

# Scottish Public Pensions Agency NHS Pension Scheme (Scotland) Scottish Teachers' Pension Scheme

2020/21 Annual Audit Report



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

December 2021

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# Key messages

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## 2020/21 annual report and accounts

- 1 Our audit opinions on the annual report and accounts of Scottish Public Pensions Agency (SPPA), NHS Pension Scheme (Scotland) (NHSPSS) and Scottish Teachers' Pension Scheme (STPS) are unmodified.
- 2 The audit was later than planned. Reduced capacity in the finance team led to delays in preparing the annual report and accounts.

## Financial management and sustainability

- 3 SPPA, NHSPSS and STPS have appropriate in-year financial management arrangements and operated within budget in 2020/21.
- 4 Systems of internal control operated effectively in 2020/21 with scope for one key control to be strengthened.
- 5 SPPA needs to demonstrate how it will manage its longer-term finances.
- 6 SPPA should develop workforce planning to ensure it is adequately organised and resourced.

## Governance, transparency and value for money

- 7 Overall governance arrangements for SPPA, NHSPSS and STPS are adequate but could be strengthened.
- 8 SPPA has implemented a temporary senior management structure due to the departure of its Chief Executive and other senior officers. SPPA needs to ensure it has the leadership required to implement strategic projects, respond to change and challenge and demonstrate Best Value.
- 9 SPPA has extended the timetable for implementing its pension platform programme.

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# Introduction

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1. The Scottish Public Pensions Agency (SPPA) is an executive agency of the Scottish Government and is responsible for administering the NHS Pension Scheme (Scotland) (NHSPSS) and Scottish Teachers' Pension Scheme (STPS). This report summarises the findings from our 2020/21 audit of SPPA, NHSPSS and STPS.
2. The scope of our audit was set out in our Annual Audit Plan presented to the March 2021 meeting of the Audit and Risk Committee. This report comprises the findings from:
  - an audit of the annual report and accounts of SPPA, NHSPSS and STPS
  - consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#).
3. The main elements of our audit work in 2020/21 have been:
  - an audit of the 2020/21 annual report and accounts including the issue of independent auditor's reports setting out our opinions
  - a review of key financial systems
  - consideration of the four audit dimensions.

## Adding value through the audit

4. We add value to SPPA, NHSPSS and STPS through the audit by:
  - identifying and providing insight on significant risks, and making clear and relevant recommendations
  - sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides
  - providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

## Responsibilities and reporting

5. SPPA has 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.
6. SPPA is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity.

**7.** Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#), and supplementary guidance and International Standards on Auditing in the UK. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on the appropriateness and effectiveness of the performance management arrangements, the suitability and effectiveness of corporate governance arrangements, the financial position and arrangements for securing financial sustainability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

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

**9.** Our annual audit report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officers and dates for implementation. It also includes any outstanding actions from last year and progress against these.

## **Auditor Independence**

**10.** Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

**11.** 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 2020/21 combined audit fee of £160,330 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

**12.** This report is addressed to SPPA and the Auditor General for Scotland and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

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

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# 1. Audit of 2020/21 annual report and accounts

The principal means of accounting for the stewardship of resources and performance

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## Main judgements

Our audit opinions on the annual report and accounts of SPPA, NHSPSS and STPS are unmodified.

The audit was later than planned. Reduced capacity in the finance team led to delays in preparing the annual report and accounts.

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## Our audit opinions on the annual report and accounts are unmodified

**14.** The SPPA annual report and accounts for the year ended 31 March 2021 were approved by the SPPA's accountable officer on 17 November 2021. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income were regular and in accordance with applicable enactments and guidance
- the audited part of the performance report, remuneration and staff report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

**15.** The NHSPSS and STPS annual report and accounts for the year ended 31 March 2021 were approved by SPPA's accountable officer on 21 December 2021. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income were regular and in accordance with applicable enactments and guidance
- the audited part of the report of the scheme's managers and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

## Reduced capacity in the finance team led to delays in preparing the annual report and accounts

**16.** Several key members of the finance team left during the course of the audit and it took time for SPPA to appoint replacements. This meant the finance team faced competing pressures to prepare the annual report and accounts and support the audit alongside other work. As a result SPPA was unable to provide unaudited annual report and accounts in line with the original audit timetable.

**17.** We received the unaudited annual report and accounts for:

- SPPA on 17 June 2021
- NHSPSS on 12 August 2021
- STPS on 30 September 2021.

**18.** This was significantly later than the dates agreed in the annual audit plan. As a result of this, and delays in receiving working papers, we agreed a revised timetable for the audit with officers.

**19.** The unaudited accounts were generally of an acceptable standard. The SPPA annual report and accounts would have benefitted from further review by officers to ensure the performance report met the minimum requirements of the Government Financial Reporting Manual (FReM) and to identify and correct typographical and presentational errors.

**20.** Officers supported us during the audit but we experienced delays in receiving information and responses to queries due to the increased workload of the finance team.

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## Recommendation 1

SPPA should ensure its finance team has the resources needed to prepare its annual accounts in a timely manner and support the audit.

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## Whole of Government Accounts

**21.** We will work with management to complete the assurance statement for Whole of Government Accounts (WGA) and submit this to the National Audit Office (NAO). The NAO's submission deadline, which is still to be confirmed, has been delayed due to the impact of the Covid-19 pandemic.

## Materiality

**22.** Our initial assessment of materiality was carried out during the planning phase of the audit. Our materiality levels were reviewed, and updated, on receipt of the unaudited annual report and accounts and are summarised in [Exhibit 1](#).

## Exhibit 1

### Materiality values

SPPA Materiality level	Amount
Overall materiality	£214,000
Performance materiality	£160,000
Reporting threshold	£11,000

Source: Audit Scotland

NHSPSS Materiality level	Amount
Overall materiality	£14.8 million
Performance materiality	£11.1 million
Reporting threshold	£250,000

Source: Audit Scotland

STPS Materiality level	Amount
Overall materiality	£11.6 million
Performance materiality	£8.7 million
Reporting threshold	£250,000

Source: Audit Scotland

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

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

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

**24.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including

our view about the qualitative aspects of accounting practices. The significant findings are summarised in [Exhibit 2](#).

## Exhibit 2

### Significant findings from the audit of financial statements

Issue	Resolution
<p><b>1. Actuarial roll forward methodology</b></p> <p>The Government Actuary's Department (GAD) undertakes actuarial valuations of the NHSPSS and STPS and updates them on an annual basis through an established roll forward methodology. The latest full actuarial valuations are based on membership data as at 31 March 2016.</p> <p>NHSPSS and STPS resource accounts have rolled forward the 2016 data for a fifth year. The FReM recommends a maximum of four years between actuarial valuations. However, GAD held discussions with both the NAO and HM Treasury and agreed that the overriding requirement is for pensions valuations to be materially correct.</p>	<p>GAD has confirmed that it is content that the membership data used in the valuation has not changed such that it would materially affect the pension liability.</p> <p>We commissioned an independent firm of experts to review the work of GAD. It confirmed that the roll forward approach is common and acceptable.</p> <p>SPPA has confirmed that updated data will be available in time for preparation of the 2021/22 resource accounts.</p>

Source: Audit Scotland

## There were no material misstatements arising from our audit

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

## SPPA has made limited progress on prior year recommendations

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

## 2. Financial management

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

### Main judgements

SPPA, NHSPSS and STPS have appropriate in-year financial management arrangements and operated within budget in 2020/21.

Systems of internal control operated effectively in 2020/21 with scope for one key control to be strengthened.

### SPPA operated within its revised budget in 2020/21

**27.** The main financial objective for SPPA is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers.

**28.** SPPA reported an outturn of £21.5 million against its overall budget of £24.7 million for 2020/21 with an underspend of £3.2 million. The resource underspend is mainly due to lower than expected staff costs due to a recruitment freeze and changes in ways of working during the Covid-19 pandemic.

**29.** The capital underspend is due to lower than anticipated spend on the replacement pensions platform project.

**30.** SPPA's financial performance against Departmental Expenditure Limits (DEL) is shown in [Exhibit 3](#).

### Exhibit 3

#### Performance against DEL in 2020/21

Performance	Initial budget £m	Final budget £m	Outturn £m	Over/(under) spend £m
Resource DEL	22.0	22.9	20.0	(2.9)
Capital DEL	1.8	1.8	1.5	(0.3)
Total DEL	23.8	24.7	21.5	(3.2)

Source: Scottish Budget: 2020-21, SPPA Annual Report and Accounts 2020-21

## NHSPSS and STPS operated within their combined budget limit in 2020/21

**31.** NHSPSS and STPS are funded by Scottish Government annual managed expenditure (AME). Funding covers the cost of pension payments to retired members. The main financial objective for NHSPSS and STPS is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers.

**32.** NHSPSS and STPS's accrued resources are covered by one limit of £5,229.2 million. Total accrued resources were £5,185.9 million, which is within the overall budget limit. The small overspend of £1.1 million for NHSPSS was mainly due to a backdated pay award and actions taken by SPPA to address an issue, identified last year, with practitioner pension contribution under and over payments.

**33.** NHSPSS and STPS's financial performance against AME is shown in [Exhibit 4](#).

### Exhibit 4 Performance against AME in 2020/21

Performance	Initial budget £m	Final budget £m	Outturn £m	Over/(under) spend £m
NHSPSS	3,548.5	3,494.6	3,495.7	1.1
STPS	1,836.6	1,734.6	1,690.2	(44.4)
Total budget limit	5,385.1	5,229.2	5,185.9	(43.3)

Source: Scottish Budget: 2020-21, NHSPSS and STPS Annual Report and Accounts 2020-21

## Budget processes were appropriate

**34.** We reviewed SPPA's budget setting and monitoring arrangements. We confirmed that senior management and non-executive members receive regular and accurate information on SPPA's financial position and the financial position of NHSPSS and STPS.

**35.** SPPA prepares regular finance update reports for its Audit and Risk Committee and Management Advisory Board. These reports provide details of performance against budget for the current financial year and forecast the year-end financial position. The reports also highlight new and ongoing developments affecting SPPA and the pensions schemes' finances.

## Financial systems of internal control are operating effectively with scope for one key control to be strengthened

**36.** As part of our audit we identify and inspect the key controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that SPPA, NHSPSS and STPS have systems of recording and processing transactions which provide a sound basis for the preparation of the annual accounts.

**37.** We reviewed controls within SPPA, NHSPSS and STPS's key financial systems and concluded that appropriate internal controls are in place and operating as expected. We did not identify any significant control weaknesses. We did, however, identify a key control for NHSPSS and STPS which could be strengthened.

**38.** The Altair system is used by SPPA to administer and pay NHSPSS and STPS pensions. Officers produce a range of reports to reconcile pensions administration and payroll data and identify errors.

**39.** SPPA do not retain evidence to confirm that differences in reconciliations between pensions administration and payroll data have been investigated. There is a risk that incorrect pension payments are not identified and resolved.

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## Recommendation 2

SPPA should ensure checks on reconciliations are formally evidenced.

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**40.** We identified this issue during the previous year's audit. The other two recommendations regarding control weaknesses from that year have been addressed.

## Internal audit

**41.** SPPA's internal audit function is carried out by the Scottish Government's Directorate for Internal Audit and Assurance. Audit Scotland carries out an annual review of internal audit. The 2020/21 review found that the standard of internal audit work had continued to improve and there were no areas of significant non-compliance with Public Sector Internal Audit Standards.

**42.** We reviewed SPPA's internal audit arrangements in terms of International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent to which we could use the work of internal audit. We did not place formal reliance on any areas of internal audit work but we considered internal audit report findings as part of our wider dimension audit work.

## Standards of conduct and arrangements for the prevention and detection of fraud and error are appropriate

**43.** SPPA is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities. It is also responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.

**44.** We have reviewed the arrangements in place to maintain standards of conduct including the Framework Document and Civil Service and Members' Codes of Conduct. There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption.

**45.** We found areas where SPPA could strengthen its fraud arrangements. This includes updating its fraud policy to take account of increased home working and more regular reporting to the Audit and Risk Committee. Overall we found that SPPA has appropriate arrangements in place for the prevention and detection of fraud, error and irregularities.

### **SPPA is working to strengthen its cyber security arrangements**

**46.** Public bodies should have good provisions for managing data and monitoring information security. They should also have demonstrable capacity and capability to respond to increasing risks to cyber security. Threats are increasing as organisations deliver more service online.

**47.** We reviewed SPPA's cyber security arrangements and found that it had measures in place to mitigate the risk of cyber fraud.

**48.** The Central Scottish Government IT Teams (iTECS) assessed the vulnerability of the SPPA servers in March 2021 and recommended actions to reduce the risk of systems being compromised. SPPA is working with the Scottish Government to implement these measures.

**49.** SPPA is taking a range of other actions to control and reduce cyber security risks. These are captured in a detailed cyber resilience action plan. This includes actions to improve staff awareness of cyber risks and to ensure digital public services are secure and cyber resilient.

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# 3. Financial sustainability

Financial Sustainability looks forward to the medium and long term to consider whether a body is planning effectively to continue to deliver its services

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## Main judgements

SPPA needs to demonstrate how it will manage its longer term finances.

SPPA should develop workforce planning to ensure it is adequately organised and resourced.

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### SPPA needs to demonstrate how it will manage its longer term finances

**50.** The Scottish Government has highlighted the importance of financial sustainability and requires the bodies it funds to demonstrate how they will manage their finances in the longer term. SPPA prepares five-year revenue and capital budgets on a rolling basis. These highlight the challenging financial position it faces.

**51.** We have reported in previous years that SPPA's strategic plan outlines the requirement for SPPA to achieve an annual balanced financial position but does not include any financial forecasts. This continues to be the case. SPPA's strategic plans and five-year budgets do not set out the actions SPPA is taking to ensure its finances are sustainable.

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## Recommendation 3

SPPA should work to develop a longer term financial strategy to demonstrate how it will manage its finances.

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### We are satisfied that NHSPSS and STPS both continue to be a going concern

**52.** The 2020/21 annual report and accounts shows that:

- NHSPSS has net liabilities of £86.8 billion, an increase of £10.3 billion
- STPS has net liabilities of £48.2 billion, an increase of £4.7 billion.

**53.** NHSPSS and STPS are unfunded pension schemes, with funding for pension payments provided by the Scottish Government as they fall due. Pension liabilities can change significantly, year to year, due to changes in

actuarial assumptions. This means SPPA is not able to plan the schemes finances beyond one year.

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

### **SPPA should develop workforce planning**

**55.** Last year we reported that SPPA should develop a workforce plan with a focus on ensuring it is adequately resourced and organised to carry out its core functions and achieve planned efficiencies. Since then SPPA has experienced significant staff turnover and has found it difficult to fill vacant roles due to a recruitment freeze and the competitive labour market.

**56.** In part one of this report we highlighted the impact vacancies in the finance team has had on the preparation and audit of the annual report and accounts. We are also aware of resource gaps in other business areas and there is a risk that SPPA does not have the resilient workforce it needs to ensure it meets business and customer needs.

**57.** SPPA has implemented a Target Operating Model. This process looked at the structures, skills and capacity needed to deliver services. It resulted in changes in how services are resourced and organised. SPPA acknowledges that the organisational structure created by the TOM has created limitations including a lack of flexibility.

**58.** SPPA has prepared a timeline for resource planning which covers the short, medium (six to 18 months) and long term (beyond 18 months). In the short term it is working to fill business critical vacancies, provide managers with workforce planning training and establish a reporting framework for identifying resourcing gaps. Development of more strategic workforce planning is a longer term action.

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## **Recommendation 4**

**SPPA should develop a workforce plan focused on ensuring that it is adequately resourced and organised to carry out its core functions and achieve planned efficiencies.**

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# 4. Governance and transparency

The effectiveness of scrutiny and oversight, and transparent reporting of information

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## Main judgements

Overall governance arrangements for SPPA, NHSPSS and STPS are adequate but could be strengthened.

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### SPPA, NHSPSS and STPS could strengthen their governance arrangements

**59.** The corporate governance framework within SPPA is centred around the Management Advisory Board (MAB). The MAB is the main forum for discussing strategic priorities and ensuring effective governance. Its responsibility is to support the accountable officer. It does not have a formal decision making or scrutiny role.

**60.** The MAB is supported by the Audit and Risk Committee. The ARC's responsibility includes reviewing risk management, internal and external audit outputs and monitoring budgets, as well as discussing key business decisions.

**61.** NHSPSS and STPS are supported by pension boards and scheme advisory boards introduced under the Public Service Pensions Act 2013. The pension boards are responsible for assisting SPPA, the scheme manager, with the operational management of the schemes.

**62.** The purpose of the scheme advisory board is to provide advice on the desirability of changes to scheme design and the implication of other policy issues.

**63.** These arrangements provide an adequate framework for scrutiny and oversight of SPPA, NHSPSS and STPS.

**64.** The ARC and MAB carried out self-assessments of their operation and effectiveness during 2020/21. These exercises identified several improvement actions for the ARC and MAB which SPPA is taking action to address.

**65.** Internal audit completed a review of SPPA corporate governance in September 2021. It considered the robustness and effectiveness of key governance arrangements, processes and procedures at SPPA. This included reviewing the operation of the pension boards.

**66.** Internal audit found areas where SPPA's governance structure could be strengthened. Its recommendations include:

- SPPA should review whether it has sufficient controls in place to ensure NHSPSS and STPS fully comply with the regularity requirements of the Pensions Regulator
- SPPA should prepare a plan for how it will meet key governance document deadlines, such as the business plan, strategic plan and certificates of assurance
- SPPA should ensure there is senior Scottish Government representation at MAB and ARC meetings
- SPPA should review MAB membership terms to ensure it retains members with significant corporate knowledge and expertise during a time of significant operational change
- SPPA should consider facilitating self-assessments of all pension boards.

**67.** SPPA has agreed actions to address internal audit's recommendations.

### **The performance report met the statutory requirements**

**68.** In addition to the opinion on SPPA's performance report covered in Part 1 of our Annual Audit Report, we also consider the qualitative aspects of SPPA's performance reporting.

**69.** The performance report should provide information on SPPA's main objectives and the principal risks faced. It should provide a fair, balanced and understandable analysis of SPPA's performance as well as helping stakeholders understand the financial statements.

**70.** SPPA used the dispensation in the 2020/21 Financial Reporting Manual (FReM) for reduced reporting. The performance report meets the minimum requirements of the FReM but there is scope for SPPA to provide a clearer picture of how it has applied funds and what it has achieved.

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# 5. Value for money

Using resources effectively and continually improving services

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## Main judgements

SPPA has implemented a temporary senior management structure due to the departure of its Chief Executive and other senior officers. SPPA needs to ensure it has the leadership required to implement strategic projects, respond to change and challenge and demonstrate Best Value.

SPPA has extended the timetable for implementing its pension platform programme.

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## SPPA has had two interim chief executives since November 2020

**71.** The Chief Executive left SPPA on secondment in November 2020 and SPPA appointed an Interim Chief Executive. The Interim Chief Executive put in place a temporary senior leadership team structure with six departments, each led by a head of delivery reporting to the Interim Chief Executive. Due to senior officer departures only three of these posts are filled on a permanent basis.

**72.** The Interim Chief Executive left SPPA in April 2021 and was replaced by another interim appointment. SPPA is in the process of recruiting a permanent Chief Executive.

**73.** We have previously reported the impact changes in leadership and management had on the failure of SPPA's PS Pension project. This highlights the importance of SPPA ensuring it has clear and effective leadership as it seeks to implement strategic projects, including the replacement pensions platform, and respond to change and challenge.

**74.** [Ministerial guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure Best Value. The guidance sets out the key characteristics of Best Value and the requirement to have a systematic approach to self-evaluation and continuous improvement.

**75.** SPPA has set out to embed Best Value principles in its planning, governance and decision-making arrangements. A key responsibility of the new Chief Executive will be to take this forward and demonstrate how SPPA secures Best Value.

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## Recommendation 5

SPPA should ensure it has the stability of leadership required to implement strategic projects, respond to change and challenge and demonstrate Best Value.

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### SPPA has extended the timetable for implementing its pension platform programme

**76.** SPPA started its pension platform programme in June 2020. The project aims to deliver a comprehensive digital solution for pensions and payroll administration to improve business efficiency and service quality and make longer term financial savings.

**77.** SPPA originally planned to award the contract for the new system in December 2021, subject to the approval of the business case in January 2021. It paused the procurement process in November 2020 to allow more time to consider procurement options and its requirements from the new platform.

**78.** SPPA negotiated a contract extension with its current supplier to ensure there is sufficient time to complete the procurement and transfer to the new platform.

**79.** In May 2021, SPPA agreed to separate the transformation and procurement elements of the programme. The latest programme update was presented to the MAB in November 2021. This confirms the business case for the procurement received ministerial approval and a revised procurement timetable has been agreed. SPPA now plans make a contract award in July 2022.

**80.** The transformation strand of the programme is less developed, with SPPA in the process of recruiting a transformation director. SPPA has also contacted the Scottish Government Digital Transformation Services to see what support it can provide. SPPA acknowledges that it must make significant progress with transformation activity before the contract is awarded in July 2022.

**81.** SPPA presents regular updates on the pension platform programme to the MAB and ARC. It uses a RAG (red, amber, green) status to update MAB and ARC members on the progress of the various elements of the programme. This provides a useful snapshot of the progress of the programme.

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## Recommendation 6

SPPA should build on work underway to ensure it successfully completes all aspects of its pension platform programme.

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### NHSPSS and STPS rectified the issue with the accuracy of the 2020 annual benefits statements but again failed to meet the Pensions Regulator's requirements

**82.** SPPA has responsibility for issuing annual benefits statements to members. The deadline for this is 31 August each year. SPPA was made aware, following

customer enquiries, that the 2020 NHSPSS and STPS members statements contained an unacceptable number of errors. It put a plan in place to correct and reissue them by the end of November 2020.

**83.** SPPA investigated the cause of the errors and reported its findings to the ARC. SPPA identified that insufficient planning and quality assurance were the main cause of the issue. The Pensions Regulator accepted SPPA's revised plans and SPPA corrected and reissued the vast majority of statements by the end of 2020.

**84.** SPPA did not meet the end of August deadline for issuing all 2021 annual benefits statements to members, with 98% issued for NHSPSS and 95% for STPS. It has therefore self-reported itself to the Pensions Regulator. SPPA wrote to all eligible members who did not receive a statement and will inform them as and when their statement become available to access.

### **National performance audit reports**

**85.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2020/21 a number of reports were published which may be of direct interest to SPPA, NHSPSS and STPS. These are outlined in [Appendix 3](#).

# Appendix 1. Action plan 2020/21

## 2020/21 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Finance team capacity</b></p> <p>Several key members of the finance team left during the course of the audit and it took time for SPPA to appoint replacements. This meant the finance team faced competing pressures to prepare the annual report and accounts and support the audit alongside other work. As a result SPPA was unable to provide unaudited annual report and accounts in line with the original audit timetable.</p> <p>Risk – The finance team does not have sufficient resources to prepare the annual accounts and working papers.</p>	<p>SPPA should ensure its finance team has the resources needed to prepare its annual accounts in a timely manner and support the audit.</p> <p><a href="#">Paragraphs 16 to 20</a></p>	<p>Accepted.</p> <p>As mitigation to the reduced staffing, the team has developed more robust processes (supported by clear guidance notes), covering both the financial statements and the required narrative sections of the annual report and governance statement.</p> <p>Due to the recruitment challenges experienced, additional training is planned to address identified areas of weakness and more robust planning is being developed for the 2021-22 reports.</p> <p>Training and planning to be completed by 28 February 2022.</p> <p>(Head of Finance, Procurement and Risk)</p>
<p><b>2. Review of reconciliations</b></p> <p>The Altair system is used by SPPA to administer and pay NHSPSS and STPS pensions. Officers produce a range of reports to reconcile pensions administration and payroll data and identify errors. SPPA do not retain evidence to confirm that differences in reconciliations between pensions</p>	<p>SPPA should ensure checks on reconciliations are formally evidenced.</p> <p><a href="#">Paragraph 38 to 39</a></p>	<p>Accepted.</p> <p>Reconciliations will be evidenced with officers' initials and date of reconciliation.</p> <p>To be implemented by 30 January 2022.</p> <p>(Head of Customer Services)</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>administration and payroll data have been investigated.</p> <p>Risk – Incorrect pension payments are not identified and resolved.</p>		
<p><b>3. Financial sustainability</b></p> <p>We have reported in previous years that SPPA's strategic plan outlines the requirement for SPPA to achieve an annual balanced financial position but does not include any financial forecasts. This continues to be the case. SPPA's strategic plans and five-year budgets do not set out the actions SPPA is taking to ensure its finances are sustainable.</p> <p>Risk – SPPA cannot demonstrate how it will manage its finances in the longer term.</p>	<p>SPPA should work to develop a longer term financial strategy to demonstrate how it will manage its finances.</p> <p><a href="#">Paragraph 50 and 51</a></p>	<p>Accepted.</p> <p>SPPA has prepared and submitted a 5 year financial forecast in support of the Scottish Government's resource spending review for 2022-23 to 2026-27.</p> <p>This will form the basis of medium term (2 – 5 year) strategic and short term (annual) business planning.</p> <p>A medium-term Strategic Plan will be prepared by 30 August 2022.</p> <p>(Chief Executive Officer)</p>
<p><b>4. Workforce planning</b></p> <p>Last year we reported that SPPA should develop a workforce plan with a focus on ensuring it is adequately resourced and organised to carry out its core functions and achieve planned efficiencies. Since then SPPA has experienced significant staff turnover and has found it difficult to fill vacant roles due to a recruitment freeze and the competitive labour market.</p> <p>SPPA has prepared a timeline for resource planning which covers the short, medium (six to 18 months) and long term (beyond 18 months). Development of strategic workforce planning is a longer term action.</p>	<p>SPPA should develop a workforce plan focused on ensuring that it is adequately resourced and organised to carry out its core functions and achieve planned efficiencies.</p> <p><a href="#">Paragraphs 55 to 58</a></p>	<p>Accepted.</p> <p>SPPA will formalise its workforce plans to support strategic and business plans, including addressing succession planning and skills shortages, by 30 August 2022.</p> <p>(Head of People, Strategy and Communications)</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>Risk – SPPA is not adequately organised and resourced to carry out its core functions and achieve planned efficiencies.</p>		
<p><b>5. Leadership</b></p> <p>SPPA’s Interim Chief Executive put in place a temporary senior leadership team structure with six departments each led by a head of delivery. Due to senior officer departures only three of these posts are filled on a permanent basis. The Interim Chief Executive left SPPA in April 2021 and was replaced by another interim appointment. SPPA is in the process of recruiting a permanent Chief Executive.</p> <p>We have previously reported the impact changes in leadership and management had on the failure of SPPA’s PS Pension project. This highlights the importance of SPPA ensuring it has clear and effective leadership as it seeks to implement strategic projects, including the replacement pensions platform, and respond to change and challenge.</p> <p>Risk – SPPA does not have the effective leadership it needs to ensure it delivers its core functions and achieves its strategic objectives.</p>	<p>SPPA should ensure it has the stability of leadership required to implement strategic projects, respond to change and challenge and demonstrate Best Value.</p> <p><a href="#">Paragraphs 71 to 75</a></p>	<p>Partially accepted.</p> <p>The Chief Executive Officer is a Scottish Government appointment, led by the Director General: Corporate.</p> <p>A substantive CEO appointment has been made (December 2021) which will underpin the stability of the senior leadership team, which is being strengthened.</p> <p>(Chief Executive Officer)</p>
<p><b>6. Pension platform programme</b></p> <p>SPPA’s pension platform programme aims to deliver a comprehensive digital solution for pensions and payroll administration to improve business efficiency</p>	<p>SPPA should build on work underway to ensure it successfully completes all aspects of its pension platform programme.</p> <p><a href="#">Paragraphs 76 to 81</a></p>	<p>Accepted.</p> <p>The programme has adopted best practice programme governance, including pre procurement gateway reviews; peer review of documentation and representation on the</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>and service quality and make longer term financial savings. It paused the procurement process for the new system in November 2020 to allow more time to consider procurement options and its requirements from the new platform. The business case for the procurement has received ministerial approval and a revised procurement timetable has been agreed. SPPA now plans make a contract award in July 2022.</p> <p>Risk – SPPA’s project management arrangements for the new system prove to be ineffective resulting in further delays and/or failure of the project.</p>		<p>programme board of subject matter experts and non-executive directors.</p> <p>The programme is proceeding to an agreed timeframe with clear decision points embedded at each stage.</p> <p>(Chief Executive Officer / Senior Responsible Officer of the Programme)</p>

## Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>b/f 1. Financial sustainability</b></p> <p>SPPA’s five year budgets do not include details of the actions it is taking to address funding gaps.</p> <p>Risk – SPPA cannot demonstrate how it will manage its finances in the longer term.</p>	<p>SPPA should work to complete a longer-term financial strategy to demonstrate how it will ensure its finances are sustainable.</p>	<p>Outstanding</p> <p>See action plan point 3.</p>
<p><b>b/f 2. Workforce capacity</b></p> <p>SPPA is still to complete a workforce plan which sets out how it will ensure it has sufficient capacity to achieve its strategic objectives and provide the level and quality of services expected by its customers.</p>	<p>SPPA should continue to develop its workforce plan with a focus on ensuring that it is adequately resourced and organised to carry out its core functions and achieve planned efficiencies.</p>	<p>Outstanding</p> <p>See action plan point 4.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>Risk – SPPA is not adequately organised and resourced to carry out its core functions and achieve planned efficiencies.</p>		
<p><b>b/f 3. Governance and transparency</b></p> <p>The MAB carried out a self-assessment of its operation and effectiveness at the beginning of 2019/20. Many of the resulting actions have not been progressed due to limited resource within the governance team. SPPA should also consider whether there are opportunities for it to enhance transparency. This includes making MAB and ARC papers publicly available where appropriate.</p> <p>Risk – MAB and ARC members are not given the support and quality of information needed to provide effective scrutiny.</p>	<p>SPPA should ensure it has the right capacity to support effective governance and scrutiny and transparent decision making.</p>	<p>In progress</p> <p>Opportunities remain for SPPA, NHSPSS and STPS to strengthen governance arrangements.</p> <p>See <a href="#">paragraphs 59 to 67</a>.</p>
<p><b>b/f 4. Performance report</b></p> <p>SPPA changed its arrangements for preparation of the performance report during the year with the senior leadership team taking responsibility for preparing relevant sections of the report. Capacity issues due to Covid-19 meant this process did not work as planned.</p> <p>Risk – SPPA does not provide users of the annual report and accounts with a clear analysis of its performance.</p>	<p>SPPA should review arrangements for preparing the performance report to ensure they are effective, and the report provides a fuller analysis of SPPA's performance.</p>	<p>In progress</p> <p>SPPA used the dispensation in the FReM for reduced reporting. The performance report meets the minimum requirements of the FReM but there is scope for SPPA to provide a clearer picture of how it has applied funds and what it has achieved.</p>
<p><b>b/f 5. Replacement pensions platform</b></p> <p>SPPA has learned lessons from the closure of the PS</p>	<p>SPPA should build on work underway to ensure it successfully completes its</p>	<p>In progress</p> <p>See action plan point 6.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>Pensions project. Its pensions platform replacement programme is at an early stage, but work done so far recognises the need for a clear business case, realistic procurement timetable and clear governance and project management arrangements.</p> <p>Risk – SPPA’s project management arrangements and governance arrangements for the new system prove to be ineffective resulting in the failure of the new project.</p>	<p>pensions platform replacement programme.</p>	
<p><b>b/f 6. Governance statement disclosures</b></p> <p>The 2019/20 governance statements for NHSPSS and STPS comply with the minimum requirements of the Scottish Public Finance Manual but could more clearly describe the main risks faced by the pension schemes.</p> <p>Risk – Governance statements do not present a clear picture of governance arrangements and risk-related matters.</p>	<p>STPS and NHSPSS should ensure their annual governance statements better reflect significant risk-related issues arising during the year.</p>	<p>Complete</p> <p>The 2020/21 NHSPSS and STPS governance statements better reflect significant risk-related issues.</p>
<p><b>b/f 7. Annual benefits statements</b></p> <p>SPPA was made aware, following customer enquiries, that the 2020 NHSPSS and STPS members statements contained an unacceptable number of errors. It has put a plan in place to correct and reissue them by the end of November. It has informed all stakeholders, including the Pensions Regulator which has accepted the revised</p>	<p>SPPA should ensure the issue is rectified so that it can issue accurate, timely annual benefits statements to members.</p>	<p>Complete</p> <p>SPPA investigated the cause of the errors and reported its findings to the ARC. SPPA identified that insufficient planning and quality assurance were the main cause of the issue. The Pensions Regulator accepted SPPA’s revised plans and SPPA corrected and reissued the vast majority of statements by the end of 2020.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>plan. SPPA is investigating what caused this to happen.</p> <p>Risk – Members receive inaccurate information on their pensions.</p>		

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# Appendix 2. Significant audit risks

The table below sets out the audit risks we identified on the 2020/21 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 financial statements and those relating to our wider responsibility under the [Code of Audit Practice 2016](#).

## Risks of material misstatement in the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p><b>1. Risk of material misstatement due to fraud caused by the management override of controls</b></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>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions which are outside the normal course of business.</p>	<p>We sample tested journal entries. No issues identified</p> <p>We reviewed accounting estimates. No issues identified.</p> <p>We sample tested accruals and prepayments. No issues identified</p> <p>We found no evidence of transactions outside the normal course of business.</p> <p>From work carried out in year, we found no evidence of management override of controls.</p>
<p><b>2. Risk of material misstatement caused by fraud in revenue recognition</b></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>Testing of key controls within the Epicor system.</p> <p>Sample testing of Epicor contributions from other audited bodies (NHS and councils) to ensure consistency with schemes records.</p> <p>Evaluation of the accounting treatment of significant income transactions that are outside the normal course of business.</p>	<p>We did not identify any issues from our testing of key controls within Epicor.</p> <p>We did not identify any issues from sample testing of Epicor contributions from other audited bodies</p> <p>We did not identify any significant income transactions outside the normal course of business.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>(Schemes)</p> <p><b>3. Risk of material misstatement caused by fraud in expenditure</b></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 the schemes' expenditure means that there is an inherent risk of fraud. This risk specifically applies to expenditure on pensions and lump sums.</p> <p>(Schemes)</p>	<p>Testing of key controls within the Altair system.</p> <p>Focused substantive testing on higher risk areas and more complex areas including new awards and deaths.</p>	<p>We identified an issue with the reconciliation reports key control (see Appendix 1 action plan point 2).</p> <p>We did not find any issues from substantive testing of expenditure.</p>
<p><b>4. Information supporting scheme valuations</b></p> <p>Decisions taken by SPPA for the schemes are reliant on the work of the Government Actuary's 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>Review of the work of GAD focusing on reliability, professional competence and capability.</p> <p>Meet with GAD to discuss work practices, validation processes and quality review arrangements to determine whether reliance can be taken in relation to GAD's internal processes.</p> <p>Review reports to GAD supporting valuation data.</p>	<p>We reviewed the reliability, professional competence and capability of GAD and found no issues.</p> <p>We discussed work practices, validation processes and quality review with GAD and concluded that arrangements are satisfactory.</p> <p>We commissioned an external firm of experts to review GAD. It found that GAD's quality controls and review processes are of a high standard and it has robust processes in place to carry out the detailed work and reporting. It also found evidence of compliance with technical and professional standards and a high quality of output. This allowed us to place reliance on GAD.</p> <p>We reviewed and agreed GAD reports to the figures and disclosures in the annual</p>

Audit risk	Assurance procedure	Results and conclusions
		accounts and found no issues.

## Risks identified from the auditor's wider responsibility under the Code of Audit Practice

Audit risk	Assurance procedure	Results and conclusions
<p><b>5. Financial sustainability</b></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>Review SPPA's longer term financial plans and forecasts.</p> <p>Review efficiency savings reported by SPPA.</p>	<p>SPPA is still to develop a longer term financial plan (see Appendix 1 action plan point 3).</p> <p>SPPA reported an outturn of £21.5 million against its overall budget of £24.7 million for 2020/21 with an underspend of £3.2 million.</p>
<p><b>6. Leadership and capacity to deliver services</b></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</p>	<p>Review SPPA's progress in developing a workforce plan.</p> <p>Review SPPA's progress with the replacement pensions platform project.</p> <p>Review the Accountable Officer's arrangements for securing Best Value.</p>	<p>SPPA is still to develop a workforce plan (see Appendix 1 action plan point 4).</p> <p>SPPA has extended the timetable for implementing its pension platform programme (see Appendix 1 action plan point 6).</p> <p>SPPA is in the process of recruiting a permanent Chief Executive. A key part of their role will be to better demonstrate how SPPA secures Best Value (see Appendix 1 action plan point 5).</p>

Audit risk	Assurance procedure	Results and conclusions
<p>challenge for SPPA. SPPA has agreed a key business priority to develop a comprehensive workforce plan.</p> <p>There is a risk that SPPA is not adequately organised and resourced to carry out its core functions alongside implementing strategic projects including the replacement pensions platform project .</p> <p>(SPPA)</p>		

# Appendix 3. Summary of 2020/21 national performance reports

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## April

[Affordable housing](#)

## June

[Highlands and Islands Enterprise: Management of Cairngorm mountain and funicular railway](#)

[Local government in Scotland Overview 2020](#)

## July

[The National Fraud Initiative in Scotland 2018/19](#)

## January

[Digital progress in local government](#)

[Local government in Scotland: Financial overview 2019/20](#)

## February

[NHS in Scotland 2020](#)

## March

[Improving outcomes for young people through school education](#)

# Scottish Public Pensions Agency

## NHS Pension Scheme (Scotland)

### Scottish Teachers' Pension Scheme

#### 2020/21 Annual Audit Report

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