

Scottish Public Pensions Agency  
Scottish Teachers' Superannuation  
Scheme  
NHS Superannuation Scheme, Scotland

**Report on the 2008/09 Audit**

13 October 2009

The logo for Audit Scotland, featuring a stylized blue 'A' with a checkmark inside a circle to its left.

AUDIT SCOTLAND

Scottish Public Pensions Agency  
Scottish Teachers' Superannuation Scheme  
NHS Superannuation Scheme, Scotland

**Report on the 2008/09 Audit**

# Contents

<b>Key messages</b>	<b>1</b>	<b>Performance</b>	<b>24</b>
<b>Introduction</b>	<b>3</b>	<b>Looking Forward</b>	<b>28</b>
<b>Financial Statements - SPPA</b>	<b>5</b>	<b>Appendix A: Action Plan</b>	<b>30</b>
<b>Financial Statements - NHSSS and STSS</b>	<b>8</b>	<b>Appendix B: Review of Risks Identified in the Audit Risk Analysis and Plan</b>	<b>32</b>
<b>Use of Resources</b>	<b>11</b>		
<b>Governance and Accountability</b>	<b>19</b>		



# Key messages

In 2008/09 we looked at the key strategic and financial risks being faced by the Scottish Public Pensions Agency (SPPA). We audited the financial statements of the Scottish Public Pensions Agency, the Scottish Teachers' Superannuation Scheme and the NHS Superannuation Scheme (Scotland) and we also reviewed the use of resources and aspects of performance management and governance. This report sets out our key findings.

## **Financial statements**

We have given unqualified opinions on the financial statements of the Scottish Public Pensions Agency, the Scottish Teachers' Superannuation Scheme and the NHS Superannuation Scheme (Scotland), for 2008/09. We have also concluded that in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance, issued by Scottish Ministers.

## **Financial position and use of resources – Scottish Public Pensions Agency**

During financial year 2008/09, the Scottish Public Pensions Agency recorded income of £0.1 million from operating activities and received net funding of £11.5 million (2007/08 £10.7 million) from the Scottish Government. The Agency incurred a net operating cost (excluding notional costs) of £9.3 million (2007/08 £8.3 million) against a budget of £10.5 million; a net underspend of £1.2 million on operating costs (2007/08 £ 0.2 million). There was a net underspend of £0.6 million (2007/08 £0.9 million) against the capital budget of £3.6 million (2007/08 £4.4 million). The underspend was largely due to delays in capital expenditure on the AXISe system with consequent reductions in depreciation and cost of capital. The Scottish Public Pensions Agency operated within the budget provided by the Scottish Government.

The Agency faces an increasingly tight financial settlement for 2009-12, including the need to achieve a 4.5% reduction in administration expenditure in 2010/11, and will be expected to deliver pension reform changes in addition to business as usual.

## **Financial position and use of resources – NHS Superannuation Scheme (Scotland)**

The NHS Superannuation Scheme (Scotland) had net outgoings for the year of £1,345.2 million, an increase of 30.2% (£311.9 million) from 2007/08 (£1,033.3 million). Scheme liabilities have decreased by £1.7 billion (8.0%) from £21.1 billion to £19.4 billion. The decrease in the liability for the prior period was £0.8 billion (3.6%).



## **Financial position and use of resources – Scottish Teachers’ Superannuation Scheme**

The Scottish Teachers’ Superannuation Scheme had net outgoings for the year of £1,177.9 million, an increase of 3.1% (£35.6 million) from 2007/08 (£1,142.3 million). Scheme liabilities have decreased by £0.9 billion (4.9%) from £19.3 billion to £18.4 billion. The increase in the liability for the prior period was £0.6 billion (3.2%).

## **Governance and accountability**

Corporate Governance is concerned with the structures and process for decision making, accountability, control and behaviour at the upper levels of an organisation. We carried out a review of Corporate Governance in the Agency, and concluded that overall the corporate governance and control arrangements for the Scottish Public Pensions Agency operated satisfactorily during the year, as reflected in the Statements on Internal Control.

We examined the key financial systems which underpin the organisation’s control environment. We concluded that financial systems and procedures operated sufficiently well to enable us to place reliance on them. We reviewed the implementation of the AXISe pensions administration system and identified a number of risks that the Scottish Public Pensions Agency should address as a matter of priority.

## **Performance**

The Scottish Public Pensions Agency operated within its combined operating costs and capital budget for 2008/09 for the Agency and for the two schemes. The Agency met six of the 8 key targets appropriate for the year as outlined in the corporate plan for 2008-11. Details of performance are reported in the Annual Report.

## **Looking forward**

The final part of our report notes some key risks areas for the Scottish Public Pensions Agency going forward. We consider that the implementation of the AXIS-e pensions administration IT system for the NHS Superannuation Scheme (Scotland), the introduction of NHS Choice and the achievement of the level of savings required by the Scottish Government represent significant challenges for the Scottish Public Pensions Agency in the coming year.

The assistance and co-operation given to us by Board members and staff during our audit is gratefully acknowledged.

**Audit Scotland**  
**13 October 2009**

# Introduction

1. This report summarises the findings from our 2008/09 audit of the Scottish Public Pensions Agency, the Scottish Teachers' Superannuation Scheme and the NHS Superannuation Scheme (Scotland). The scope of the audit was set out in our Audit Plan, which was presented to the Audit Committee on 14 January 2009. This plan set out our views on the key business risks facing the organisation and described the work we planned to carry out on financial statements, performance and governance.
2. We have issued a range of reports this year, and we briefly touch on the key issues we raised in this report. Each report set out our detailed findings and recommendations and the Agency's agreed response. Appendix A of this report sets out the key risks highlighted in this report and the action planned by management to address them. Appendix B lists the risks identified in the Audit Plan, the actions taken by management to ameliorate them and our review of the outcome.
3. Best value duties apply across the public sector and, in central government, best value is a formal duty on all accountable officers. Audit Scotland has adopted a generic framework for the audit of best value across the public sector and throughout this report we comment on aspects of the Scottish Public Pensions Agency arrangements.

**Exhibit 1: Framework for a best value audit of a public body**



4. Our comments are made on the basis of information made available in the course of the annual audit. We do not make an overall best value judgement because we do not have enough evidence to conclude on all relevant areas. Our intention is to build up the corporate assessment over time. This report is the first step towards that goal.
5. Another building block for our assessment of best value is the national study programme carried out by Audit Scotland on behalf of both the Auditor General for Scotland and the Accounts Commission. We mention the key findings from all relevant reports, and the implications for the Scottish Public Pensions Agency, the Scottish Teachers' Superannuation Scheme and the NHS Superannuation Scheme (Scotland), throughout this report. Full copies of the study reports can be obtained from Audit Scotland's website, [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).
6. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by Board members and staff of Scottish Public Pensions Agency during the course of our audit. This report will be submitted to the Auditor General for Scotland and will be published on our website.

# Financial Statements - SPPA

7. In this section we summarise key outcomes from our audit of the Scottish Public Pensions Agency financial statements for 2008/09 and the accounting issues faced. The financial statements are an essential means by which the organisation accounts for its stewardship of the resources available to it and its financial performance in the use of those resources.

## Our responsibilities

8. We audit the financial statements and give an opinion on:
  - whether they give a true and fair view of the financial position of the Scottish Public Pensions Agency and its expenditure and income for the period in question;
  - whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements;
  - the consistency of the information on the Annual Report and Accounts, which comprises only the Management Commentary, with the financial statements; and
  - the regularity of the expenditure and receipts.
9. We also review the statement on internal control by:
  - considering the adequacy of the process put in place by the Chief Executive as Accountable Officer to obtain assurances on systems of internal control; and
  - assessing whether disclosures in the statement are consistent with our knowledge of the Scottish Public Pensions Agency.

## Overall conclusion

10. We have given an unqualified opinion on the financial statements of the Scottish Public Pensions Agency for 2008/09.
11. The unaudited accounts were provided to us on 22 June 2009, supported by a comprehensive working paper package. We concluded our audit within the agreed timetable and provided our opinion to the Audit Committee on 14 July 2009. The draft accounts were supplied a week later than originally planned due to staffing shortages at SPPA.



## Issues arising from the audit

12. As required by auditing standards we reported to the Audit Committee on 14 July 2009 the main issues arising from our audit of the financial statements. There were no significant issues to be brought to the Audit Committee's attention.
13. A separate management letter arising out of the final audit process will be produced in due course together with an action plan. All items have been discussed with management. These will be followed up in 2009/10 to confirm that improvements have been made.

## Regularity

14. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We have been able to address the requirements of the regularity assertion through a range of procedures, including written assurances from the Accountable Officer as to his view on adherence to enactments and guidance. No significant issues were identified for disclosure.

## International financial reporting standards (IFRS):

15. As announced by the Chancellor in the 2008 Budget report on 12 March 2008 (Budget report paragraph C103), Government departments and other public sector bodies will report using International Financial Reporting Standards (IFRS) from 2009/10. The Scottish Government announced on 25 April 2008 that all Scottish Government Departments, Executive Agencies, Health Bodies and Non-Departmental Public Bodies would be required to produce shadow IFRS based accounts for financial year 2008/09. This was to include a restated balance sheet as at 1 April 2008.
16. In terms of the audit of the IFRS opening balance sheet at 1 April 2008, there were two key dates to achieve as outlined below:
  - **28 November 2008** – opening 2008 IFRS-based balance sheets were to be presented to auditors for dry-run audit; and
  - **28 February 2009** – dry-run audit of opening balances was to be completed, resulting in a letter to management highlighting the work done, auditors' findings and areas for further work.
17. The opening balance sheet and supporting documentation for the Scottish Public Pensions Agency, the Scottish Teachers' Superannuation Scheme and the NHS Superannuation Scheme (Scotland) were submitted for audit review by the deadline date of 28 November 2008. The restated balance sheets and supporting working papers were comprehensive.

18. We made some recommendations for the delivery of the next stage of IFRS reporting – the production of the shadow accounts for 2008/09, and will consider progress on these when we review the shadow accounts for the three bodies later in 2009. These included:

- Tangible fixed assets - although an initial review of tangible fixed assets has been carried out, additional work is necessary;
- Leases – even though a preliminary analysis of leases has been completed, additional information is required to ensure that no finance leases have been created under the movement to IFRS and that all have remained as operating leases; and
- Intangible assets – In accordance with current guidance Scottish Public Pensions Agency has written off all intangible assets, however recent developments indicate that de-recognition of intangible assets is likely to be reversed for the shadow accounts. Scottish Public Pensions Agency has agreed to review all de-recognised intangible assets in line with the new guidance to establish those that require reversal for the shadow accounts.

# Financial Statements - NHSSS and STSS

19. In this section we summarise key outcomes from our audit of the Scottish Teachers' Superannuation Scheme and the NHS Superannuation Scheme (Scotland) financial statements for 2008/09 and the accounting issues faced.

## Our responsibilities

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

- whether they give a true and fair view of the financial position of the NHS Superannuation Scheme and the Scottish Teachers' Superannuation Scheme (Scotland) and their expenditure and income for the period in question;
- whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements;
- the consistency of the information which comprises the Report of the Managers and the Report of the Actuary within the financial statements; and
- the regularity of the expenditure and receipts.

21. We also review the statement on internal control by:

- considering the adequacy of the process put in place by the Chief Executive as Accountable Officer to obtain assurances on systems of internal control; and
- assessing whether disclosures in the statement are consistent with our knowledge of the NHS Superannuation Scheme and the Scottish Teachers' Superannuation Scheme (Scotland).

## Overall conclusion

22. We have given an unqualified opinion on the financial statements of the NHS Superannuation Scheme and the Scottish Teachers' Superannuation Scheme (Scotland) for 2008/09.

23. As agreed the unaudited accounts were provided to us on 24 July 2009. We will be moving to an electronic working papers system for the 2009/10 accounts and we have agreed to work with SPPA Finance to identify a file structure that would both enhance the compilation of the accounts and expedite the audit. We concluded our audit within the agreed timetable and provided our opinion to the Audit Committee on 13 October 2009.

## Issues arising from the audit

24. As required by auditing standards we reported to the Audit Committee on 13 October 2009 the main issues arising from our audit of the financial statements. The key issues were as follows:

### Overpayment of pensions

25. In December 2008 the SPPA, in consultation with the Scottish Government, decided in principle to write off overpayments totalling £5.67 million (NHSSS £1.54 million, STSS £4.13 million) that had been made by the schemes to 6,009 pensioners (NHSSS 3,148, STSS 2,861) since 1978. The overpayments arose from the miscalculation of the guaranteed minimum pension element arising from deficiencies in data passed to the Scottish Public Pensions Agency by the National Insurance Contribution Office. On 23 January 2009 the Agency were informed by the National Insurance Contribution Office that more erroneous pension payments had been identified.
26. We note that the Scottish Public Pensions Agency has identified an additional 421 members of the STSS scheme and 287 members of the NHSSS who have received pension overpayments. The total value at the end of March 2009 is £1.17 million. The Scottish Public Pensions Agency wrote to all those affected on 2 April 2009. Action has been taken to write off all the past overpayments and to ensure that the correct pension is put in place as soon as practicable. We confirm that the additional amounts that are being written off are not material to either Scheme accounts. Details of the payments have been disclosed in the Losses note in both Scheme accounts.
27. **NHSSS and STSS: Monetary level of disclosure in the accounts** - the Treasury templates for Pension Scheme accounts use £ thousands as the basis of the figures in accounts. The first set of accounts were presented in £ millions. Audit Scotland expressed concern that the level of disclosure was not appropriate as a number of lines in the accounts would be zero. NHS and Teachers Pension Scheme accounts in England and Wales conform to the standard template specified by the FReM and are recorded in £ thousands. After discussion with Audit Scotland, the Scottish Public Pensions Agency re-presented the draft accounts in a £ million format with one decimal place to provide additional disclosure.
28. **NHSSS and STSS: Accruals** - we found several errors across both Schemes where pension and lump sum accruals had been made when the amounts had in fact been paid, and accruals that had been missed when the deemed date fell in the 2008/09 financial year. The net effect of these unadjusted errors was an understatement of accruals on STSS of £154,000 and an overstatement of accruals on NHSSS of £345,000.

***Action plan 1***

29. **NHSS: Early retirement costs debtor** – in our 2007/08 Audit Report we noted that the NHS Superannuation Scheme (Scotland)'s accounts included a debtor of £14.5 million for early retirement costs recoverable from the Scottish Government Health Directorate (SGHD). SPPA issue recharge reports to the SGHD to recover these costs. The accounts for 2008/09 contain the same amount which is still outstanding.

*Action plan 2*

## **Accounting for contributions and the introduction of EPICOR**

30. No reconciliations have been performed on either Scheme between employers' annual returns and SPPA's contribution records for 2008/09. Reconciliations would provide assurance on the completeness and accuracy of contribution receipts.
31. SPPA has advised that enhancements to the AXISe system and the implementation of the new EPICOR system will enable data from employers' returns to be matched with contribution records so that reconciliations should be possible in 2009/10. The new system should enable SPPA to take sole responsibility for recording contribution receipts and banking the income, thus considerably reducing the risk of errors. The foundation of the new system is the monthly bank report that each employer emails to SPPA giving a breakdown of payments made. This will then be reconciled to banking records and form the essential contribution record. The contribution data from April to November 2009 will all be uploaded so that EPICOR will capture the whole of 2009/10 data.
32. Contributions are currently remitted direct to SPPA unless they are paid by cheque in which case SPPA have to forward the payment to the Scottish Government's Treasury and Banking department for banking. Sometimes employers send payments to Treasury and Banking rather than to the SPPA. The fact that remittances can be made to either SPPA or Treasury and Banking increases the risk that errors could be made either in terms of the accurate recording of contributions or the completeness of contribution income recorded. EPICOR's effectiveness would be reduced if employers continue to send contribution payments to Treasury and Banking. SPPA are currently contacting employers to tell them about the new system and ask those who still fax or post monthly information to start emailing it instead. We will monitor the implementation of EPICOR during 2009/10.

## **Regularity**

The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We have been able to address the requirements of the regularity assertion through a range of procedures, including written assurances from the Accountable Officer as to his view on adherence to enactments and guidance. No significant issues were identified for disclosure.

# Use of Resources

33. Sound management and use of resources (people, money and assets) to deliver strategic objectives is a key feature of best value. This section sets out our main findings from a review of the Scottish Public Pensions Agency, the Scottish Teachers' Superannuation Scheme and the NHS Superannuation Scheme (Scotland)'s

- financial position;
- financial management; and
- management and use of information and communications technology (ICT).

## Financial Position - SPPA

### Outturn 2008/09

34. During financial year 2008/09, the Scottish Public Pensions Agency recorded income of £0.1 million from operating activities and received net funding of £11.5 million (2007/08 £10.7 million) from the Scottish Government. The Agency incurred a net operating cost (excluding notional costs) of £9.3 million (2007/08 £8.3 million) against a budget of £10.5 million; a net underspend of £1.2 million on operating costs (2007/08 £ 0.2 million). There was a net underspend of £0.6 million (2007/08 £0.9 million) against the capital budget of £3.6 million (2007/08 £4.4 million). The underspend was largely due to delays in capital expenditure on the AXISE system with consequent reductions in depreciation and cost of capital.

35. The Scottish Public Pensions Agency operated within the resource budget limits set by the Scottish Government for cash expenditure and non cash costs. – see exhibit 2 below:

**Exhibit 2 – Performance against resource budget 2008/09 (£ million)**

Limits	Budget	Actual Outturn	Difference
Operating	10.5	9.3	1.2
Capital	3.6	3.0	0.6
<b>Total</b>	<b>14.1</b>	<b>12.3</b>	<b>1.8</b>

## Financial sustainability and the 2009/10 budget

36. Scottish Ministers have agreed a resource budget for the Scottish Public Pensions Agency of £13.2 million for 2009/10. This comprises operating expenditure of 11.1 million and capital expenditure of £2.0 million.

37. This is to be funded as follows:

**Exhibit 3 – 2009/10 and 2010/11 Resource Plan (£ million)**

Limits	Budget 2009/10	Budget 2010/11
Operating	8.9	8.2
Capital	2.0	1.1
Depreciation and cost of capital	2.3	2.4
<b>Total</b>	<b>13.2</b>	<b>11.7</b>

38. The Scottish Public Pensions Agency has recently been asked to make savings of £0.5 million on its running costs budget for 2010/11 and further savings may be necessary resulting from the *Shaping Up* review which was announced in September 2009 and will be a fundamental review of the 'effectiveness and affordability' of the Scottish Government and its agencies. Delivering efficiencies year on year while absorbing pay inflation and other cost pressures represents a significant challenge for the organisation

## Financial Position - NHSSS

### Outturn 2008/09

39. The NHS Superannuation Scheme (Scotland) had net outgoings for the year of £1,345.2 million, an increase of 30.2% (£311.9 million) from 2007/08 (£1,033.3 million). Scheme liabilities have decreased by £1.7 billion (8.0%) from £21.1 billion to £19.4 billion. This is largely due to changes in actuarial assumptions, particularly the discount rate. The discount rate applied from 31 March 2009 was 3.2% real, an increase from 2.5% real from the previous year. The decrease in the liability for the prior period was £0.8 billion (3.6%).

40. The Scottish Public Pensions Agency operated within the budget limits set by the Scottish Government.

41. In accounting for pensions, Financial Reporting Standard 17 (Retirement Benefits) is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if actual payment will be made in future years. This requirement results in very large future liabilities being recognised in financial statements. In summary, the FRS17 liability has moved as follows since the standard was first introduced in 2003/04:

	2003/04 £billion	2004/05 £billion	2005/06 £billion	2006/07 £billion	2007/08 £billion	2008/09 £billion
FRS 17 Liability	11.6	12.7	16.2	21.9	21.1	19.4

## Financial Position - STSS

### Outturn 2008/09

42. The Scottish Teachers' Superannuation Scheme had net outgoings for the year of £1,177.9 million, an increase of 3.1% (£35.6 million) from 2007/08 (£1,142.3 million). Scheme liabilities have decreased by £0.9 billion (4.9%) from £19.3 billion to £18.4 billion. This is largely due to changes in actuarial assumptions, particularly the discount rate. The discount rate applied from 31 March 2009 was 3.2% real, an increase from 2.5% real from the previous year. The increase in the liability for the prior period was £0.6 billion (3.2%).
43. The Scottish Public Pensions Agency operated within the budget limits set by the Scottish Government.
44. In summary, the FRS17 liability has increased as follows since 2003/04:

	2003/04 £billion	2004/05 £billion	2005/06 £billion	2006/07 £billion	2007/08 £billion	2008/09 £billion
FRS 17 Liability	10.7	12.4	14.6	18.7	19.3	18.4

## Management and use of ICT

### AXISe System Review

45. As part of the Pension Change Project, a new pension administration system has been introduced by the Scottish Public Pensions Agency to meet legislative changes and increase efficiency and



effectiveness of delivery. Following an extensive procurement exercise the contract was awarded to Heywood to implement the AXISE pension administration system.

46. The system was introduced for STSS in September 2008 and a post implementation review was undertaken in January 2009 to learn the lessons that could be applied to the development and implementation of the NHSSS system. A number of difficulties were identified and work has been undertaken to ameliorate these difficulties prior to the NHSSS going live at the end of September 2009.
47. As part of our risk based assessment of Scottish Public Pensions Agency, we identified this new system as a priority area for review. Our review was aimed at identifying whether the system controls were operating in support of the financial statements. It confirmed that the STSS system was now generally working satisfactorily but that there were a number of areas of concern for the NHSSS implementation. Internal audit have also carried out a review of the AXISE system and the awards and payments resulting from AXISE. They have concluded on the basis of their work that a more limited level of assurance i.e. 'reasonable' has to be given on the system due the lack of full functionality and the consequent manual 'work arounds'.
48. We found that SPPA has been project managing the development and implementation of the new system through a time of challenge and change within the organisation and have delivered the project with a high degree of staff effort and commitment.
49. We noted during our review a number of risks that SPPA should address as a matter of priority. SPPA had identified some of these prior to our review and is already working to address them. We would encourage them to continue making progress, in particular:
  - implementing key system changes for all critical issues identified during testing prior to go-live;
  - undertaking and completing user acceptance testing for all key functionality and ensuring Heywood quality assurance testing is carried out;
  - reducing the high number of system administration accounts in use;
  - enforcing local application level password security; and
  - ensuring that all operational teams are using the generic suite of reports and are kept updated on the development and planned availability of the new reports.
50. The Scottish Public Pensions Agency will need to continue to manage the significant risks effectively over the coming months to ensure that the project is delivered on time, to budget and the system is operating efficiently and effectively. This should help provide assurance on the accuracy and completeness of management information and ensure that the system is fit for purpose.

51. Audit Scotland and internal audit will be carrying out further work on the NHSS implementation once the initial implementation is fully in place.

## **Scanning solutions – follow up review**

52. As part of our 2007/08 audit of Scottish Public Pension Agency, we carried out a review of Scanning Solutions which identified scope for improvement in a number of areas. The Scottish Public Pensions Agency agreed to take action on the identified risks within a set timescale. As part of the 2008/09 audit, these areas have been revisited to determine progress.

53. We are pleased to report that action has been taken to:

- complete data migration of scanned images of members information into AXISe;
- undertake comprehensive training on AXISe prior to NHS go-live;
- introduce poly-jackets for transferring manual documentation to mail room for scanning;
- upload unknown historical folders containing scanned images in Comino to the correct members folder in AXISe; and
- document procedures for requesting the deletion of members folders in AXISe.

54. The Scottish Public Pensions Agency plan to develop a records management policy and undertake a risk assessment of documentation received from members to agree information that should be tracked prior to being scanned to AXISe. These actions are planned to be completed by December 2009.

## **National Studies**

55. Audit Scotland published three national studies relevant to the Scottish Public Pensions Agency's use of resources. These were use of consultancy services, improving energy efficiency and improving public sector purchasing in Scotland.

## **Use of consultancy services**

56. The overall aim of the study was to review central government's use of consultancy services and to make recommendations to improve the public sector's use of consultants' knowledge, skills and resources to help deliver new services and initiatives quickly and expertly. Although the Scottish Public Pensions Agency were not involved in information collection for this report, the findings are relevant to the work of the Agency. The key findings were as follows:

- the public sector is strengthening the way it buys goods and services;

- central government does not have a clear strategy for its use of consultants or for linking use to its priorities or financial and workforce plans;
- in most cases, central government buys consultancy services well but some improvements can be made;
- central government could improve how it manages consultancy projects through more consistent and formal evaluation of consultants' work and learning more from them; and
- central government could make savings of up to £13 million a year through better planning and buying of consultancy services.

57. The report made specific recommendations for public bodies:

- confirm they have clear processes for approving and recording the use of consultants and monitoring progress, and reinforce these as required;
- plan their use of consultancy services when developing their forward work programme to ensure that consultants are used where their knowledge and skills bring greatest value for money;
- always evaluate the option to use consultants against the option to use their own staff;
- gather and share consistent information on the consultancy skills bought and why consultants are used;
- improve the quality of their invitations to tender through better and earlier discussion with consultants about their consultancy needs;
- increase the use of framework agreements where possible by ensuring that existing agreements are used and new ones developed as appropriate;
- select and use the most economical competition routes by using framework agreements, restricted competitions and closed tendering approaches when appropriate;
- evaluate the work of consultants more systematically and share findings from these reviews; and
- work closely with consultants to increase assurance on quality and make use of opportunities to learn from consultants and ensure knowledge transfer, where appropriate.

## **Improving energy efficiency**

58. Audit Scotland assessed how councils, NHS bodies and central government bodies were improving energy efficiency in relation to buildings and transport use. This included examination of a range of issues including whether public bodies demonstrate commitment to improving energy efficiency; how public bodies are performing against their objectives and targets for improving energy efficiency; and if

public bodies are delivering continuous improvement in this area. Although information from the Scottish Public Pensions Agency was collected, no specific output in relation to the Agency will be produced. The key findings were as follows:

- funding has been made available by the Scottish Government and public bodies to improve energy efficiency. While energy consumption in buildings has fallen, spending on energy increased in the three years to 2006/07;
- there is a need for stronger leadership by the Scottish Government and within public bodies to improve energy efficiency and ensure that the necessary cultural and behavioural changes are made;
- a robust strategy is central to the coordination of activities to improve energy efficiency, however, there are inconsistencies in the quality of strategies being implemented; and
- there is a lack of formal monitoring and reporting of progress in improving energy efficiency by public bodies and the Scottish Government.

## **Improving public sector purchasing**

59. Although the Scottish Public Pensions Agency were not involved in the information gathering process to produce the Audit Scotland report *Improving Public Sector Purchasing*, the findings are relevant to the Agency. This report was published on 23 July and provided a position statement on progress made by the Public Procurement Reform Programme, which aimed at improving purchasing practice and making savings of about three per cent a year.
60. The report found that the public sector in Scotland is improving its purchasing and has estimated it has saved a total of £327 million in the first two years of the Programme, which has cost £61 million so far to implement.
61. Because of the public sector's size and combined purchasing power, there is potential for it to buy goods and services more efficiently and deliver more significant savings through increased collaboration and better management. There has been progress in recent years but it has varied across the country and been slower than planned.
62. The report recommended that the use of collaborative contracts in the public sector should increase. These are a key feature of the Programme, but are being developed more slowly than expected. Public bodies also need to ensure that staff have the appropriate skills and that better information and management systems are in place to facilitate more effective purchasing.
63. Audit Scotland will follow up this report with further audit work on public sector purchasing.

## **Use of national study reports**

64. All Audit Scotland's national performance audit reports on specific services and thematic reports on cross-government issues are sent to audited bodies. During our audit, we examined the extent to which SPPA reviewed the applicability of lessons learned from these reports. We found that SPPA does not have a formal mechanism for their consideration. There is a risk that SPPA misses out on introducing changes that could demonstrate its commitment to best value and continuous improvement.

***Action plan 3***

# Governance and Accountability

65. High standards of governance and accountability, with effective structures and processes to govern decision-making and balanced reporting of performance to the public, are fundamental features of best value. This section sets out our findings arising from a review of the Scottish Public Pensions Agency's arrangements.
66. Increasingly services are being delivered across the public sector through partnership working, sometimes involving complex governance and accountability arrangements. Best value characteristics also include effective partnership working to deliver sustained improvements in outcomes.

## Overview of arrangements

67. This year we reviewed:
- corporate governance arrangements;
  - key systems of internal control;
  - internal audit; and
  - arrangements for the prevention and detection of fraud and irregularity, including standards of conduct.
68. Our overall conclusion is that arrangements within the Scottish Public Pensions Agency are sound and have operated through 2008/09.

## Corporate governance

69. We conducted a review and evaluation of the governance arrangements in the Scottish Public Pensions Agency as part of the 2008/09 audit and confirmed that the main structures that would be expected to be in place were present.
70. In particular the Scottish Public Pensions Agency has:
- established relevant Board and Committee structures;
  - made appropriate resource allocation arrangements, covering budget setting, monitoring and forecasting which identifies both potential savings and overruns;
  - ensured appropriate risk management arrangements are in place;
  - maintained an appropriate internal control environment;

- appropriate procedures regarding recognition of fraud and irregularities;
- put in place appropriate arrangements covering propriety and codes of conduct;
- established procedures for effective communications in place utilising a corporate communications team; and
- put in place arrangements for producing an Annual Report and annual Agency and Pension Scheme statements, reporting on performance and financial outturn.

71. We made a number of recommendations relating to IT related anti-fraud procedures, whistle-blowing contacts, and Audit Committee reviews of internal and external auditors.

## Systems of internal control

72. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. They support a robust internal control environment and the effective production of financial statements. In their annual report for 2008/09 internal audit provided the opinion that, based on the internal audit work undertaken during the year, there was *substantial* assurance on the adequacy and effectiveness of the systems of internal control for the Agency, and *reasonable* assurance for the two Schemes mainly due to concerns about the operation of AXISe.

73. As part of our audit we reviewed the high level controls in a number of the Scottish Public Pensions Agency's systems that impact on the financial statements of both the Scottish Public Pensions Agency account and the two Pension Scheme accounts. In addition to the work done on the Scottish Public Pensions Agency's own systems, we also drew assurance from work done by Audit Scotland's Scottish Government team on the Scottish Executive Accounting System used by the Scottish Public Pensions Agency.

74. Our overall conclusion was that key controls were operating effectively and that the Scottish Public Pensions Agency has adequate systems of internal control in place. We did identify a number of areas where controls could be strengthened and agreed an action plan of improvements with management for the Scottish Public Pensions Agency. A further management letter will be produced in October for the two Scheme Accounts. These will be followed up in 2010 to confirm that improvements have been made.

## Statements on Internal Control

75. The Statements on Internal Control provided by the Scottish Public Pensions Agency Accountable Officer reflected the main findings from both external and internal audit work. These recorded

management's responsibility for maintaining a sound system of internal control and set out the Scottish Public Pensions Agency's approach to this.

## Internal Audit

76. The establishment and operation of an effective internal audit function forms a key element of effective governance and stewardship. We therefore seek to rely on the work of internal audit wherever possible and as part of our risk assessment and planning process for the 2008/09 audit we assessed whether we could place reliance on the Scottish Public Pensions Agency internal audit function (provided by Scottish Government Internal Audit Division). We concluded that the internal audit service operates in accordance with the Government Internal Audit Manual and therefore placed reliance on their work in number of areas during 2008/09, as we anticipated in our annual audit plan. This included reliance on aspects of internal audit's systems work to avoid duplication of effort. Due to the later delivery of the Administrative cost expenditure review from internal audit, we were unable to place reliance on that area for our work on the Agency Accounts. Nevertheless we were able to place reliance on the following areas for the two Scheme Accounts:

- Payments and benefits statements; and
- Awards.

## Prevention and detection of fraud and irregularities

77. The Scottish Public Pensions Agency has appropriate arrangements in place to prevent and detect fraud, inappropriate conduct and corruption, including policies and codes of conduct for staff and Board members. It has a policy of not accepting gifts or hospitality.

## NFI in Scotland

78. In 2008/09 SPPA took part in the National Fraud Initiative (NFI) in Scotland. The Scottish Government has strongly supported the involvement of public bodies in the exercise, which is undertaken as part of the audits of the participating bodies. NFI brings together data from health bodies, councils, police and fire and rescue boards, and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. SPPA provided pension members data for the exercise. The NFI has generated significant savings for Scottish public bodies (£13 million from the 2006/07 exercise as at November 2008 and £37 million including previous exercises) but, if fraud or overpayments are not identified, assurances may be taken from internal arrangements for preventing and detecting fraud.

79. The NFI 2008/09 results (data matches) were made available to SPPA during February and March 2009 via a secure web-based application. Participating bodies follow up the matches, as appropriate,



and record the outcomes of their investigations in the application. We monitored *SPPA* involvement in NFI 2008/09 during the course of the audit.

80. It is evident that the Agency is committed to the NFI process – the Chief Executive and the Director of Corporate Services have expressed their support for the exercise as evidenced by the increase in resource allocated to NFI in 2008/09. Results and updates of NFI investigations are reported to the audit committee.
81. No frauds have been identified as yet, however some data matches are still being investigated. It is evident that the officers have taken a systematic and planned approach to investigating the matches.
82. The NFI exercise undertaken in 2008/09 was considerably more successful than the previous exercise. However, *SPPA* did not inform its members that personal details would be used in a separate data-matching exercise conducted with General Registers of Scotland.

***Action plan 4***

## National Studies

83. Audit Scotland published one national study relevant to the Scottish Public Pensions Agency's governance and internal control. This was a review of major capital projects.

## Major capital projects

84. This report was the first systematic review of major capital projects in Scotland. Although information from the Scottish Public Pensions Agency was collected, no specific output in relation to the Agency will be produced.
85. The report considered the progress of all 43 projects completed in the five years between April 2002 and March 2007, and a sample of current major projects. It looked at progress against cost and time estimates, quality specifications and project management in general. The main findings from the report were as follows:
  - In general, the achievement of cost and time targets improved significantly as projects progressed;
  - Early cost and time estimates at project approval stage were too optimistic for many major projects;
  - Performance against cost and time estimates is better after contracts are awarded, as plans are more certain and risks clearer;

- Most completed projects have successfully delivered the required roads, hospitals and other assets, and all current projects are forecast to do so. However, few projects have been evaluated to demonstrate that they have delivered the expected wider benefits which originally justified the investment;
- Nine current projects examined had awarded the main construction contract, which should increase cost certainty. However, four projects had significant increases in estimated cost before reaching this stage; and
- Project management and governance arrangements within individual projects are broadly effective, although room for improvement remains. A more strategic approach to managing the programme of capital projects could improve value for money.

# Performance

86. Public audit is more wide-ranging than in the private sector and covers the examination of, and reporting on, performance and value for money issues. Key features of best value include:
- setting a clear vision of what the organisation wants to achieve, backed up by plans and strategies to secure improvement, with resources aligned to support their delivery;
  - a performance management culture which is embedded throughout the organisation and a performance management framework which is comprehensive and supports the delivery of improved outcomes.
87. In this section we comment on:
- the corporate plan;
  - performance against targets;
  - performance management arrangements;
  - risk management; and
  - delivering efficiencies.

## Vision and strategic direction

88. The Scottish Public Pensions Agency published its corporate plan for 2008 – 2011 in May 2008. The plan focuses on four key themes:
- Improving service quality;
  - Improving organisational efficiency;
  - Expanding organisational knowledge; and
  - Developing and supporting our staff.
89. The corporate plan also noted fifteen key challenges during 2008-09 to 2010-11 that would affect these themes.
90. Within each theme the Scottish Public Pensions Agency has set key milestones for action within yearly timescales. The Scottish Public Pensions Agency will have to keep targets under review to ensure achievement of key actions. The delivery of the corporate plan objectives will be particularly challenging given the tight financial constraints over the same period. This is an area we will keep under review.

## Performance overview

91. The Scottish Public Pension Agency's corporate plan identifies ten key performance targets between 2008 and 2011. Of these two ( 'realise efficiency gains and service improvements following the introduction of new pensions administration IT system', and 'develop and introduce new payroll IT system from December 2010' ) are not applicable this year.
92. Of the remaining eight targets, seven have been achieved. One target relating to the collection of contributions was achieved for NHSSS but marginally fell short for STSS. We anticipate that contribution collection rates should increase in 2009/10 and in subsequent years once the new EPICOR contributions accounting system is introduced

## Performance management

93. The Agency Board regularly reviews the Scottish Public Pensions Agency's performance against the corporate plan through quarterly performance reports. The reports are discussed in Board meetings and the format of the report is tailored to the issues being reported to ensure that appropriate information is provided.

## Risk management

94. There a number of key challenges and risks for the Agency in delivering its plan. The Board has put in place robust systems for the identification and management of risk with the adoption of a single corporate risk register, corporate risk management policies and the issuing of guidance for managers. These corporate risk arrangements are supported by directorate risk registers and arrangements. The challenge for the Agency will be embedding a risk aware culture within the organisation for the future management of existing and emerging risks in the medium to long term.
95. The main risk areas are:
  - **Securing Financial Stability** – As has been noted earlier in this report, one of the significant challenges that the Agency faces relates to its ability to fund a sustainable level of service and implement major service developments, in particular the implementation of NHS Choice and AXISe.
  - **Introduction of AXISe** – The new system offers the facility to increase efficiency and effectiveness. However a number of challenges remain to ensure success.
  - **Contributions Accounting and the introduction of EPICOR** - The Agency has had difficulties in accounting for contributions from different bodies for both Schemes. The introduction of the new accounting system, EPICOR, offers the opportunity to ensure that reconciliations are carried out timeously and accurately.

- **Data from other government departments** – the Scottish Public Pensions Agency relies on key sets of data from other government departments, particularly the National Insurance Contribution Office and the Government Actuary Department, to calculate and account for pensions. There is a challenge to ensure that data flows to and from these bodies are accurate and timely.

96. These risk areas are complex and comprise multiple issues which will require careful management to resolve. We have continued to monitor the Agency's progress in each of these areas over the course of the year.

## Delivering Efficiencies

97. In November 2007 the Scottish Government announced the Efficient Government Programme 2008/09 – 2010/11, setting set out its target to deliver cash-releasing efficiency savings amounting to £1.6 billion in 2010/11.
98. To achieve this level of savings the Scottish Government set portfolios a target of 2% cash-releasing savings – producing the same outputs with fewer inputs – for each of the three financial years. Public bodies will therefore need to be able to deliver year on year efficiency savings and contribute to the achievement of these portfolio savings targets.
99. As part of Audit Scotland's performance audit programme a national study on the delivery of efficiencies within the Scottish public sector is being undertaken. The study will provide an overview of the Scottish Government's Efficient Government Initiative 2005/06 – 2007/08 and consider the extent to which public bodies are set up to deliver year on year efficiency savings.
100. To assess the readiness and ability of public sector bodies to deliver year on year efficiency savings Audit Scotland undertook fieldwork across central government, the NHS and councils, with five bodies being selected from each. The Scottish Public Pensions Agency agreed to participate in the study.
101. The fieldwork used Audit Scotland's *Best Value Efficiency Toolkit*. The toolkit is a document specifically created to enable auditors or public sector bodies to assess the efficiency arrangements in place within an organisation. The fieldwork assessed the arrangements for monitoring and measuring efficiencies and how public bodies seek to ensure that reported savings are delivered without affecting service delivery.

102. The results are summarised below under the three main headings within the Efficiency toolkit. The assessment indicates the number of key questions which were scored in each category for each main review heading.

**Exhibit 3 –Scottish Public Pension Agency Efficiency Toolkit scores**

Description	Distribution of scores				Overall Assessment
	No evidence	Basic practices	Better practices	Advanced practices	
Collective commitment	-	4	3	-	Basic practice
Planning – systems and operations	-	8	-	-	Basic practice
Managing and monitoring results	-	9	-	1	Basic practice

103. The Scottish Public Pension Agency has been evaluated as having mostly basic practices but with a number of better and one advanced practice. This is a good position to build on and demonstrate the Agency’s commitment to best value principals and continuous improvement.

104. The Agency demonstrated advanced practice when showing quantifiable efficiency gains over the last three years. This includes bringing the payroll function ‘in-house’ to achieve efficiency savings and improve service. A number of areas were noted where the Agency’s arrangements could benefit from further development.

105. A separate report summarising the audit findings from our review will be produced for the January 2010 Audit Committee. The national study report will be published in late 2009.

# Looking Forward

106. The Scottish Public Pension Agency faces a number of challenges in 2008/09, which include:

- **National Performance Framework** - The Scottish Government is continuing to develop its approach to performance management based on the National Performance Framework and local authority single outcome agreements. The National Performance Framework is an outcome-based approach that is publically reported on the Scottish Government's web site and includes progress on overall delivery of the administration's purpose for Government, the five strategic objectives for Scotland and other aspects of the outcomes based National Performance Framework. We will consider how the Scottish Public Pensions Agency is addressing this developing area as part of the 2009/10 audit;
- **Efficiencies and future funding** - Budgets for 2009/10 and the immediate future will need to be managed within a tighter funding regime. This includes no scope for the application of end of year flexibility for the Government with HM Treasury until the next Spending Review; no option to transfer funds from capital to revenue; and the impact of the introduction of International Financial Reporting Standards (IFRS). The Scottish Public Pensions Agency has been asked to make savings of £0.5 million on its running costs budget for 2010/11 and that further savings may be necessary resulting from the *Shaping Up* review. The challenge for the Scottish Public Pensions Agency is to prioritise spending, identify efficiencies and review future commitments to ensure delivery of key targets and objectives;
- **IFRS** - The timetable for IFRS implementation requires central government accounts in Scotland to become IFRS compliant with effect from the 2009/10 financial year. As part of the timetable for the implementation for IFRS, shadow accounts require to be produced for 2008/09 for audit review by end of September 2009. These processes will require significant resource to complete and it will be important that these issues are addressed early in 2009/10;
- **AXISe** - The implementation of the new system offers the facility to increase efficiency and effectiveness. The need to work around the number of functional areas that remain to be fully implemented may create performance issues and staff pressures. We will monitor the situation in 2009/10;
- **NHS Choice Project** - New arrangements for the NHS Pension scheme were introduced on 1 April 2008. Existing members have the option to transfer and convert all of their existing service to the new arrangements. The exercise is due to start in January 2010, and it will require considerable resources for the additional workload and the issue of information packs to relevant members; and

- **Accounting for contributions and the introduction of EPICOR** - the implementation of the new EPICOR system should offer a more streamlined process for recording contribution receipts from employers but its success is partly dependent on ensuring that all employers remit their monthly contributions electronically direct to SPPA and that key reports are developed to expedite the task of reconciliation.



# Appendix A: Action Plan

## Key Risk Areas and Planned Management Action

Action Point	Risk Identified	Planned Action	Responsible Officer	Target Date
1	<p><b>Accruals</b></p> <p>We found several errors across both Schemes where pension and lump sum accruals had been recorded when the amounts had been paid, and accruals that had been missed when the deemed date fell in the 2008/09 financial year.</p> <p>There is a risk that accruals are under- or over-stated in the financial statements.</p> <p><i>We recommend that SPPA reviews its approach to compiling pension and lump sum payments around the year-end.</i></p>	<p>We will review the processes for identifying pension and lump sum accruals, including the feasibility of an IT-based solution.</p>	<p>Chris Fenton Director of Corporate Services</p> <p>Ian Clapperton Director of Operations</p> <p>Pam Brown Director of IT and Business Development</p>	31 May 2010
2	<p><b>NHS Superannuation Scheme (Scotland): Health Board Debtor</b></p> <p>There is a debtor of £14.5 million dating from 2007/08 included in the scheme's accounts for early retirement costs recoverable from the Scottish Government Health Directorate. The exact amount due to SPPA is disputed by the health boards resulting in delayed collection of the debt.</p> <p><i>We recommend that SPPA resolve the value of the debtor and take steps to recover the debt from SGHD</i></p>	<p>This is a continuing process which is being addressed by SPPA.</p>	<p>Chris Fenton Director of Corporate Services</p>	Ongoing

Action Point	Risk Identified	Planned Action	Responsible Officer	Target Date
3	<p><b>Audit Scotland's national performance audit reports</b></p> <p>All Audit Scotland's national performance audit reports on specific services and thematic reports on cross-government issues are sent to audited bodies.</p> <p>During our audit, we examined the extent to which SPPA reviewed the applicability of lessons learned from these reports. We found that SPPA does not have a formal mechanism for their consideration.</p> <p>There is a risk that SPPA misses out on introducing changes that could demonstrate its commitment to best value and continuous improvement.</p> <p><i>We recommend that SPPA formally review Audit Scotland's national performance audit reports.</i></p>	<p>The Agency is committed to service improvement and efficiency improvements, which is amply demonstrated in its corporate plan, business plans and in its heavy investment in IT and staff training.</p> <p>Audit Scotland reports across Government are reviewed on receipt, and relevant findings are passed to appropriate managers in SPPA. We do not think that there would be any gain from the adoption of a mechanistic approach to the review of non SPPA-specific reports.</p>	n/a	n/a
4	<p><b>National Fraud Initiative</b></p> <p>Prior to completing analysis of data matches provided through the National Fraud Initiative (NFI), SPPA performed a data-matching exercise with General Registers of Scotland. Although this exercise was successful in identifying deceased members, SPPA only informed members that their data was going to be used for the NFI.</p> <p>The Data Protection Act (1998) requires that data subjects are informed prior to personal data being used in data-matching activity.</p> <p><i>We recommend that future members' newsletters should specify the types of data-matching SPPA intends to undertake.</i></p>	<p>We will review the wording of the members' newsletters to ensure that members are adequately informed of data-matching exercises.</p>	Ian Clapperton Director of Operations	31 March 2010

# Appendix B: Review of Risks Identified in the Audit Risk Analysis and Plan

Risk	Source of assurance	Planned audit action	Outcome
<b>Performance</b>			
<p><b>1. Pension Reform – NHS</b> The Agency fails to conclude pension reform activities within the agreed timescales</p> <p><b>NHS Scheme</b></p>	<ul style="list-style-type: none"> <li>▪ SPPA has confirmed that the proposed reforms were introduced with effect from 1 April 2008</li> <li>▪ Corporate Plan performance monitoring arrangements: Target 10 'conclude pension reform activities within agreed timescales'</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review the implementation of the reforms by examination of management minutes and testing of transactions</li> <li>▪ Monitor performance against Corporate Plan</li> </ul>	<ul style="list-style-type: none"> <li>▪ Minutes examined and transactions tested satisfactorily</li> <li>▪ Performance against Corporate Plan reviewed</li> <li>▪ No issues identified</li> </ul>
<p><b>2. New IT System</b> The new Pension Administration system AXISE which went live on the Teachers' Superannuation Scheme in September 2008 does not meet the needs of the new schemes, is further delayed on the NHS Superannuation Scheme, and/or is over budget. There is an additional risk that data may not be completely and accurately transferred from the old system which will cease during 2009</p> <p><b>Corporate</b></p>	<ul style="list-style-type: none"> <li>▪ SPPA has established a dedicated project team to develop and implement the new IT system and related tasks</li> <li>▪ Extension to Northgate contract on rolling basis for administration of the NHS Scheme</li> <li>▪ Gateway review to take place post-implementation 2008/09</li> <li>▪ Performance monitoring arrangements – Performance Target 8: 'realise efficiency gains and service improvements following the introduction of new pensions administration IT system</li> </ul>	<ul style="list-style-type: none"> <li>▪ Attendance at Audit Committee meetings and review of Board minutes</li> <li>▪ Continue to monitor performance against Corporate Plan</li> <li>▪ Monitor progress against project timetable and budget and consider adequacy of Northgate contract extension</li> <li>▪ Obtain confirmation that Gateway review has taken place and recommendations have been implemented</li> <li>▪ Monitor any issues arising from AXISE implementation on the Teachers' Scheme during 2008/09</li> <li>▪ Review I A review of AXISE system</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review of minutes and related papers indicate go live date for NHS AXISE is September 2009</li> <li>▪ Initial issues with implementation of AXISE for Teachers have been mostly resolved although some remain</li> <li>▪ Audit Scotland Report on implementation of AXISE produced. A number of key issues for implementation identified</li> <li>▪ Internal Audit findings consistent with Audit Scotland report</li> </ul>

Risk	Source of assurance	Planned audit action	Outcome
<p><b>3. Business Continuity – SPPA operations</b> SPPA may not be able to maintain the performance of its operations to the normal expected standards due to the ongoing pension reforms and major IT developments. In addition, recruitment concerns could adversely affect the achievement of SPPA's objectives</p> <p><b>Corporate</b></p>	<ul style="list-style-type: none"> <li>▪ Performance statistics are monitored by the Management Team on a monthly basis</li> <li>▪ Key performance targets identify efficiency gains and service improvements</li> <li>▪ Recommendations of the EDM review are being implemented</li> <li>▪ Organisational change has been staged over several years</li> <li>▪ Developing and supporting staff has been identified as a key theme for the period 2008 to 2011</li> <li>▪ The migration of data to AXISE is being managed by the project team</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review the performance statistics for the period and consider the effectiveness of the Agency's monitoring action</li> <li>▪ Review progress in relation to the identification and achievement of efficiency savings and service improvements</li> <li>▪ Monitor the implementation of the EDM report recommendations</li> <li>▪ Review staffing levels and recruitment efforts during the year</li> <li>▪ Monitor migration of data to AXISE and staff training for the new system</li> </ul>	<ul style="list-style-type: none"> <li>▪ Performance statistics are monitored/ reviewed every month by SMT – confirmed by review of minutes – indicates generally satisfactory for period</li> <li>▪ Efficiency savings satisfactory – see risk 16.</li> <li>▪ Audit Scotland report on Scanning notes satisfactory progress</li> <li>▪ Recruitment drive has increased staffing levels to satisfactory level</li> <li>▪ Audit Scotland report on AXISE implementation identified a number of key areas for action</li> <li>▪ No other issues identified</li> </ul>
<p><b>4. Performance Management</b> Current performance management monitoring may not be sufficient to provide useful information for management and to ensure deliverability of objectives. Formal systems (and associated documentation) to measure performance are not fully developed resulting in a risk that performance is incorrectly measured</p> <p><b>Corporate</b></p>	<ul style="list-style-type: none"> <li>▪ On-going development of performance management systems</li> <li>▪ Quarterly key performance indicators – Corporate Plan targets</li> <li>▪ Performance statistics are monitored by the Management Team on a monthly basis</li> <li>▪ Internal Audit annual report recommendations were all implemented</li> </ul>	<ul style="list-style-type: none"> <li>▪ Monitor the action taken to develop and refine performance management processes within the Agency</li> </ul>	<ul style="list-style-type: none"> <li>▪ Performance indicators changed to 3 years – noted in SMT minutes.</li> <li>▪ Performance statistics are standing item in SMT meetings.</li> <li>▪ Satisfactory performance after change from 30 days to 10 days target for invoice payment – covered in final audit.</li> <li>▪ No issues identified.</li> </ul>

Risk	Source of assurance	Planned audit action	Outcome
<p><b>5. Key staff changes and Financial Statement timetable</b></p> <p>The Agency may be over-dependent on key staff whose knowledge and experience is an important factor in the achievement of its objectives Replacing key staff should they leave could be problematic The Risk Register lists 'loss of key members of staff' as a threat linked to non-payment of pensions and 'higher than planned staff turnover and slow recruitment' as a separate risk Staffing is a key factor in the Agency's ability to meet the final accounts deadlines for preparation, review and submission</p> <p><b>Corporate</b></p>	<ul style="list-style-type: none"> <li>▪ Finance group is currently recruiting 2 members of staff to replace leavers</li> <li>▪ Key theme for 2008 to 2011 is development and support of staff: Agency People Strategy in Q3</li> <li>▪ Anticipated staff complement for 08/09 is 238; SPPA plan to over-recruit during the year to counteract staff turnover</li> <li>▪ The Director of Corporate Services will review the draft accounts and related GAD reports before the accounts are submitted for audit</li> </ul>	<ul style="list-style-type: none"> <li>▪ Monitor staff turnover and recruitment efforts</li> <li>▪ Confirm outcome of People Strategy initiative</li> <li>▪ Review client timetable and key staff availability to achieve it</li> <li>▪ Examine evidence of senior management review</li> </ul>	<ul style="list-style-type: none"> <li>▪ Recruitment drive in period – staff levels risen to 232 from 208</li> <li>▪ People Strategy highlights staff turnover issues – which have been addressed</li> <li>▪ Financial Statements Audit – SPPA draft accounts one week late; Scheme draft accounts on time. Finance staff levels now at complement</li> <li>▪ Evidence of senior management review/ involvement examined</li> <li>▪ No issues identified</li> </ul>
<p><b>6. Information Handling</b></p> <p>Loss of sensitive/personal data is included in the Risk Register In November 2007 personal data was briefly lost (then found) in transit from SPPA to Stobhill Hospital</p> <p><b>Corporate</b></p>	<ul style="list-style-type: none"> <li>▪ Senior Management Team review of data security July 2008</li> <li>▪ Revision of Data Handling Guide and Risk Assessment</li> <li>▪ Implementation of recommendations from SG review</li> <li>▪ Internal Audit report gave substantial assurance</li> </ul>	<ul style="list-style-type: none"> <li>▪ Monitor implementation of SG recommendations and revisions to guidance</li> <li>▪ Implement YB@R survey and monitor results and response</li> </ul>	<ul style="list-style-type: none"> <li>▪ Risk register regularly updated</li> <li>▪ Staff to complete personal information security training by Autumn</li> <li>▪ SIC in financial statements contains information management section</li> <li>▪ YB@R report delayed to autumn – see risk 23</li> <li>▪ No issues identified</li> </ul>

Risk	Source of assurance	Planned audit action	Outcome
<b>Governance and Internal Control</b>			
<p><b>7. Budget Act</b></p> <p>Expenditure may be in excess of the Budget Act levels due to late unknown variables</p> <p><b>SPPA &amp; Schemes</b></p>	<ul style="list-style-type: none"> <li>▪ Budget monitoring provides some assurance in this area; however, unexpected developments outwith the control of the Agency could result in a breach of Budget Act</li> <li>▪ At end December, STSS expenditure was 1.09% below budget; NHS expenditure 0.4% below budget; overall, a £18.5m underspend was expected on the resource budget</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review compliance with Budget Act at an early stage of the 08/09 audit</li> </ul>	<ul style="list-style-type: none"> <li>▪ Compliance with budget confirmed during final audit – outturn within this level</li> <li>▪ No issues identified</li> </ul>
<p><b>8. Family Benefits</b></p> <p>In 2007/08 we were unable to obtain supporting documentation to fully explain how a number of payments were calculated. In some cases, files had been destroyed. We had a similar problem in 2006/07</p> <p>There is a risk that inaccurate payments could be made without detection</p> <p><b>NHS Scheme</b></p>	<ul style="list-style-type: none"> <li>▪ For 2008/09 supporting documentation is stored on EDM; thereafter, it will be stored on AXISE. The calculation of family benefits is done on the Northgate system</li> <li>▪ B1 checks on more complex cases supported by payroll sample checking and QA testing</li> </ul>	<ul style="list-style-type: none"> <li>▪ Follow up policy on file destruction and response to cases identified in 2007/08</li> <li>▪ Monitor QA testing of family benefit payments</li> <li>▪ Testing of controls and substantive tests of family benefits</li> </ul>	<ul style="list-style-type: none"> <li>▪ Audit Scotland report on Scanning and audit follow up covered 2007/08 case</li> <li>▪ QA testing reviewed</li> <li>▪ Controls and substantive tests of family benefits satisfactory</li> <li>▪ No issues identified</li> </ul>
<p><b>9. Data Accuracy – members with preserved right</b></p> <p>The Scheme’s liabilities risk being misstated due to uncertainty over the figure extracted from SPPA’s system for the number of members with preserved rights</p> <p><b>NHS Scheme</b></p>	<ul style="list-style-type: none"> <li>▪ Data cleansing exercise on-going ahead of implementation of AXISE in May 2009</li> </ul>	<ul style="list-style-type: none"> <li>▪ Compare figure for 2007/08 with 2008/09 and seek explanations for any significant variances</li> </ul>	<ul style="list-style-type: none"> <li>▪ Audit Scotland Report on AXISE covered this area</li> <li>▪ No further issues identified</li> </ul>

Risk	Source of assurance	Planned audit action	Outcome
<p><b>10. Corporate Governance</b></p> <p>SPPA has carried out a significant re-organisation and implemented a number of key changes. The current composition of the audit committee has been in place for just over a year</p> <p><b>Corporate</b></p>	<ul style="list-style-type: none"> <li>▪ Internal Audit provided substantial assurance on the SPPA's risk control and governance arrangements</li> <li>▪ Audit Committee members have received training</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review corporate governance arrangements and the impact of the SG's review of Agency governance arrangements</li> <li>▪ Review audit committee performance</li> </ul>	<ul style="list-style-type: none"> <li>▪ Audit Scotland's Corporate Governance review identified no major issues</li> <li>▪ Audit Committee performance reviewed and attended by Audit Scotland. No major issues</li> </ul>
<p><b>11. Annual Return Reconciliations</b></p> <p>Errors may remain unidentified if the annual return reconciliations to payments remitted by employers do not match the contributions recorded on the annual returns and input to Northgate</p> <p><b>Schemes</b></p>	<ul style="list-style-type: none"> <li>▪ The Agency is in the process of developing an appropriate reconciliation system</li> <li>▪ The advent of AXISE will facilitate the reconciliation process</li> </ul>	<ul style="list-style-type: none"> <li>▪ Monitor the impact of AXISE on the performance of the reconciliations</li> <li>▪ Monitor Schemes' response to 07/08 Management Letter and Internal Audit reports</li> <li>▪ Testing of employer contributions</li> </ul>	<ul style="list-style-type: none"> <li>▪ Employer reconciliations have not been performed during 2008/09</li> <li>▪ The results of employer contribution testing were satisfactory</li> <li>▪ No further issues identified</li> </ul>
<p><b>12. Capitalised Receipts/ Early Retirement Costs Debtors</b></p> <p>Poor or delayed communication between the SGHD and SPPA could result in income and corresponding debtors being mis-stated in the financial statements</p> <p><b>Schemes</b></p>	<ul style="list-style-type: none"> <li>▪ Liaison between SPPA and SGHD to ensure the submission of early retirement cost recharge reports to SGHD and receipt of information on capitalised receipts from SGHD ahead of the year-end</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review timeliness and accuracy of information received from the SGHD</li> <li>▪ Monitor correspondence between SPPA and SGHD before the year-end and client response to our Final Report recommendations</li> <li>▪ Obtain direct confirmation of figures from SGHD</li> </ul>	<ul style="list-style-type: none"> <li>▪ Information exchange between SPPA and SGHD has improved in 2008/09</li> <li>▪ Figures provided by SGHD auditors were in agreement with SPPA records</li> <li>▪ No further issues identified</li> </ul>

Risk	Source of assurance	Planned audit action	Outcome
<p><b>13. Agenda for Change/ Equal Pay</b></p> <p>SPPA previously did not have established procedures in place to collate information from the Health Boards in order to calculate the amounts due in respect of accrued pension contributions. A number of changes have recently been implemented to overcome this</p> <p><b>NHS Scheme</b></p>	<ul style="list-style-type: none"> <li>▪ SPPA has obtained Agenda for Change information from Health Boards for the 2008/09 accounts</li> <li>▪ SPPA has collated information on Equal Pay and is in the process of assessing its impact</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review SPPA assessment of impact of Agenda for Change</li> <li>▪ Review amounts included in the 2008/09 accounts and agree a sample to supporting documentation</li> </ul>	<ul style="list-style-type: none"> <li>▪ The amounts included in the 2008/09 accounts in respect of the Agenda for change debtor have decreased as expected</li> <li>▪ No further issues identified</li> </ul>
<p><b>14. National Fraud Initiative</b></p> <p>The 2006/07 audit identified that SPPA did not investigate data matches timeously and had not recorded any savings at the time of our review</p> <p>There is a risk that SPPA may not achieve the agreed reporting timescales for the 2008/09 NFI exercise</p> <p><b>Corporate</b></p>	<ul style="list-style-type: none"> <li>▪ SPPA completed the NFI auditors' questionnaire on time</li> <li>▪ SPPA made good progress in following up the matches and calculating the overpayment amounts.</li> <li>▪ SPPA have submitted data for the 2008/09 exercise</li> <li>▪ SPPA have a detailed plan in place to address the problems experienced during the 2006/07 NFI exercise.</li> <li>▪ Extra resource has been allocated to meet the requirements of NFI</li> </ul>	<ul style="list-style-type: none"> <li>▪ Monitor SPPA progress in recovering significant overpayment cases from the 2006/07 NFI exercise</li> <li>▪ Review the detailed plan and actions taken for the 2008/09 NFI exercise</li> </ul>	<ul style="list-style-type: none"> <li>▪ Overpayments from 2006/07 were addressed during schemes audit</li> <li>▪ NFI 2008/09 Handling Plan referenced on file, arrangements adequate</li> <li>▪ NFI data-matching exercise completed within planned timeframe</li> <li>▪ Action plan issue 2 re informing members</li> </ul>



Risk	Source of assurance	Planned audit action	Outcome
<p><b>15. Business Continuity Management</b></p> <p>Systems may not be supported by adequate and tested business continuity and disaster recovery plans to ensure service continuity in the event of a serious incident occurring</p> <p><b>Corporate</b></p>	<ul style="list-style-type: none"> <li>▪ SPPA has produced a Business Continuity Plan (BCP) which was considered by the Audit Committee in April 2008</li> <li>▪ The BCP was tested in June 2008 and a further test is planned during 2008/09</li> </ul>	<ul style="list-style-type: none"> <li>▪ Obtain details of 2008/09 BCP test</li> <li>▪ Review procedures taken and 'lessons learned' after 2008 server crash.</li> </ul>	<ul style="list-style-type: none"> <li>▪ All BCP's reviewed</li> <li>▪ No issues identified</li> </ul>
<p><b>16. Efficient Government</b></p> <p>Progress on the achievement of efficiency savings may not be adequately monitored so that the Agency fails to achieve its targets</p> <p><b>Corporate</b></p>	<ul style="list-style-type: none"> <li>▪ The Agency made savings of £1.246m against a target of £0.635m at the end of the 3 year Efficient Government Programme</li> <li>▪ Achievement of 2% annual savings built in to Corporate Plan targets which are monitored by Senior Management Team</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review progress on efficiency savings during the year</li> </ul>	<ul style="list-style-type: none"> <li>▪ Planned efficiency savings were achieved in 2008/09</li> </ul>
<p><b>17. Best Value</b></p> <p>Management arrangements may not be fully developed to meet the best value principles to support secure continuous improvement in performance</p> <p><b>Corporate</b></p>	<ul style="list-style-type: none"> <li>▪ The Agency has produced an action plan based on SG guidance on BV</li> <li>▪ Corporate Plan Key Performance target 6: meet annual requirements for corporate governance reporting and organisational efficiency</li> </ul>	<ul style="list-style-type: none"> <li>▪ Monitor progress made against the action plan by the Agency during 2008/09</li> <li>▪ Confirm Agency has met the annual requirements</li> </ul>	<ul style="list-style-type: none"> <li>▪ SPPA efficiency arrangements reviewed as part of national 'delivering efficiencies' study</li> <li>▪ Corporate governance review indicates no major issues</li> </ul>

Risk	Source of assurance	Planned audit action	Outcome
<p><b>18. GAD valuation</b></p> <p>There is a risk that the actuarial input in valuing the Schemes is affected by:</p> <ul style="list-style-type: none"> <li>▪ insufficient competence or objectivity</li> <li>▪ reliance on source data that has not been validated</li> <li>▪ the use of unreasonable assumptions</li> </ul> <p>There is also a risk that there is insufficient documentation to support data provided by the Agency to GAD for valuation purposes</p> <p><b>Schemes</b></p>	<ul style="list-style-type: none"> <li>▪ SPPA Memorandum of Understanding with GAD</li> <li>▪ Regular contact with GAD staff</li> <li>▪ The source of the data to support Scheme valuations are reports provided by the Finance Team and Information Services Unit</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review the work of GAD in relation to the Schemes in order to determine the level of assurance that may be taken from their internal procedures</li> <li>▪ Monitor creation and retention of reports which support valuation data for GAD</li> </ul>	<ul style="list-style-type: none"> <li>▪ Detailed review of GAD deferred until 2009/10</li> <li>▪ Data submitted to GAD reviewed – no issues identified</li> </ul>
<p><b>19. Inaccurate pension payments</b></p> <p><b>(a) B1 Supervisor Checks</b></p> <p>There is a risk that award payments are erroneous because the calculation of awards are not checked 100% by B1 supervisors once performed by administrators</p> <p><b>(b) PI Factor increases</b></p> <p>There is a risk that PI factors may not be applied across all relevant awards leading to underpayments and low customer satisfaction</p> <p><b>Schemes</b></p>	<ul style="list-style-type: none"> <li>▪ New guidance suggests that B1 supervisors should concentrate their checks on complex awards and calculations made by less experienced administrators</li> <li>▪ Pension Payroll and Quality Assurance staff sample check award calculations and payments</li> <li>▪ Pension Payroll Staff perform pre- and post- PI implementation checks and investigate any omissions</li> </ul>	<ul style="list-style-type: none"> <li>▪ Monitor the implementation of the new guidance and discuss the impact on error rates with Payroll and QA staff</li> <li>▪ Review the implementation of the April 2008 PI by discussions with Payroll staff, scrutiny of any error reports, and sample testing of awards</li> </ul>	<ul style="list-style-type: none"> <li>▪ QA work reviewed and reduction in error rate noted. No further issues</li> <li>▪ April 2008 PI reviewed and found to be satisfactory</li> </ul>

Risk	Source of assurance	Planned audit action	Outcome
<p><b>20. Bank Reconciliations</b></p> <p>There is a risk that if bank reconciliations are not carried out timeously, any unreconciled items will not be investigated and cleared prior to the finalisation of the financial statements</p> <p><b>Schemes</b></p>	<ul style="list-style-type: none"> <li>▪ Audit Committee awareness and monitoring of the performance of bank reconciliations</li> </ul>	<ul style="list-style-type: none"> <li>▪ Test bank reconciliation performance at the year-end</li> </ul>	<ul style="list-style-type: none"> <li>▪ No issues identified</li> </ul>
<p><b>21. GMP</b></p> <p>The overpayment of GMP to NHS and STS Scheme members which was the subject of a Ministerial announcement in December 2008 will result in overpayments in the 2008/09 financial statements</p> <p>There is a risk that appropriate action may not be taken to regularise and write-off these overpayments</p> <p>There is a risk that the calculations involved in this process may be subject to error and irregular payments continue to be made</p> <p><b>Schemes</b></p>	<ul style="list-style-type: none"> <li>▪ Work was carried out by SPPA staff at an early stage to determine the extent and impact of the GMP overpayments</li> <li>▪ Adequate disclosures were made in the 2007/08 accounts and arrangements are in place for disclosure in the 2008/09 accounts</li> <li>▪ Action has been taken to regularise and write-off overpayments up to 31 March 2008</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review the write-offs taken for the amounts disclosed in the 2007/08 accounts</li> <li>▪ Review disclosure and regularisation of GMP overpayments in 2008/09 accounts</li> <li>▪ Test a sample of adjusted payments post 1 April 2009</li> </ul>	<ul style="list-style-type: none"> <li>▪ Write-offs reviewed and found to be satisfactory</li> <li>▪ Disclosure and regularisation reviewed. No issues identified</li> <li>▪ Assurance taken from review of correction process – sample testing not deemed necessary</li> </ul>

Risk	Source of assurance	Planned audit action	Outcome
<b>Information Management</b>			
<p><b>22. Information Systems</b></p> <p>Information systems may not be effectively supported or properly risk assessed</p> <p><b>Corporate</b></p>	<ul style="list-style-type: none"> <li>▪ SPPA has implemented an ICT Strategy</li> <li>▪ SPPA's IT projects must include a benefit realisation plan and review</li> <li>▪ The implementation of AXISe included disaster recovery arrangements. ESCROW arrangements are also being introduced in case of supplier failure</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review progress on implementation of ICT Strategy, benefit realisation reviews</li> <li>▪ Application review of AXISe by specialist IT auditor to include disaster recovery arrangements</li> </ul>	<ul style="list-style-type: none"> <li>▪ ICT Strategy now in place</li> <li>▪ AXISe review report identified key issues for action</li> <li>▪ No further issues identified</li> </ul>
<p><b>23. Your Business @ Risk Survey</b></p> <p>The Agency's business information may not be accurate, complete, available and secure if it is unable to gain assurance that its information security policies and procedures are embedded into the organisation and are effective through staff awareness</p> <p><b>Corporate</b></p>	<ul style="list-style-type: none"> <li>▪ YB@R will be carried out in 2008/09 leading to an appropriate action plan</li> </ul>	<ul style="list-style-type: none"> <li>▪ Implement YB@R survey and monitor results and response</li> </ul>	<ul style="list-style-type: none"> <li>▪ YB@R planned for Autumn 2009 when SPPA staff have completed Cabinet Office information management training</li> </ul>

Risk	Source of assurance	Planned audit action	Outcome
<p><b>24. Implementation of new Pension Administration system</b></p> <p>AXISe was implemented for the Teachers' Superannuation Scheme in September 2008</p> <p>There is a risk that failure to implement systems (especially financial systems) without adequate controls could impact on the audit opinion and could expose an organisation to fraud</p> <p>Where systems do not process financial transactions correctly there could be impact on the governance of an organisation with further impact on best value</p> <p><b>Schemes</b></p>	<ul style="list-style-type: none"> <li>▪ A project management team has been set up to implement the new system</li> <li>▪ Gateway review will take place once the system is in place</li> <li>▪ The contract for Northgate is being extended on a month by month basis until AXISe is running satisfactorily</li> </ul>	<ul style="list-style-type: none"> <li>▪ An application system review of the AXISe system to ensure key controls are implemented will be undertaken by specialist IT auditor</li> <li>▪ Monitor implementation progress on both schemes via board minutes and discussion with SPPA staff</li> <li>▪ Review the Gateway findings and the contract extension for Northgate</li> </ul>	<ul style="list-style-type: none"> <li>▪ AXISe review report covered Gateway findings and Northgate Contract extension; key issues for action identified</li> <li>▪ Board and SMT minutes reviewed</li> <li>▪ No further issues identified</li> </ul>

