



SCOTTISH PUBLIC PENSIONS AGENCY

Annual report on the 2013/14 audits

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

January 2015

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Key messages

Financial statements

- Unqualified auditor's reports on the 2013/14 financial statements for SPPA, NHSSSS and STSS.
- SPPA - one audit adjustment relating to indexation on land and buildings resulted in a decrease in Total Comprehensive Expenditure of £113,000.
- NHSSSS/STSS - minor presentational and monetary adjustments only identified

Financial position

- SPPA operated within limits set by the Scottish Government with a net underspend of £1.0 million against a budget of £14.3 million. £0.6m of the underspend related to depreciation.
- NHSSSS is an unfunded pension scheme with £39.5 billion net liabilities, a year on year increase of 35.6%.
- STSS is an unfunded pension scheme with £27.1 billion net liabilities, a year on year increase of 12.9%.
- Budget management arrangements were satisfactory.

Governance & accountability

- SPPA had good governance and internal control arrangements in place, including an effective internal audit function.
- Arrangements in relation to the prevention and detection of fraud and irregularities were satisfactory.

Best Value, use of resources & performance

- SPPA has an established framework in place for monitoring and reporting performance.
- SPPA reported that 9 of its 11 key performance targets were met in 2013/14.

Outlook

- SPPA will continue to progress its significant business change programme to deliver pensions reform.
- Unfunded pension schemes by their nature reflect an overall liability to be met in the future. There is an actuarial revaluation due to be published shortly for each scheme which will set the employer contribution rates for the future.

Key Messages

Financial statements

We have given an unqualified audit opinion on the financial statements of SPPA and the two pension schemes for 2013/14.

Financial position

SPPA and both scheme accounts operated within the 2013/14 budgets. We have assessed SPPA's budget setting and monitoring arrangements as satisfactory. SPPA expects spending in the next two years to remain within budget. Additional funding to deliver pensions reform (e.g. ICT systems upgrades) has been committed by the Scottish Government.

Governance and accountability

We found that overall; SPPA had effective corporate governance arrangements in place during 2013/14. We examined the key internal controls within SPPA's main financial systems and concluded that they were operating effectively. Internal audit provided assurance in respect of SPPA's risk management, controls and governance arrangements, and also in relation to the Scottish Government's corporate systems shared with SPPA.

Best Value, use of resources and performance

SPPA's operational performance is formally reviewed by the External Management Board and Senior Management Team on a regular basis. Good performance against key performance targets was reported for the year, with 9 of the 11 key targets being met.

Outlook

SPPA's business change programme is significant and work on it continues through to 2017. Key milestones will be the implementation of new pension requirements from 1 April 2015, including administration of the police and fire pension schemes.

Full scheme valuations to determine the employer contribution rates for the future have been carried out in 2014 and are expected to be published shortly.

Introduction

This report is a summary of our findings arising from the 2013/14 audits of the Scottish Public Pensions Agency (SPPA), the NHS Superannuation Scheme (Scotland) (NHSSSS) and the Scottish Teachers' Superannuation Scheme (STSS). The purpose of the annual audit report is to summarise the auditor's opinions and conclusions, and to report any significant issues arising from the audit. The report is divided into sections which reflect our public sector audit model. The findings from our SPPA audit and the audit of the two pension schemes are reported in separate sections.

Our responsibility, as the external auditor of SPPA, NHSSSS and STSS is to undertake our audits in accordance with International Standards on Auditing (UK and Ireland) and the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011.

The management of SPPA is responsible for:

- preparing financial statements which give a true and fair view
- implementing appropriate internal control systems
- putting in place proper arrangements for the conduct of its affairs
- ensuring that the financial position is soundly based.

This report is addressed to SPPA and the Auditor General for Scotland and should form the basis of discussions with the Audit and Risk Committee as soon as possible after it has been issued.

Reports should be made available to stakeholders and the public, as audit is an essential element of accountability and the process of public reporting.

This report will be published on our website after it has been considered by SPPA.

A number of reports, both local and national, have been issued during the course of the year. These reports (appendix I) include recommendations for improvements. We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of SPPA, NHSSSS and STSS.

The concept of audit risk is of key importance to the audit process. During the planning stage of our audits we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements and our wider dimension audit work. We set out in our annual audit plan the related source of assurances and the audit work we proposed to undertake to secure appropriate levels of assurance. Appendix II sets out the key audit risks identified at the planning stage and how we addressed each risk as part of our audit.

Appendix III is an action plan setting out the high level risks we have identified from the audits. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response".

We recognise that not all risks can be eliminated or even

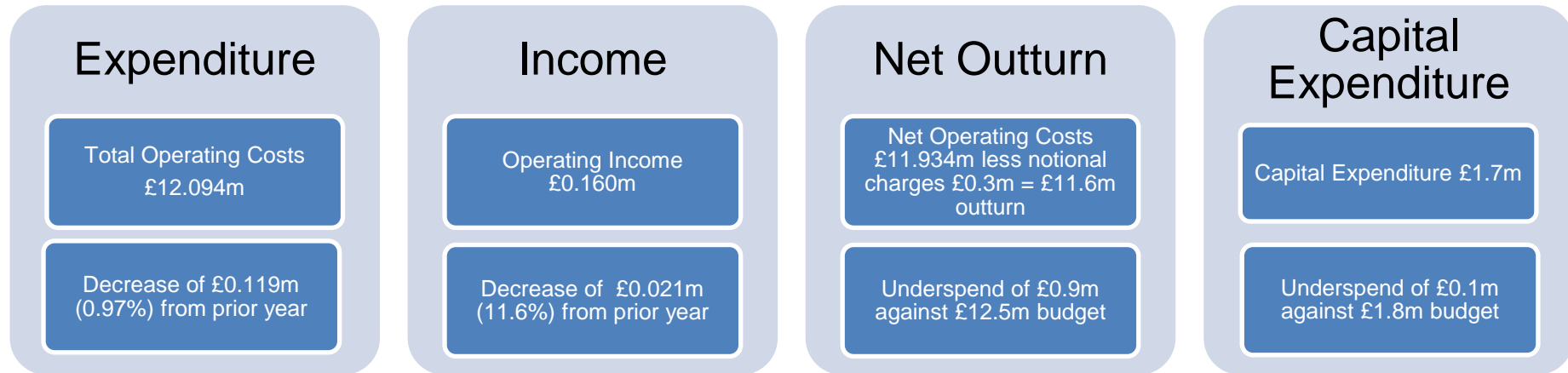
Introduction

minimised. What is important is that SPPA understands its risks and has arrangements in place to manage these risks. SPPA and the Accountable Officer should ensure that they are satisfied with the proposed management actions and have a mechanism in place to assess progress and monitor outcomes.

We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

The cooperation and assistance afforded to the audit team during the course of these audits is gratefully acknowledged.

SPPA Financial statements



Audit opinion

We have given an unqualified opinion that the financial statements of SPPA for 2013/14 give a true and fair view of the state of its affairs and of its net operating expenditure for the year.

Other information published with the financial statements

Auditors review and report on other information published with the financial statements, including the directors' report, management commentary, governance statement and the remuneration report. No issues required to be reported in respect of these statements.

Regularity

The Public Finance and Accountability (Scotland) Act 2000 requires auditors to certify that, in all material respects, the income and expenditure shown in the accounts was incurred or applied in accordance with relevant legislation and guidance issued by Scottish Ministers. We addressed the requirements of the Act through a range of procedures, including obtaining written assurances from the Accountable Officer. We have given an unqualified opinion on regularity in our 2013/14 auditor's report.

Accounts submission

We received the unaudited financial statements on 2 June 2014, in accordance with the agreed timetable. The financial statements

SPPA Financial statements

were supported by working papers of a high standard and the audit testing was substantively complete by mid June 2014.

The accounts were finalised following the Audit and Risk Committee meeting on 15 July 2014, and the Accountable Officer signed them on 31 July 2014.

Accounting issues arising

We presented our report to those charged with governance (ISA 260 report) to the Audit and Risk Committee on 15 July 2014. The primary purpose of this report is to communicate the significant findings arising from our audit prior to finalisation of the independent auditor's report. The main points are covered in the following paragraphs.

Presentational and monetary errors

A number of presentational and monetary adjustments were identified in the financial statements during the course of our audit. These were discussed with senior finance officers who agreed to amend the unaudited financial statements. There were no unadjusted monetary errors.

Tangible Non-Current Assets

The net book value of tangible non-current assets included in the unaudited Annual Report and Accounts was £4.447 million. SPPA's accounting policies state that indexation should be applied to land and buildings in the years between five-yearly revaluations; indexation was not reflected in the draft accounts submitted for audit. SPPA had applied indexation to the appropriate assets in its financial records, but an error meant this was not reflected in the

amounts included in the draft accounts. Following a review, SPPA amended the accounts accordingly and this resulted in a decrease in Total Comprehensive Expenditure and an increase in Net Assets of £113,000.

Outlook

The financial statements of SPPA are prepared in accordance with the Government Financial Reporting Manual (the FReM). The main new accounting standards to be adopted in 2014/15 are:

- IFRS 10 Consolidated financial statements
- IFRS 11 Joint arrangements
- IFRS 12 Disclosures of interests in other entities.

Compliance with FReM is mandatory; however, the impact of the adoption of these new standards is unlikely to be significant to the financial statements of SPPA.

SPPA Financial position

Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.

We consider whether audited bodies have established adequate arrangements and examine:

- financial performance in the period under audit
- compliance with any statutory financial requirements and financial targets
- ability to meet known or contingent, statutory and other financial obligations
- responses to developments which may have an impact on the financial position
- financial plans for future periods.

These are key areas in the current economic circumstances. This section summarises the financial position and outlook for SPPA.

Financial results

Net operating costs during 2013/14 were £11.9 million and capital expenditure was £1.7 million. Cash funding of £9.9 million was received from the Scottish Consolidated Fund.

SPPA operated within limits set by the Scottish Government, with

a £1.0 million underspend against a budget of £14.3 million. £0.6 million of this underspend related to depreciation. (This outturn against budget excludes £0.3 million notional charges accounted for in the statement of comprehensive net expenditure.)

SPPA received a supplementary capital allocation of £750,000 in the period following the 2013/14 Spring Budget Revision to cover costs associated with upgrading the pension systems to meet the requirements of 2015 Pension Reform, bringing the total capital allocation to £1.8 million.

Budgetary control

We reviewed SPPA's budget setting and monitoring arrangements and found that these were effective. Senior management received budget monitoring reports throughout the year with adequate explanation of key variances against budget.

Financial position

SPPA's statement of financial position shows a net asset position of £6.4 million as at 31 March 2014 which compares to a net asset position of £8.0 million the previous year. This largely reflects an increase in amounts yet to be settled relating to pension reform activities. There are no concerns to highlight in relation to this overall financial position.

Financial sustainability

Scottish Ministers have agreed a resource budget for SPPA of £15.301 million for 2014/15. This comprised operating expenditure of £12.501 million and capital expenditure of £2.8 million. Additional

SPPA Financial position

funding of £2.75 million has been requested to cover additional actuarial costs, Fire and Police project costs, and expenditure for other pension reform projects. Additional capital funding of £1.96 million has been requested to meet the ICT costs of pension reform and the Fire and Police project.

The next 12 months will be particularly important in managing SPPA's finances as the Agency faces the significant challenge of the pension reform agenda. SPPA will have to ensure it has the necessary ICT systems and business processes in place to meet the statutory deadline of 1 April 2015 for the implementation of the new pension schemes.

In a period of reducing resources across the public sector as a whole, the challenge facing the organisation is to continue to maintain performance levels within available resources.

Workforce planning

Recruitment was carried out during 2013/14 to support the demands of the pension reform agenda and also to prepare for the administration of the police and fire superannuation schemes. Staff costs are expected to increase over the next year with further growth in staff numbers to meet the challenging deadlines of these projects, and also to prepare for the procurement of a new pension administration and payroll system.

It is crucial that an organisation has good workforce planning arrangements in place, including appropriate succession planning for key posts, to ensure it has the necessary capacity to maintain service delivery. For SPPA this is particularly significant in view of

the changes arising from pension reform, which are expected to increase caseload and transactional activity. SPPA should develop its workforce planning to ensure it has the capacity and skills to deal effectively with its existing and future workload. **(Action Plan no. 1)**

Outlook

The scale of the pension reform agenda continues to present a significant challenge to SPPA. Required changes include the establishment of new pension schemes from 1 April 2015, new responsibilities for the administration of police and fire schemes and developing the necessary ICT and managerial systems.

SPPA's business change programme has a number of workstreams in place to address the challenges ahead and maintain the continuity and quality of pension services as the changes to pension schemes are implemented. It is essential that SPPA meets the statutory deadline of April 2015 whilst maintaining service standards and contributing to the continuing development of pension policy.

NHSSSS and STSS financial statements

Audit opinion

We have given unqualified opinions on the financial statements of NHSSSS and STSS, concluding that each set of financial statements gives a true and fair view of the state of the scheme's affairs and its net resource outturn and net cash requirement for the year.

Other information published within the financial statements

Auditors review and report on other information published with the financial statements, including the Report of the Managers, Statement by the Actuary and Statement of the Accountable Officer's responsibilities. These statements were consistent with the financial statements for each scheme. No issues required to be reported in respect of those statements.

Regularity

The Public Finance and Accountability (Scotland) Act 2000 requires auditors to certify that, in all material respects, the income and expenditure shown in the accounts was incurred or applied in accordance with relevant legislation and guidance issues by Scottish Ministers. We addressed the requirements of the Act through a range of procedures, including written assurances from

the Accountable Officer. No issues required to be reported in respect of regularity.

Accounts submission

The financial statements for both the NHSSSS and the STSS were submitted for audit on 21 July. The financial statements were supported by satisfactory working papers and schedules and audit testing was completed by 25 September 2014.

The accounts were finalised following the Audit and Risk Committee meeting on 7 October 2014, and the Accountable Officer signed them on 21 October 2014.

Accounting issues

A small number of minor presentational and monetary adjustments were identified within the financial statements during the course of the audit. These were discussed with senior finance officers who agreed to amend the unaudited financial statements. There were no unadjusted monetary errors.

Outlook

The impact of the new accounting standards to be adopted in 2014/15 is unlikely to be significant to NHSSSS and STSS.

NHSSSS and STSS financial position

NHSSSS annual outturn 2013/14

The NHSSSS's net expenditure for the year was £1,499 million, compared to net expenditure of £1,398 million in 2012/13. This movement is due mainly to an increase in service costs.

The scheme liability has increased significantly by £10.4 billion to £39.5 billion. There are two significant reasons for this increase – changes to financial assumptions, largely brought about by a lower discount rate of 1.80% as set by HM Treasury (2012/13 2.35%) and an improvement in the data provided at 31 March 2012 in comparison to previous data sets contributing to a £4.2 billion experience loss.

STSS annual outturn 2013/14

The STSS's net expenditure for the year was £1,137 million, compared to net expenditure of £1,152 million in 2012/13. This movement is due mainly to a decrease in interest on scheme liabilities together with an increase in contributions. The scheme liability has increased by £3.1 billion to £27.1 billion. This increase is due largely to the lower discount rate, changes in actuarial assumptions, and experience gains/ (losses) on the scheme liability.

Accrued resources for the NHSSSS and the STSS are covered by one combined limit in the Budget (Scotland) Act 2013. In 2013/14

the combined accrued resource cost of the NHSSSS and the STSS of £2,635.9 million fell within the combined limit of £2,667.6 million.

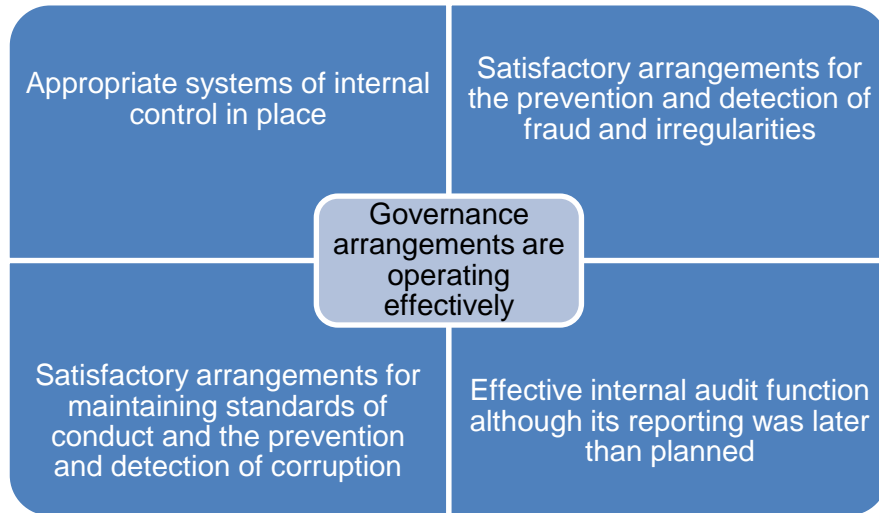
Outlook

The budget figures originally set for 2014/15 at £2,687.4 million have altered following the Autumn Budget Revision and are now at a combined figure of £3,589.3 million. This increased budget reflects the expected increases in the cost of accruing members' pensionable service as a consequence of forecast reductions in the discount rate supplied by Treasury and also in line with anticipated contribution rates.

The above figures are accounting estimates, useful in assessing the overall commitments in each scheme that will be need to be met through time. The direct cost falling on the Scottish public sector is the annual employer contributions. The last published actuarial valuations to assess the overall scheme commitments were in 2004 for NHSSSS and 2005 for STSS, following an HM Treasury decision on value for money grounds. The programme of valuations has now restarted and full actuarial valuations for the schemes have been carried out in 2014. These will reflect a full assessment of anticipated costs and will drive future contribution rates. The valuations are expected to be published shortly.

As pension reforms are implemented, an employer cost cap mechanism will be introduced for the schemes, to share the risks associated with pension provision between the taxpayer and scheme members. This will be subject to future assessments.

Governance and accountability



The Chief Executive as Accountable Officer is responsible for establishing arrangements for ensuring the proper conduct of the affairs of SPPA and for monitoring the adequacy and effectiveness of these arrangements.

Corporate governance

The corporate governance framework within SPPA is centred on the External Management Board which comprises five non-executive directors and the members of the Senior Management Team (SMT). A key component of scrutiny is the Audit and Risk

committee (A&RC) comprising three non-executive directors. They provide robust and professional challenge to the SPPA management on SPPA performance.

Internal control

As part of our audit we reviewed the high level controls in a number of SPPA's systems that impact on the financial statements. This audit work covered the main accounting system, payroll, trade payables, non-current assets, AXISe, Resource Link and EPICOR. Our overall conclusion was that SPPA's systems of internal controls for the systems tested operated effectively and allowed us to take the planned assurance from these systems for the audit of the financial statements in 2013/14. A small number of control weaknesses where improvements could be made to existing arrangements were identified. Management responded positively to these findings.

Governance Statement

SPPA, NHSSSS and STSS included governance statements in each set of annual accounts in accordance with Scottish Government guidance. The statements included a description and assessment of the essential components of corporate governance and details of any significant risk-related matters arising during the period. No significant exceptions or risks were highlighted.

Internal Audit

Internal audit provides SPPA and its Accountable Officer with independent assurance on the overall risk management, internal control and corporate governance processes. In addition, in an

Governance and accountability

effort to avoid duplication, we place reliance on internal audit work where appropriate. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work.

The Scottish Government's external auditors carried out a review of internal audit in March 2014 and concluded that the internal audit service provided by the Scottish Government Internal Audit Division (GIAD) complies with the Public Sector Internal Audit Standards (PSIAS) in adopting a risk based audit approach in planning and undertaking their work. They also concluded that the division has sound documentation standards and reporting procedures in place.

The review identified ongoing concerns in respect of the recruitment process which has impacted on the ability of internal audit to appoint staff on a permanent basis. As a result, staffing resources have continued to come under pressure in 2013/14. Actions to address this matter have been agreed by the Scottish Government and will be followed up by their external auditors.

These staffing pressures have had an impact on the 2013/14 audit work plan; all the 2013/14 internal audit reports for SPPA were issued later than planned. We had planned to rely on internal audit's financial controls systems audit as part of our assurances for the financial statements audit, but the work was not completed and reported at a stage that would have allowed us to reduce our testing. We performed the relevant testing ourselves to gain the necessary assurance over the main financial systems. We were able to place reliance on internal audit's work on transfers and refunds for the purposes of our audit, following a comprehensive

review of their working papers in this area.

Internal Audit provides assurance through their annual reporting process. In their 2013/14 annual report to the Audit and Risk Committee, internal audit were able to provide 'substantial' assurance in respect of SPPA'S risk management, controls and governance arrangements. As in 2012/13, assurance provided in relation to the Scottish Government's corporate systems used by SPPA was assessed as 'reasonable' only. SPPA should satisfy itself that the assurances over the systems used by the Agency are sufficient in assessing its own control framework.

Managing ICT contracts follow up

In August 2012, Audit Scotland published the report 'Managing ICT contracts: an audit of three public sector programmes'. The report highlighted significant weaknesses in the management of ICT projects, where many of the problems stemmed from a lack of specialised skills and experience.

"Managing ICT contracts: an audit of three public sector programmes" was published in August 2012 and was selected for targeted follow-up during audit year 2013/14 in the central government sector. The overall aim of the targeted follow-up is to establish to what extent central government bodies have applied the 'lessons learned' from the original report to their ICT contracts and arrangements.

We have reviewed whether SPPA has considered the 2012 report and made use of the challenge and scrutiny questions; we also assessed the governance arrangements in place for the Business

Governance and accountability

Change Programme, as much of the programme relates to ICT systems to support delivery of pension reform. Based on our work this year, which takes into account the findings of internal audit and the January 2014 Gateway Review, the governance arrangements established to date for the Business Change Programme appear appropriate.

We identified some risks during our audit work, which support the recommendations made by internal audit in their recent report on “IT Systems – Projects and Contracts”. As noted by internal audit, key programme documentation, including the business case, are still draft documents with incomplete elements.

If the business case is not updated for elements such as benefits realisation and detailed cost estimates, it will cease to serve as a basis against which successful delivery can be measured. In that case, reference to a range of different documents would be necessary to fully understand and monitor the scope, budget and success criteria of the programme. **(Action Plan no.2)**

Detailed cost estimates were not complete in the documentation we reviewed. If full programme costs are not accurately identified, the effectiveness of budget monitoring controls is limited, and demonstrating long term value for money may prove challenging.

The requirement for a robust benefits realisation strategy is recognised by SPPA management. However, until this is fully developed and supported by robust baseline data, SPPA may be unable to demonstrate the success of the Business Change Programme in a meaningful way. At the time of our audit, SPPA

were in the process of securing additional resource to gather the baseline data.

It is clear that both executive and non-executive management recognise the scale, impact and potential risks of the Business Change Programme. In addition to the ongoing programme management reporting to the Business Transformation Board, the Audit and Risk Committee has received regular progress reports on the programme. We will continue to liaise with the Director of Business Change Programme on a regular basis and monitor the progress of programme implementation.

Arrangements for the prevention and detection of fraud

SPPA’s arrangements in relation to the prevention and detection of fraud and irregularities were satisfactory and in line with Scottish Government’s guidance. There were no instances of internal fraud or irregularity reported by SPPA in 2013/14.

National Fraud Initiative

SPPA participated in the National Fraud Initiative (NFI) 2012/13 exercise. The NFI uses electronic data analysis techniques to compare information held on individuals by different public sector bodies and different financial systems, to identify data matches that might indicate the existence of fraud or error. Overall, we concluded that SPPA has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI.

The 2012/13 NFI exercise involved 127 public bodies and identified

Governance and accountability

fraud and error outcomes worth £16 million. SPPA recorded 23 outcomes worth £0.85 million from its 2012/13 data matches. SPPA was commended in the NFI national report (June 2014) for embracing more regular data matching opportunities (e.g. quarterly checks with the National Records of Scotland, additional mortality screening through NFI) that have almost certainly led to a reduction in overpayments. Local government pension schemes are now being encouraged to follow SPPA's example in undertaking more regular data matching.

Datasets have been submitted by SPPA for the 2014/15 NFI exercise; data matches will be returned to SPPA for investigation in January 2015. SPPA are committed to NFI and active in seeking opportunities to reduce errors through additional data matching.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

The arrangements for the prevention and detection of corruption in SPPA are satisfactory and we are not aware of any specific issues that we need to record in this report.

Outlook

The current environment of reducing resources and increasing expectations is one in which SPPA's governance and accountability arrangements will be tested. Proposals for implementing the governance changes required by the Public Service Pensions Act 2013 continue to be developed. The pensions reform agenda will necessitate fundamental redesign of the way that the schemes are

structured, and this will need strong financial and governance arrangements to put in place.

Key elements of the new system will include pension scheme design based on Career Average Re-valued Earnings; a cost control mechanism to keep the ongoing cost of the schemes within defined margins; each scheme is required to appoint a Scheme Manager who will be assisted by a Pension Board. Each scheme will also establish a Scheme Advisory Board to advise on the desirability of changes to the scheme.

In addition, Scottish Ministers decided in October 2013 to transfer the responsibility for administering the Scottish Police and Fire pension schemes to SPPA from April 2015.

In addition to these operational challenges facing the Agency, the policy environment remains unstable as the details of the 2015 reforms continue to be finalised. The time available to achieve full implementation by the statutory deadline of April 2015 will be very challenging.

Best Value, use of resources and performance

Arrangements for securing Best Value

Scottish Government guidance for Accountable Officers on best value in public services requires a systematic approach to self-evaluation and continuous improvement. The guidance identifies the themes an organisation needs to focus on in order to deliver the duty of best value, but notes that implementation should be appropriate and proportionate to the priorities, operating environment, scale and nature of the body's business.

An assessment of best value arrangements was reported in the Governance Statement. The Accountable Officer highlighted that best value principles are embedded in the Agency's planning, governance and business decision arrangements, and are communicated to staff through commitment, leadership and staff participation in the business planning process. It was also highlighted that the Agency participates in a pensions industry benchmarking group.

Performance management and overview of performance targets in 2013/14

SPPA's operational performance is formally reviewed by the External Management Board (EMB) and Senior Management Team (SMT) on a regular basis. As in 2012/13, SPPA met 9 of its 11 key performance targets, with two falling short of the target by a small

margin only. Ensuring that accurate and up to date data is held for a minimum of 95% of active scheme members failed marginally due to a data loading issue caused by a third party. The other target, to conclude pension reform activities within agreed timescales, failed when one reporting activity ran behind schedule because of unforeseen staff resourcing issues in the final quarter of the year.

Pension award payments are reviewed on an ongoing basis through quality assurance processes. A key performance target achieved by SPPA is to ensure that 95% of all pension awards are correct at the point of authorisation. In 2013/14, 96% of awards were correct, compared to 97% in the previous year. Whilst the overall target has been met, within the error population there is variation between the schemes and between financial years; SPPA is aware of this pattern and the need to address it.

In 2013/14, SPPA administered 1.85 million pension payments totalling £1.9 billion. During the year, 2,080 overpayments totalling £1.692 million were highlighted (0.09% of all pension payments). 1,744 pension overpayments totalling £1.446 million were highlighted in 2012/13 (0.08% of 2012/13 pension payments). Of this £1.446 million, £692,000 was due to SPPA staff error and this accounted for 48% in value terms. An improvement in error rates was demonstrated in 2013/14 when the figure reduced to 22%. £1.03 million (61%) of the 2013/14 overpayments and £0.90 million (62%) of the 2012/13 overpayments have been recovered as at January 2015.

SPPA also monitors its performance by carrying out an annual Customer Service Survey and through participation in a national and

Best Value, use of resources and performance

international 'CEM' benchmarking survey that assists in demonstrating and communicating performance to stakeholders.

We are satisfied that SPPA had appropriate arrangements in place for monitoring performance for 2013/14.

National performance audit reports

A summary of national performance audit reports is included in appendix I. SPPA has arrangements in place to consider national performance audit reports issued by Audit Scotland: the reports are considered by the Senior Management Team and presented to the External Management Board and Audit and Risk Committee where these are considered to be relevant to the business of the SPPA. It is good practice for public bodies to assess their own performance against national findings, with improvement actions identified if appropriate.

Scotland's public sector workforce (Nov 2013)

This report examines how public bodies have changed their workforces since 2009, what savings they have made and what they need to do in the future. Public bodies have used a range of measures including pay restraint, redeploying staff and changing working patterns to manage staff numbers and costs. However, continuing financial pressures mean current approaches are unlikely to deliver the savings needed in the future. The report says bodies will need to consider other ways of delivering services such as redesigning services and more joint and collaborative working in addition to their current approaches to workforce planning.

The report includes recommendations on forecasting expected

staff numbers, skill needs and costs, maximising opportunities to share resources and monitoring the age of staff to prepare for peaks in departures resulting from people leaving when they reach retirement age.

As noted on page 9 of this report, we recommend that SPPA further develops its workforce planning.

Scotland's public finances - a follow-up audit: progress in meeting the challenges (June 2014)

During 2013, the auditors of 67 public bodies examined and reported on how the bodies are meeting the challenges of budget constraints. The 2014 follow up report provides a high-level summary of the main themes arising from the local audit work and identifies what more needs to be done. The report includes recommendations and a checklist to support central government non-executive directors' scrutiny of public finances.

The External Management Board has considered this report when discussing SPPA's future financial challenges and areas for improvement, such as the proposed development of forecasting and budgeting over a three year rolling period.

Outlook

SPPA will continue to face the challenge of maintaining its performance standards while the pensions reform agenda introduces new requirements and increases the Agency's workload.

Appendix I: Summary of Audit Scotland reports 2013/14

Title of report or opinion	Date of issue	Date presented to Audit and Risk Committee
Annual Audit Plan	31 March 2014	8 April 2014
Review of Internal Controls	24 June 2014	15 July 2014
SPPA Report on financial statements to those charged with governance	3 July 2014	15 July 2014
NHSSSS/STSS Report on financial statements to those charged with governance	30 September 2014	7 October 2014
SPPA Audit opinion on the 2013/14 financial statements	1 August 2014	N/A
NHSSSS/STSS Audit opinion on the 2013/14 financial statements	24 October 2014	N/A
National reports:		
Scotland's public sector workforce 2012/13	November 2013	N/A
Scotland's public finances – a follow up audit: progress in meeting the challenges	June 2014	N/A
The National Fraud Initiative in Scotland	June 2014	Verbal update 7 Oct 2014

Appendix II: Significant audit risks

The table below sets out the key audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk (from Annual Audit Plan)	Assurance procedure
<p>Implementing change</p> <p>The scale of the pensions reform agenda presents a significant challenge for the SPPA. The fundamental redesign of the way that the schemes require to be structured will require strong financial and governance arrangements to be in place. Effective operational management processes are also required to ensure delivery on time and within budget.</p> <p>The Agency will need to ensure that it maintains service standards, contribute to the continuing development of pension policy and implement the necessary administrative arrangements for the 2 schemes. This will require developing appropriate business processes as well as ensuring that its ICT systems/projects are sufficiently advanced to deliver them.</p>	<p>We have monitored, and will continue to monitor, pension reform developments through review of SPPA committee papers, discussion with SPPA staff and media reports.</p> <p>We have monitored the Business Change governance and reporting arrangements through regular discussion with SPPA staff and review of committee papers including the Gateway Review findings and internal audit's report on "IT systems – projects and contracts".</p> <p>We have assessed the governance arrangements for the Business Change Programme in our follow up of the "Managing ICT Contracts" performance audit report.</p>
<p>Workload</p> <p>Dealing with emerging issues may divert limited resources from operational and development matters. In addition, continued increases in caseload and transactional activity as a result of workforce demographics and employer workplace reforms continue to increase the Agency's workload.</p> <p>The pension reform agenda poses additional significant issues for the SPPA, and the Agency will need to consider how best to develop its capacity and skills in order to deal effectively with its existing and future workload.</p>	<p>We have reviewed SPPA's reported performance in 2013/14; 9 of 11 key targets were met.</p> <p>We have reviewed relevant minutes and papers for consideration of workload and staff capacity.</p> <p>We have attended Audit and Risk Committee meetings through the year.</p>

Appendix II: Significant audit risks

Audit Risk (from Annual Audit Plan)	Assurance procedure
<p>Workforce and Succession Planning</p> <p>The Agency has no overarching workforce plan in place. The significant changes arising from pensions reform may result in unexpected workloads and workforce pressures for the Agency; development of a workforce plan with appropriate succession planning for key posts should assist effective management of these changes.</p>	<p>We reviewed the workforce elements of SPPA's plans for the Business Change Programme and the ARC's consideration of succession planning risks within the risk register.</p> <p>There is still no overarching workforce plan in place.</p>
<p>Full actuarial (funding) valuations</p> <p>The results of the planned full actuarial (funding) valuation as at 31 March 2012 for the NHSSS scheme valuation is expected to be complete for the 2013/14 financial statements. There has been a delay in the STSS valuation process which may impact on the accounts preparation, and consequently delay the audit process. This delay may also increase the risk of actuarial error and in turn delay timely and appropriate quality review processes undertaken by GAD.</p> <p>The Agency will need to satisfy itself as to the quality review/checking and monitoring processes in place within GAD in order to ensure accuracy of actuarial figures.</p>	<p>The full valuations as at 31 March 2012 were not finalised during our audit process. We held an initial meeting with GAD to discuss the processes used in the preparation of the full valuations and the 2013/14 resource account valuations. This included an update on the quality review/ checking and monitoring processes in place within GAD.</p> <p>We had subsequent discussions as the financial statements audit progressed.</p> <p>We did not carry out detailed analytical audit work of the actuarial output figures as the full valuations are not yet finalised.</p>

Appendix II: Significant audit risks

Audit Risk (from Annual Audit Plan)	Assurance procedure
<p>GAD valuation</p> <p>The Agency will need to ensure that the data provided to GAD is accurate, complete, timely and verifiable.</p> <p>This will avoid the actuarial input in valuing the Schemes being affected by:</p> <ul style="list-style-type: none"> • incomplete or inaccurate information • reliance on source data that has not been validated • lack of audit trail to identify the source of data supplied by SPPA to GAD • timeliness of data • the use of unreasonable assumptions. 	<p>We held an initial meeting and had subsequent regular discussions with GAD.</p> <p>We reviewed the work of GAD in order to determine the level of assurance that could be taken from their internal procedures.</p> <p>We reviewed reports from Hymans Robertson and PwC which assessed the actuarial processes undertaken by GAD.</p> <p>We reviewed the reports which support the valuation data submitted to GAD.</p> <p>We carried out analytical audit work on the actuarial output figures.</p>
<p>Information to support scheme valuations</p> <p>SPPA will need to ensure that the implications of changes to membership profiles are fully considered, employers are kept informed about the progress of valuations and up-to-date information is provided to the actuary.</p> <p>This should avoid the risk of actuarial valuations being materially affected by contribution figures which are subsequently superseded.</p>	<p>We discussed and reviewed the information supplied to GAD for the scheme valuations. We also met with GAD and reviewed their reports on the data they received and their validation processes.</p>

Appendix II: Significant audit risks

Audit Risk (from Annual Audit Plan)	Assurance procedure
<p>Inaccurate pension payments</p> <p>Pension award payments may be inaccurate due to errors arising as a result of human error, a failure in internal controls or systems, or fraud.</p> <p>The quality assurance error rate was 3% in 2012/13. There was an increase in quality assurance error rates between 2011/12 and 2012/13 from 2% to 3%.</p> <p>1744 pension overpayments totalling £1.446 million were highlighted in 2012/13. Of this, £0.692 million was due to SPPA staff error and this accounted for 48% in value terms.</p> <p>Errors could result in overpayments being borne by the Agency/Scottish Consolidated Fund. The SPPA will need to monitor the position on data cleansing issues, and evaluate error rates in order to quantify their potential impact.</p>	<p>We reviewed the work of quality assurance and payroll staff, noting error rates and types, and used this to inform our own testing of pension awards.</p> <p>We reviewed outcomes from NFI/GROS data matching and other initiatives.</p> <p>On the basis of our audit testing, and relying on internal audit's testing where appropriate, we concluded that the financial statements were not materially misstated and issued an unqualified audit opinion.</p>

Appendix III – Action plan

Action plan point/ page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
1/8	<p>Workforce planning</p> <p>The Agency has no overarching workforce plan in place, although workforce elements are included in the Business Change Programme. Succession planning for key posts is not explicit, although it is recognised in the risk register. The significant changes arising from pensions reform are expected to increase SPPA's workload; development of a workforce plan with appropriate succession planning for key posts should assist effective management of these changes.</p> <p>Risk: SPPA does not have the right people with the right skills in place to deliver pension reform while maintaining performance standards for day to day 'business as usual'.</p> <p>Recommendation: SPPA should develop its workforce planning into the longer term and develop its succession planning arrangements.</p>	<p>A review of SPPA Workforce Planning approach was included in the Agency business plan for 2014/15, commencing in Q4. However, this has been deferred to 2015/16 to allow SPPA Senior Management Team to consider the options and actions for the A3 job grading.</p>	Director of Corporate Services	31 Dec 2015

