were operating effectively. We did not identify any significant internal controls weaknesses.</p> <p>We completed a high level system review of Altair and Resourcelink, recalculation of new awards for NHSPSS and</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>benefits paid, means that that there is an inherent risk of fraud.</p>	<p>Review internal audit work on the agency's ability to deliver business as usual.</p>	<p>STPS and substantive testing of deaths. No risks identified.</p> <p>A review of the ability to deliver business as usual has been reviewed. No significant issues were noted from the report.</p>
<p>4 Pension contributions</p> <p>Accurate information on contributions received from employers is required to calculate scheme liabilities and current service costs.</p> <p>The agency needs to prioritise its reconciliation of employers' contributions to annual returns to ensure that income is received timeously and in full.</p> <p>Failure to manage and reconcile contributions income effectively may impact on the schemes' liabilities and actuarial valuations.</p>	<p>Review the progress of the annual reconciliations during interim audit and financial statements audit to ensure significant variances are being investigated.</p> <p>Sample testing of contributions from other audited bodies (councils, health boards) to ensure consistency with the agency's records.</p>	<p>We reviewed the reconciliation process with both the finance and operations teams and were satisfied with the process and progress during the year.</p> <p>Contribution records from audited bodies (councils and health boards) were compared to Epicor records and no differences were identified.</p> <p>Overall, the annual reconciliation process is well managed and the variances identified are in line with our understanding of contributions income and the annual returns process.</p>
<p>5 Information supporting scheme valuations</p> <p>Decisions taken by the agency 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.</p> <p>Pension liabilities are based on extracts of members' data incorporated in GAD's established roll forward methodology. The agency needs to ensure that the implications of changes to membership profiles are completed timeously and in full to ensure that accurate information is transferred to GAD.</p> <p>There is a risk that the actuarial information for valuing the schemes could be affected by incomplete or inaccurate information, or the use of unreasonable judgements and assumptions.</p>	<p>Review 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 on GAD's actuarial processes and assumptions.</p>	<p>Met with GAD and reviewed the internal quality and validation process carried out by GAD and no issues were identified.</p> <p>We are satisfied that the work of GAD is carried out by competent and capable officers.</p> <p>The GAD reports agreed to supporting valuation data.</p> <p>PWC reviewed key actuarial assumptions used by GAD and they were found to be reasonable.</p> <p>No significant issues were identified in relation to information supporting scheme valuations. We were satisfied with the assumptions and work carried out by GAD.</p>

Appendix 3

Summary of national performance reports 2017/18

		 2017/18 Reports	
		Apr	
		May	
Common Agricultural Policy Futures programme: further update		Jun	 Scotland's colleges 2017
		Jul	 NHS workforce planning
Self-directed support: 2017 progress report		Aug	
Equal pay in Scottish councils		Sept	
Transport Scotland's ferry services		Oct	 NHS in Scotland 2017
Local government in Scotland: Financial overview 2016/17		Nov	
		Dec	
		Jan	
Early learning and childcare		Feb	
Managing the implementation of the Scotland Acts		Mar	

Central Government relevant reports

[Managing the implementation of the Scotland Acts](#) – March 2018

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

2017/18 Annual Audit Report

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