Scottish Public Pensions Agency

Interim Audit Report 2016/17

AUDITSCOTLAND

Who we are

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

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.

- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.

- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.
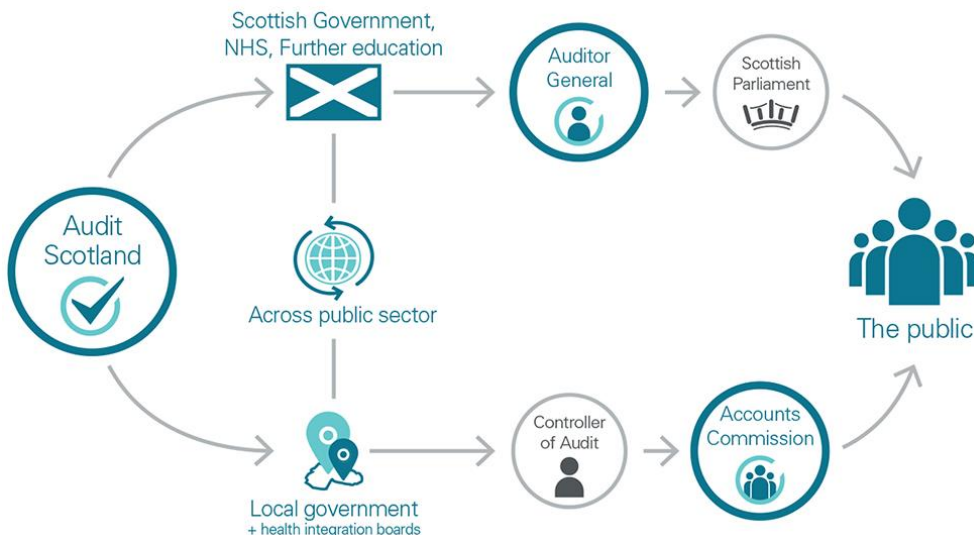
About us

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

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

- carrying out relevant and timely audits of the way the public sector manages and spends money

- reporting our findings and conclusions in public

- identifying risks, making clear and relevant recommendations.

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Audit findings

Introduction

1. This report contains a summary of the key issues identified during the interim audit work carried out at the Scottish Public Pensions Agency (SPPA), NHS Pension Scheme (Scotland) and Scottish Teachers' Superannuation Scheme. This work included testing of key controls within financial systems, to gain assurance over the processes and systems used in preparing the financial statements, and substantive testing of pension awards. We will use the results of this testing to determine our approach during the 2016/17 financial statements audit.

2. Our responsibilities under the Code of Audit Practice (2016) require us to assess the system of internal control put in place by management. We seek to gain assurance that the audited body:

- has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements

- has systems of internal control which provide an adequate means of preventing and detecting error, fraud or corruption

- complies with established policies, procedures, laws and regulations.

3. We have also carried out some of our planned work on the wider dimension audit. The remainder of this work will be carried out later this year. The wider scope of public sector audit requirements is set out in the Code of Audit Practice. The Code establishes a framework allowing auditors to form judgements in four key areas:

- financial sustainability

- financial management

- governance and transparency

- value for money.

In doing so, the Code recognises the increasingly high expectations of the public for the role of audit in the stewardship of public funds.

Conclusion

4. Overall we found that controls were operating satisfactorily. We identified a small number of control weaknesses as summarised in Exhibit 1. We have developed further audit procedures to gain assurance, where appropriate, in response to these findings as outlined in Exhibit 1. This will enable us to take planned assurance for our audit of the 2016/17 financial statements.

5. We also carried out early substantive testing to support our financial statements audits. This involved recalculating samples of new awards and lump sums for both schemes. We did not identify any issues from this work.

6. We reviewed governance arrangements for the pension schemes as part of our wider dimension audit work. We have concluded that appropriate arrangements are in place.

7. The matters raised in this report should be considered as part of the Accountable Officer's assessment of the review and adequacy of the financial governance processes in place to support the Annual Governance Statement.

Work summary

8. Our 2016/17 testing covered key controls in a number of areas.

9. For SPPA, we reviewed:

- payroll validation and exception reporting

- authorisation of journals

- feeder system reconciliations

- budget monitoring and control

- IT access controls.

10. We also took assurance from the assessment of the Scottish Government financial systems performed by the external auditors of the Scottish Government.

11. For the NHS Pension Scheme (Scotland) and Scottish Teachers' Superannuation Scheme, we reviewed controls for Epicor (contributions collection system), Altair (pension administration system) and Resourcelink (pension payment system). These included:

- bank reconciliations

- payroll validation

- change to pensioner circumstances

- authorisation of journals

- change of pensioner bank details

- new awards and lump sums

- IT access controls.

12. The contents of this report have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during the course of our audit is gratefully acknowledged.

Risks identified

13. The key control risks we identified during the interim audit are detailed in Exhibit 1. These findings will inform our approach to the financial statements audit where relevant.

14. Any weaknesses identified represent those that have come to our attention during the course of normal audit work and therefore are not necessarily all the weaknesses that may exist. It is the responsibility of management to decide on the extent of the internal control system appropriate to SPPA, the NHS Pension Scheme (Scotland) and Scottish Teachers' Superannuation Scheme.

Wider dimension audit work

15. In our 2016/17 Annual Audit Plan, presented to the Audit and Risk Committee (ARC) on 23 January 2017, we set out proposed wider dimension audit work for

SPPA's Project 2017. Project 2017 aims to deliver a bespoke unified pension administration and payment system for the pension scheme accounts. We agreed at the ARC meeting to provide an update on our work on Project 2017.

16. Our work will include:

- Developing an understanding of the life cycle of the project from outline business case to the current position.

- Reviewing how the project contributes to SPPA's vision and strategic direction.

- Assessing the governance arrangements for the project.

- Reviewing the effectiveness of the monitoring, measuring and reporting of the project.

17. We met with internal audit on 10 March 2017 to discuss our planned work on Project 2017 to avoid any duplication of work.

18. We met with the interim Chief Executive of SPPA on 6 April 2017 to discuss the progress of Project 2017 to date and the actions planned to further progress the project. The interim Chief Executive agreed to provide a range of documents to support our audit work.

19. We will carry out our planned work over the next few months and report our findings later this year.

Exhibit 1
Key findings and action plan 2016/17

Issue identified	Management response Responsible officer and target date	Audit procedures undertaken
Audit findings		
Resourcelink access controls Access to the Resourcelink pension payment system is controlled by IT and Project Support (ITaPS). We identified, through discussion with ITaPS staff, that some users do not have appropriate access rights. This mainly affects staff who have changed team. It is the responsibility of line managers to notify ITaPS of any permanent or temporary changes to user access requirements. Quarterly checks of access rights are carried out by ITaPS, including reviewing leavers and promotions, but records of these checks are not maintained. **There is a risk that errors or fraudulent transactions are made by individuals who should not have access to the system.**	Access rights automatically expire after 30 days, though there is a dependency upon line managers to inform ITaPS of any changes to access rights within their team. The process to provide structured assurances around access control will be agreed and provided through the newly formed Data Security Group. This group has representation from each of SPPA's Information Asset Owners and ITaPS. This will involve raising awareness with IAOs and line managers and maintaining a record of quarterly checks conducted by ITaPS. Responsible Officer - Director of Corporate Services Deadline- 30/9/2017	We reviewed a sample of ten staff with access to Resourcelink and confirmed their access levels were appropriate. We reviewed a sample of ten death notifications across both pension schemes and confirmed these were all authorised appropriately. We reviewed a sample of ten changes to pensioner bank details across both pension schemes and confirmed these were all authorised appropriately.
Altair access controls Access to the Altair pension administration system, is controlled by ITaPS. We reviewed a sample of 12 users and identified that two individuals no longer employed by SPPA (or permitted third parties) have access to the system. It is the responsibility of line managers to notify ITaPS of any permanent or temporary changes to user access requirements. **There is a risk that errors or fraudulent transactions are made by individuals who should not have access to the system.**	Access rights automatically expire after 30 days, though there is a dependency upon line managers to inform ITaPS of any changes to access rights within their team. Similar to Resourcelink, accounts can be disabled although accounts are never deleted. Audit highlighted two users that were still identifiable in the user table. Although the accounts were not disabled, the passwords had expired and the SCOTS accounts were deleted which prevented access to Altair. The process to provide structured assurances around access control will be agreed and provided through the newly formed Data Security Group. This group has representation from each of SPPA's Information Asset Owners and ITaPS. This will involve raising awareness with IAOs and line managers and maintaining a record of quarterly checks conducted by ITaPS. Responsible Officer - Director of Corporate Services Deadline- 30/9/2017	We reviewed a sample of 40 new awards and lump sums across both pension schemes and confirmed all were completed and authorised by appropriate staff.

Source: Audit Scotland

20. All our outputs and any matters of public interest will be published on our website: www.audit-scotland.gov.uk.

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