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Ms Penelope Cooper  
Chief Executive  
Scottish Public Pensions Agency  
7 Tweedside Park  
Tweedbank  
Galashiels  
TD1 3TE

30 April 2018

Dear Penelope

### Scottish Public Pensions Agency - Review of internal controls in financial systems 2017/18

1. Audit Scotland's Code of Audit Practice requires us to assess the systems of internal control put in place by management. In carrying out this work, we seek to gain assurance that Scottish Public Pensions Agency (SPPA), Scottish Teachers Pension Scheme (STPS) and NHS Pension Scheme (Scotland) (NHSPSS):
  - has systems of recording and processing transactions which provide a sound basis for the preparation of financial statements
  - has systems of internal control which provide an adequate means of preventing or detecting material misstatement, error, fraud or corruption
  - complies with established policies, procedures, laws and regulation.

### Overall conclusion

2. On the basis of audit work undertaken, we concluded that appropriate and effective internal controls were in place for those key financial systems reviewed by us.

### System coverage

3. The following table summarises the key systems that we have tested in our interim audit for financial year 2017/18 for SPPA, STPS and NHSPSS,

Key System (SPPA)	Audit coverage
Payroll	√
Trade Payables	√
Trade Receivables	√

Key System (STPS & NHSPSS)	Audit coverage
ResourceLink (pension payment system)	√
Epicor (contributions collections system)	√
Altair (pension administration system)	√

### Prior year follow up

4. The issues within the interim report for 2016/17 have been followed up to ensure that appropriate action has been taken. Both issues were in relation to the user access to Altair and Resourcelink and staff members who have changed team or left the organisation, but still retained access to the system.
5. This has been resolved. IT and Project Support (ITaPS) have a standing item on the quarterly internal communications plan to reiterate to managers that they are responsible for notifying IT of any changes to user access.

### Key findings

6. Our audit testing did not identify any significant control weaknesses. We did identify some less significant issues which were discussed with management so that appropriate actions could be taken.
7. The issues identified are summarised below:
  - Journal authorisation - One instance was identified where the journal sheet had not been signed as authorised. It has been established that this was an isolated incident and that there are appropriate controls in place for journal processing and authorisation.
  - Signing of reconciliations - The testing on daily and monthly bank reconciliations found that there were two instances when the preparer had not signed the reconciliations and one instance where a date was missing.
  - User access authorisation - In some circumstances the supporting management authorisation for user access requests are not retained as they come through means other than a call with ITaPS. However, in the vast majority of cases, the user access request is raised through the IT help-desk. The other methods include emails to the IT team, and through the Scottish Government IFix portal. We have observed the controls in operation and are satisfied that they are operating effectively, however supporting documentation is not retained if the request is logged via email or the IFix portal. As noted above, there is a standing item to ensure that managers are aware of the requirements in relation to user access.

### Risk identification

8. The issues identified in preparing this management letter are only those which have come to our attention during the course of our normal work and are not necessarily, therefore, all the risk areas that may exist. It remains the responsibility of management to determine the extent of the internal control system appropriate to SPPA, STPS and NHSPSS. We would stress, however, that an effective system of internal control is an essential part of the efficient management of any organisation.

## Acknowledgement

9. 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 from staff at SPPA is gratefully acknowledged.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Stephen Boyle', with a long horizontal flourish extending to the right.

Stephen Boyle CPFA  
Assistant Director