

Scottish Public Pensions Agency NHS Pension Scheme (Scotland) Scottish Teachers' Pension Scheme Annual Audit Plan 2020/21



 AUDIT SCOTLAND

Prepared for Scottish Public Pensions Agency
March 2021



Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit.
2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.
3. The public health crisis caused by COVID-19 has had a profound effect on every aspect of society. Public services have been affected significantly, requiring immediate changes to the way they are provided. The impact on public finances has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.
4. Public audit has an important contribution to the recovery and renewal of public services. We are responding to the risks to public services and finances from COVID-19 across the full range of audit work including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance. Where this impacts on annual audits, an addendum to this annual audit plan may be necessary.

Adding value

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

Audit risks

7. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following significant audit risks for our 2020/21 audit of SPPA and the schemes. We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1

2020/21 Significant audit risks

 Audit risk	Source of assurance	Planned audit work
Financial statements audit risks		
<p>1 Risk of material misstatement due to fraud caused by the management override of controls</p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.</p> <p>(SPPA and schemes)</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries. • Review of accounting estimates. • Focused testing of accruals and prepayments. • Evaluation of significant transactions which are outside the normal course of business.
<p>2 Risk of material misstatement caused by fraud in revenue recognition.</p> <p>The pension schemes receive a significant amount of income from over 1,000 employer bodies in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p> <p>(Schemes)</p>	<p>Key controls working effectively in the schemes contributions system (Epicor).</p> <p>Sound budgetary control and monitoring arrangements in place.</p>	<ul style="list-style-type: none"> • Testing of key controls within the Epicor system. • Sample testing of Epicor contributions from other audited bodies (NHS and councils) to ensure consistency with schemes records. • Evaluation of the accounting treatment of significant income transactions that are outside the normal course of business.
<p>3 Risk of material misstatement caused by fraud in expenditure</p> <p>As most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.</p> <p>The nature of SPPA and the schemes' expenditure means that there is an inherent risk of fraud. This risk specifically applies to expenditure and staff costs for SPPA and expenditure on pensions and lump sums for the schemes.</p> <p>(SPPA and schemes)</p>	<p>Key controls working effectively in accounts payable and payroll.</p> <p>Key controls working effectively in the pensions administration and pensions payment system (Altair).</p>	<ul style="list-style-type: none"> • Testing of key controls within the accounts payable and payroll systems. • Testing of key controls within the Altair system. • Focused substantive testing on higher risk areas and more complex areas including new awards and deaths for the schemes.

	Audit risk	Source of assurance	Planned audit work
4	<p>Information supporting scheme valuations</p> <p>Decisions taken by SPPA for the schemes are reliant on the work of the Government Actuary Department (GAD). The actuarial valuation methodology relies on significant judgements and assumptions in relation to financial, mortality and demographic factors. There is a risk that the actuarial information for valuing the schemes is affected by incomplete or inaccurate information from SPPA, or the use of unreasonable judgements and assumptions.</p> <p>(Schemes)</p>	<p>Regular meetings and communication between SPPA and GAD. All key meetings are minuted.</p> <p>SPPA provides timely and accurate data to GAD.</p>	<ul style="list-style-type: none"> Review of the work of GAD focusing on reliability, professional competence and capability. Meet with GAD to discuss work practices, validation processes and quality review arrangements to determine whether reliance can be taken in relation to GAD's internal processes. Review reports to GAD supporting valuation data.

Wider dimension audit risks

5	<p>Financial sustainability</p> <p>SPPA has forecast significant annual revenue budget deficits for the next four years. This highlights the increasingly challenging financial climate it is operating in. SPPA also faces growing expectations from the Scottish Government to demonstrate how it will manage its finances in the longer term and the outcomes it will deliver.</p> <p>There is a risk that SPPA cannot demonstrate how it will manage its finances and achieve its strategic objectives.</p> <p>(SPPA)</p>	<p>SPPA has committed to prepare rolling five-year forecasts and budgets alongside updating its rolling five-year strategic plan.</p>	<ul style="list-style-type: none"> Review SPPA's longer term financial plans and forecasts. Review efficiency savings reported by SPPA.
6	<p>Leadership and capacity to deliver services</p> <p>SPPA rolled out its target operating model and made new appointments to its senior leadership team during 2019/20. SPPA has had to implement a new senior management structure in 2020/21 due to the secondment of its Chief Executive and the absence of two senior officers. SPPA is now planning to recruit a new Chief Executive due to the Chief Executive's secondment being extended. This is happening during a period of change and challenge for SPPA. SPPA has agreed a key business priority to</p>	<p>SPPA has implemented a temporary revised organisational structure to cover gaps in its leadership team.</p> <p>SPPA is developing a people strategy which will set out how it becomes the organisation it wants and needs to be for the future.</p>	<ul style="list-style-type: none"> Review SPPA's progress in developing a workforce plan. Review SPPA's progress with the replacement pensions platform project. Review the Accountable Officer's arrangements for securing Best Value.

	Audit risk	Source of assurance	Planned audit work
	<p>develop a comprehensive workforce plan.</p> <p>There is a risk that SPPA is not adequately organised and resourced to carry out its core functions alongside implementing strategic projects including the replacement pensions platform project.</p> <p>(SPPA)</p>		

Source: Audit Scotland

8. As set out in ISA(UK) 240, there is a presumed risk of fraud in revenue recognition. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. We have included this risk for the pension schemes however we have rebutted this presumed risk in 2020/21 for SPPA because, excluding Scottish Government funding, we expect SPPA's income to be immaterial.

Reporting arrangements

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

10. 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.

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

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

Exhibit 2 2020/21 Audit outputs

Audit output	Target date	Committee date
Annual Audit Plan	31 March 2021	20 April 2021
Independent Auditor's Report for SPPA	22 July 2021	29 July 2021
Annual Audit Report for the SPPA and schemes	18 October 2021	To be confirmed
Independent Auditor's Report for the schemes	18 October 2021	To be confirmed

Source: Audit Scotland

Audit fee

13. The proposed audit fees for the 2020/21 audits are:

- Scottish Public Pensions Agency: £26,340 (19/20: £25,700)
- NHS Pension Scheme (Scotland): £68,700 (19/20: £67,030)
- Scottish Teachers' Pension Scheme: £65,290 (19/20: £63,700).

14. In determining the audit fee we have taken account of the risk exposure of SPPA and the schemes, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the annual report and accounts with a complete working papers package on 31 May 2021 for SPPA. We are still to agree a date for receipt of the pension schemes unaudited financial statements with officers.

15. 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 out with our planned audit activity.

Responsibilities

Audit and Risk Committee and Accountable Officer

16. 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.

17. 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

18. 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.

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

Audit scope and timing

Financial Statements

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

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

21. We will give an opinion on:

- whether the financial statements give a true and fair view of the financial position of SPPA and the schemes as at 31 March 2021 and of their income and expenditure for the year then ended;
- whether the financial statements have been properly prepared in accordance with relevant legislation, the applicable financial reporting framework and other reporting requirements
- the regularity of income and expenditure.

Other information in the annual accounts

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

- For SPPA: the performance report, the governance statement and the audited part of the remuneration report
- For the schemes: the report of the managers, statement by the actuary and the governance statement.

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

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



characteristics



responsibilities



principal activities



risks



governance arrangements

Materiality

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

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

Exhibit 3 Materiality values

Scottish Public Pensions Agency Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2021 based on the latest budget projection for 2020/21.	£0.237 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 75% of planning materiality.	£0.177 million
Reporting threshold (i.e., clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 5% of planning materiality.	£12,000

Source: Audit Scotland

NHS Pension Scheme (Scotland) Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of benefits payable for the year ended 31 March 2021 based on the latest budget projection for 2020/21.	£16.070 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 75% of planning materiality.	£12.050 million
Reporting threshold (i.e., clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 5% of planning materiality (capped at the maximum level).	£250,000

Source: Audit Scotland

Scottish Teachers' Pension Scheme Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of benefits payable for the year ended 31 March 2021 based on the latest budget projection for 2020/21.	£12.050 million

Scottish Teachers' Pension Scheme Materiality	Amount
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 75% of planning materiality.	£9.030 million
Reporting threshold (i.e., clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 5% of planning materiality (capped at the maximum level).	£250,000

Source: Audit Scotland

Timetable

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

Exhibit 4 Annual accounts timetable

 Key stage - SPPA	 Date
Working paper checklist	March 2021
Latest submission date of unaudited annual report and accounts with complete working papers package	31 May 2021
Latest date for final clearance meeting with Chief Financial Officer	23 June 2021
Latest date for receipt of final annual report and accounts with audit adjustments	15 July 2021
Issue of Letter of Representation and proposed independent auditor's report and agreement of audited unsigned annual report and accounts	22 July 2021
Latest date for signing of Scottish Government consolidation return	6 September 2021
Independent auditor's report signed	29 July 2021

 Key stage – Pension schemes	 Date
Working paper checklist	March 2021
Latest submission date of unaudited annual report and accounts with complete working papers package	31 May 2021
Latest date for final clearance meeting with Chief Financial Officer	20 September 2021
Latest date for receipt of final annual report and accounts with audit adjustments	11 October 2021

**Key stage – Pension schemes****Date**

Issue of Letters of Representation and proposed independent auditor's reports and agreement of audited unsigned annual report and accounts	18 October 2021
Issue of Annual Audit Report for SPPA and schemes to those charged with governance	18 October 2021
Independent auditor's report signed	To be confirmed
Latest date for signing for WGA return	To be confirmed

Internal audit

28. Internal audit is provided by the Scottish Government Internal Audit Directorate. As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS).

Using the work of internal audit

29. International Auditing Standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible to avoid duplication. We plan to consider internal audit's findings in the following areas:

- Review of Financial Governance
- Review of Procurement (contract management)
- Pensions Platform Programme (ongoing assurance work).

Audit dimensions

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

Exhibit 5

Audit dimensions



Source: Code of Audit Practice

Financial sustainability

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

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

Financial management

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

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

Governance and transparency

33. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent

reporting of financial and performance information. We will review, conclude and report on:

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

Value for money

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

- that it is providing value for money in its use of resources.
- that there are appropriate systems for measuring and reporting performance for SPPA and the schemes
- that it is issuing accurate, timely annual benefits statements to members
- that it is effectively managing its replacement pensions platform project
- that there is sufficient focus on Best Value and the pace of improvement.

Best Value

35. The Accountable Officer of SPPA has a duty to ensure arrangements are in place to secure Best Value. We will review and report on these arrangements.

Independence and objectivity

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

37. The joint engagement leads for SPPA and the pension schemes are Gemma Diamond and Mark Roberts, Audit Directors, and Gemma Diamond is the appointed auditor. Auditing and ethical standards require the appointed auditors 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

38. 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.

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

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

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