

# Scottish Parliamentary Contributory Pension Fund

Report on the 2005-06 Audit

February 2007



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# Contents

<b>Executive Summary</b>	<b>1</b>	<b>Governance</b>	<b>7</b>
Introduction		Introduction	
Financial Statements		Systems of Internal Control	
Governance		Internal Audit	
<b>Introduction</b>	<b>2</b>		
Scope of the Audit			
Outcome on Risks Identified in the Audit plan			
<b>Financial Statements</b>	<b>3</b>		
Our Responsibilities			
Overall Conclusion			
Financial Performance			
Statement on Internal Control			
ISA 260: Communication of Audit Matters to Those Charged with Governance			
Issues Arising			



# Executive Summary

## Introduction

In 2005-06 we audited the financial statements of the Scottish Parliamentary Contributory Pension Fund (SPCPF). Our responsibilities also include looking at aspects of performance management and governance as considered appropriate. This report sets out our key findings.

## Financial Statements

We have given an unqualified opinion on the financial statements of the SPCPF for 2005-06.

## Governance

SPCPF's corporate governance and control arrangements operated satisfactorily in the period under review as reflected in the Statement on Internal Control

## Performance Management

As indicated in the approved audit plan, the audit approach involved aspects of performance audit, but these were dealt with under corporate governance and financial statements, with no specific performance audit work reported.

I would like to record my thanks to management and staff for their co-operation and assistance.

Murdoch McCamley CA,  
Senior Audit Manager,  
February 2007



# Introduction

## Scope of the Audit

1. This report summarises the findings from our 2005-06 audit of the Scottish Parliamentary Contributory Pension Fund (SPCPF). The scope of the audit was set out in our Audit Plan, which was discussed and agreed with the Advisory Audit Board on 4 May 2006. The Audit Plan described the work we planned to carry out, which can be summarised as:
  - a review of SPCPF's arrangements for corporate governance;
  - audit of the financial statements and provision of an opinion on whether they present a true and fair view of the financial position of SPCPF and its expenditure and receipts for the year.
2. This report to management sets out the findings on the completion of our audit as at November 2006, with a limited update at February 2007 prior to submission of the report to the SPCB's Advisory Audit Board. Any weaknesses outlined are only those which have come to our attention during the course of our normal audit work and are not necessarily all the weaknesses which may exist. It is the responsibility of management to determine the extent of the internal control system appropriate to the SPCPF. We would stress, however, that an effective internal control system is an essential part of the efficient management of any organisation.
3. The contents of this report have been agreed with relevant officers to confirm factual accuracy. The assistance and co-operation we received during the course of our audit is gratefully acknowledged. This report will be submitted to the Auditor General for Scotland and will be published on our website at [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).



# Financial Statements

## Our Responsibilities

4. We audit the financial statements and give an opinion on whether:

- they give a true and fair view, in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers, of the state of affairs of the Scottish Parliamentary Contributory Pension Fund as at 31 March 2006;
- they have been properly prepared in accordance with the Government Financial Reporting Manual (FReM), the Pensions SORP and directions made by the Scottish Ministers;
- in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers; and
- the Contributions payable to the Fund during the year ended 31 March 2006 have been paid in accordance with the Fund rules and the recommendation of the Actuary.

5. We also review the Statement on Internal Control by:

- considering compliance with Scottish Public Finance Manual guidance;
- considering the adequacy of the process put in place by the Fund Managers to obtain assurances on systems of internal control; and
- assessing whether disclosures in the Statement are inconsistent with the information emerging from our normal audit work.

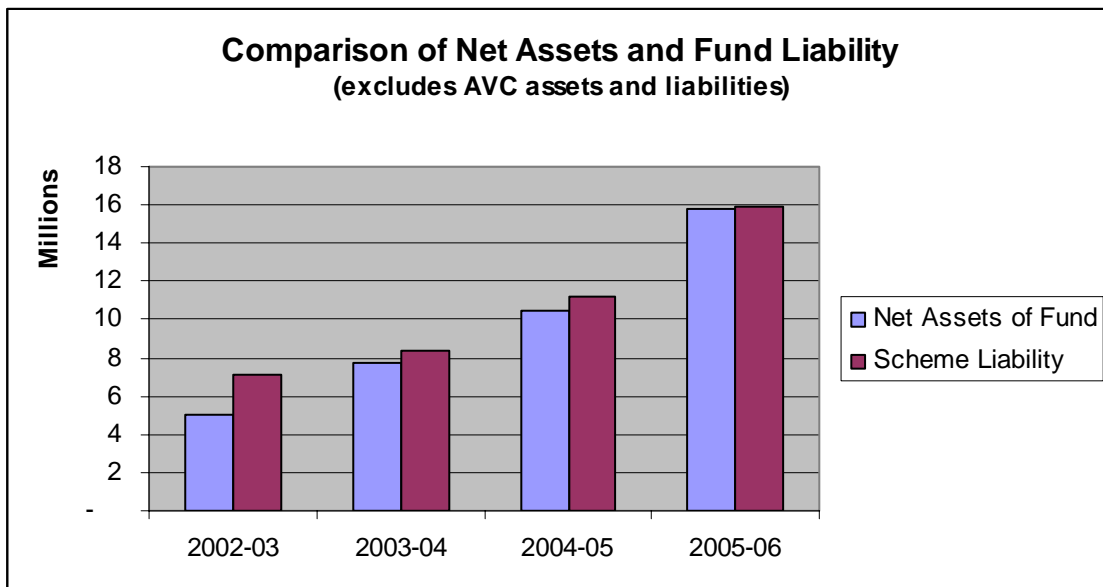
## Overall Conclusion

6. We have given an unqualified opinion on the financial statements of the SPCPF for 2005-06. We are able to conclude that the financial statements of the SPCPF give a true and fair view of the financial position for the period from 1 April 2005 to 31 March 2006 and that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and relevant guidance; and that the Contributions payable to the Fund during the year ended 31 March 2006 have been paid in accordance with the Fund rules and the recommendation of the Actuary.



## Financial Performance

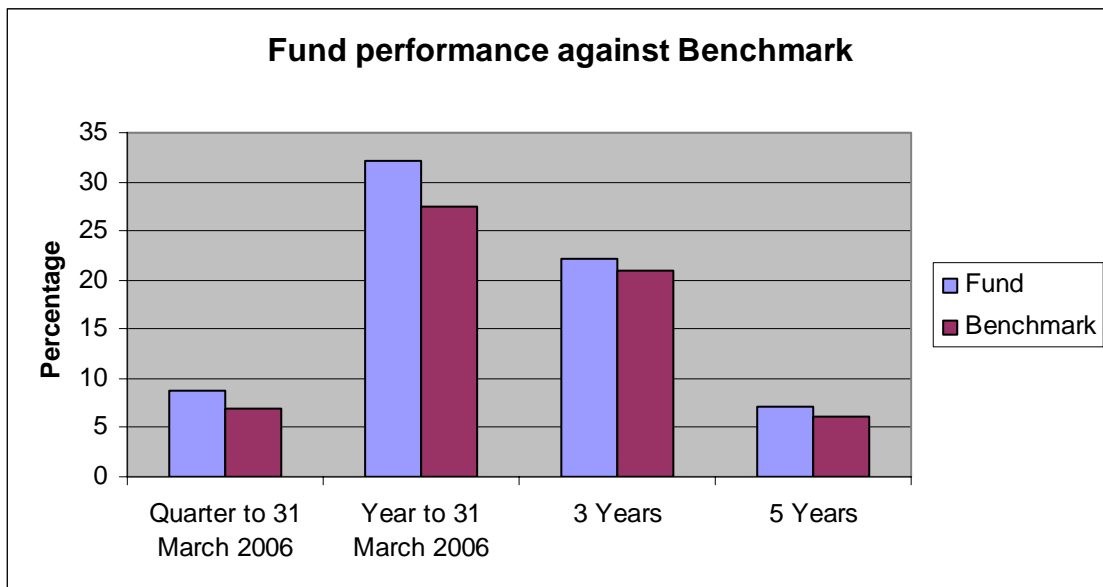
7. The Fund Account for the year records a total income for the financial year of £2.00 million (2004-05: £1.96 million), comprising contributions into the Fund, transfers into the fund from those joining the scheme and other income. The expenditure for the financial year was £0.30 million (2004-05: £0.15 million), comprising benefits payable, transfer values out of the Fund for those leaving the Scheme and administration expenditure and other payments. The increase in the Fund from the net return on investment was £3.64 million (2004-05: £0.98 million). This gave rise to a total net increase in the Fund of £5.34 million taking the Fund value at the year end to £16.03 million, including Additional Voluntary Contributions (2004-05: £2.79 million and £10.69 million).



8. In line with the accounts direction the accounts exclude the Schemes liability to pay future benefits. Scheme liabilities have been estimated by the Actuary at £15.9 million, excluding liabilities associated with Additional Voluntary Contributions. This indicates a shortfall of assets in the Fund of £0.1 million (2004-05: £11.2 million and £0.7 million shortfall). The increase of £4.7 million in Scheme liabilities is analysed in note 16 to the accounts and reflects the costs of current service of £2.1 million (2004-05: £1.8 million); the unwinding of one year's discounting of the liability of £0.6 million (2004-05: £0.5 million); and experience/ change in actuarial assumptions of £2.0 million (2004-05: £0.5 million). The Actuarial valuation recommended that Employer's contributions should be increased from 18.5% to 20.3% from April 2006. This recommendation was approved by the Managers on 26 September 2006, backdated to 1 April 2006.



9. As reported by Baillie Gifford, their Managed Pension Fund increased by 32.8% compared to an increase of 27.6% for the target benchmark. The 3 year performance was an increase of 22.2% per annum compared to the benchmark of an increase of 20.9% per annum. (The benchmark is the Combined Actuarial Performance Service (CAPS) median Balanced Pooled Fund over a rolling 3 year period.)



## Statement on Internal Control

10. A draft Statement on Internal Control was presented to the Advisory Audit Board on 27 October 2006, with the final formal version signed by the Presiding Officer on 16 November 2006. This set out the arrangements operated for risk identification and review, management of identified risks and assurance of effectiveness.
11. We are satisfied that the Statement complies with Scottish Public Finance Manual guidance; the process put in place by the Presiding Officer and Managers to obtain assurances on systems of internal control is adequate; and the contents of the Statement are not inconsistent with the information emerging from our normal audit work.





## ISA 260: Communication of Audit Matters to Those Charged with Governance

12. Our responsibilities in relation to the communication of audit matters to those charged with governance are covered in International Standard on Auditing 260 and outcomes against the requirements of the Standard were reported in a letter to the Presiding Officer on 14 November 2006. This letter was presented to the Advisory Audit Board in draft form on 27 October 2006. In this context, our audit has not identified any unadjusted errors that we need to bring to attention; we comment on accounting arrangements below.

### Accounting arrangements

13. The Managers of SPCPF (the SPCB) are responsible for accounting matters, although they have delegated aspects of this to the Scottish Public Pensions Agency (SPPA). As a relatively new pension scheme, the formal accounting arrangements established have concentrated on the collection of, and investment of, contributions; this information is directly available from SPCB's accounting records. Pension awards and payments are recorded in the first instance by SPPA, who also prepare the account. SPPA have broad responsibilities for pension matters in Scotland, including the administration of the NHS and Teachers superannuation schemes and the related accounting. There was some evidence that these broad responsibilities can give rise to conflicting priorities within SPPA, which in turn resulted in some delay in the delivery of the draft accounts for SPCPF. Also, going forward, pension payments will increase and the cash inflows and outflows will become more involved. In this context SPCB should consider the ways in which accounting arrangements and records need to develop further. A review of this area should examine whether SPCB should take more direct responsibility for the accounting aspects and, if so, any relevant implications should feed into the SPCB's review of finance and corporate systems.
14. In line with normal practice, issues were discussed and resolved with officers during the course of the audit of the financial statements. Otherwise, there are no matters of such significance that we wish to record them as part of this report.



# Governance

## Introduction

15. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of an organisation. This section sets out the main findings arising from our review of the SPCPF's corporate governance as it relates to systems of internal control and the review of internal audit.

## Overall Governance Arrangements

16. During our audit we updated and confirmed our understanding of the governance systems operating in relation to SPCPF. Our understanding of arrangements was based on our reviews of systems and controls in previous years, any relevant findings of internal audit and our current year work. In the current year we carried out systems and controls work as necessary to support our audit of the financial statements SPCPF. This mainly comprised examining pension transactions: contributions due and their transmittal to the investment managers; transfers in and out of the Scheme and benefits payable.
17. At a more general or higher level, Audit Scotland carry out annual work on systems and controls at the SPCB and the Scottish Executive, including SPPA. The coverage includes the main accounting system (SEAS), payroll and pension arrangements at the SPPA, who manage this aspect of the Scheme's operations on behalf of the SPCB. There are no matters we wish to bring to attention from this work. In addition, in relation to the investments held, Baillie Gifford prepared a statement on their internal control framework. KPMG, as reporting accountants, provided positive assurance on the statement. Overall therefore we are content that the governance arrangements are soundly based.

## Internal Audit

18. Audit Scotland have reviewed and place reliance on the internal audit service provided to the Scottish Parliamentary Corporate Body and the Scottish Executive, including SPPA. Again, in this context, there are no matters to bring to attention from their work.

## Looking forward

19. As part of our audit of the 2006-07 accounts we will update our previous work on governance, which was based on a review in 2001-02 and subsequent follow ups. Our review will take account of recent developments, including good practice guidance.



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