

Scottish Public Pensions Agency

2019/20 Annual Audit Report



 AUDIT SCOTLAND

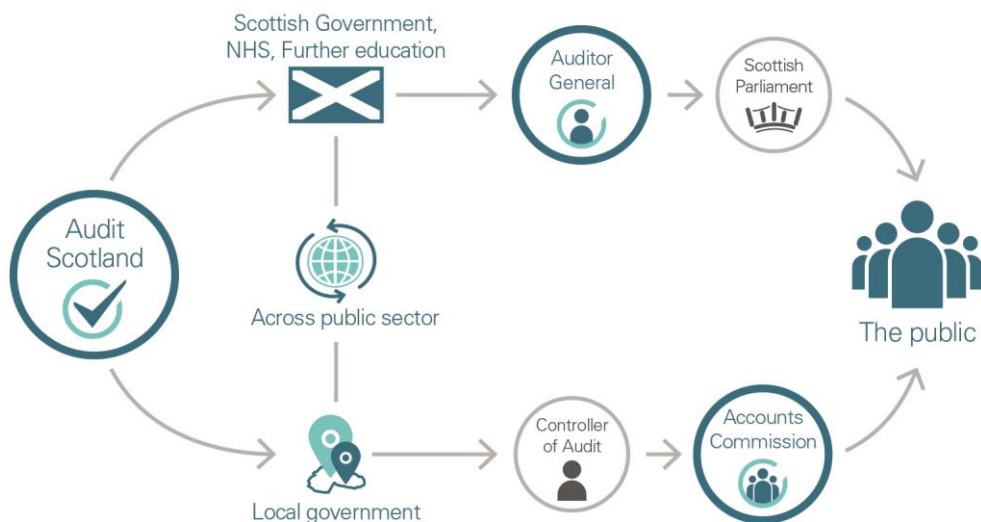
Prepared for the Scottish Public Pensions Agency and the Auditor General for Scotland

November 2020

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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Key messages

2019/20 annual report and accounts

- 1 The financial statements of the Scottish Public Pensions Agency (SPPA) give a true and fair view of its financial position as at 31 March 2020 and its expenditure and income for 2019/20.
- 2 The other information in the annual report is consistent with the financial statements and prepared in accordance with legal requirements.
- 3 We agreed with SPPA to delay our audit by one week due to the impact of Covid-19 on the annual accounts process. However, we received the performance report three months later than planned.

Financial management

- 4 SPPA has appropriate in-year financial management arrangements. It managed its finances in 2019/20 with an underspend of £2 million against a budget of £23.4 million.
- 5 Systems of internal control operated effectively in 2019/20.

Financial sustainability

- 6 SPPA needs to demonstrate how it will manage its finances in an increasingly challenging financial climate.
- 7 SPPA is in the final stages of implementing its Target Operating Model to deliver services more efficiently. It needs to ensure it is adequately resourced and organised to carry out its core functions and achieve planned efficiencies.

Governance and transparency

- 8 SPPA has adequate governance arrangements in place. It should ensure it has the right capacity to support effective governance and scrutiny.
- 9 SPPA should review arrangements for preparing its performance report to ensure they are effective.

Value for money

- 10 SPPA has learned lessons from the closure of the PS Pensions project. It is clear from its approach to developing the replacement system that it recognises the need for a clear business case, realistic timetable and effective governance and project management arrangements.

Introduction

1. This report summarises the findings from our 2019/20 audit of the Scottish Public Pension Agency (SPPA).

2. The scope of the audit was set out in our Annual Audit Plan presented to the January 2020 meeting of the Audit and Risk Committee. This report comprises the findings from:

- an audit of SPPA's annual report and accounts
- consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1 Audit dimensions



Source: *Code of Audit Practice 2016*

3. The main elements of our audit work in 2019/20 have been:

- an audit of SPPA's 2019/20 annual report and accounts including the issue of an independent auditor's report setting out my opinions
- a review of SPPA's key financial systems
- consideration of the four audit dimensions.

4. Since publication of the Annual Audit Plan, in common with all public bodies, SPPA has had to respond to the global coronavirus pandemic. This affected the final month of the 2019/20 financial year and will continue to have a significant

impact in 2020/21. Covid-19 has increased demand for SPPA's services and affected its leadership capacity due to some of its senior officers being seconded to the Scottish Government to support its response to the pandemic.

5. We reviewed our assessment of audit risks and planned audit work in June 2020 and concluded that they remained relevant. We re-issued our Annual Audit Plan in July 2020 to reflect changes to the audit timetable.

Adding value through the audit

6. We add value to SPPA through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability
- reviewing SPPA's progress in implementing the recommendations of the [Update on management of PS pensions project](#) and contributing to discussions on the assurance framework for the replacement pensions platform.

Responsibilities and reporting

7. SPPA has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from the Scottish Ministers.

8. SPPA is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity that enable the board to successfully deliver its objectives.

9. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#), and supplementary guidance and International Standards on Auditing in the UK. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on the appropriateness and effectiveness of the performance management arrangements, the suitability and effectiveness of corporate governance arrangements, the financial position and arrangements for securing financial sustainability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

10. This report raises matters from our audit. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

11. Our annual audit report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officer(s) and dates for implementation. It also includes any outstanding actions from last year and progress against these.

Auditor Independence

12. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

13. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2019/20 audit fee of £25,700 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

14. This report is addressed to both the body and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

15. We would like to thank all management and staff for their cooperation and assistance during the audit, particularly given the current challenges presented by the impact of Covid-19.

Part 1

Audit of 2019/20 annual report and accounts



Main judgements

The financial statements of SPPA give a true and fair view of its financial position as at 31 March 2020 and its expenditure and income for 2019/20.

The other information in the annual report is consistent with the financial statements and prepared in accordance with legal requirements.

We agreed with SPPA to delay our audit by one week due to the impact of Covid-19 on the annual accounts process. However, we received the performance report three months later than planned.

The annual report and accounts are the principal means of accounting for the stewardship of resources and performance.

Our audit opinions on the annual report and accounts are unmodified

16. The annual report and accounts for the year ended 31 March 2020 were approved by the Audit and Risk Committee on 16 November 2020. We reported within the independent auditor's report that:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income were regular and in accordance with applicable enactments and guidance
- the audited part of the Performance Report, Governance statement and Remuneration and staff report were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

17. The working papers provided to support the accounts were of a good standard and the audit team received support from finance staff which helped ensure the final accounts audit process ran smoothly.

The accounting framework was changed due to the Covid-19 pandemic

18. An addendum to the 2019/20 Government Financial Reporting Manual was issued in response to the impact of Covid-19 and sets out the minimum requirements. The addendum permits, but does not require, bodies to omit the performance analysis section from the performance report. Where relevant performance information has already been published elsewhere, bodies are encouraged to refer to the relevant publication. SPPA has not used this dispensation.

Submission of the annual report and accounts to audit was delayed

19. Several of SPPA's senior officers were seconded to the Scottish Government to support its response to the pandemic. This included officers with responsibility for preparing the annual report and accounts. We worked with SPPA to agree a new audit timetable and received the annual report and accounts for audit on 8 June 2020, a week later than originally planned. The annual report and accounts did not include a complete performance report.

20. We received the performance report on 14 September 2020, over three months later than planned. This meant we were unable to meet the audit timetable set out in our revised annual audit plan. The delay was due to officers responsible for preparing the performance report being required to perform other duties, including supporting the response to Covid-19.

Overall materiality is £221,000

21. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and the nature of a misstatement in the financial statements.

22. On receipt of the annual report and accounts for audit we reviewed our materiality bases and concluded that they remained appropriate. We updated the materiality amounts as shown in [Exhibit 2](#).

Exhibit 2 Materiality values

Materiality level	Amount
Overall materiality	£221,000
Performance materiality	£166,000
Reporting threshold	£10,000

Source: Audit Scotland

[Appendix 2](#) identifies the main risks of material misstatement and our audit work to address these

23. [Appendix 2](#) provides our assessment of risks of material misstatement in the annual report and accounts and any wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and indicate how the efforts of the audit team were directed. [Appendix 2](#) also identifies the work we undertook to address these risks and our conclusions from this work.

24. We have no issues to report from our work on the risks of material misstatement. We have raised several points from our wider dimension audit work. These relate to financial sustainability, workforce planning, governance and transparency, and value for money and are included in the action plan at [Appendix 1](#).

We have no significant findings to report on the annual report and accounts

25. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices. We have no significant findings to report around the qualitative aspects of SPPA's accounting policies, accounting estimates and financial statements disclosures.

There were no material misstatements arising from our audit

26. We did not identify any material misstatements or any misstatements above our reporting threshold.

SPPA has made progress on prior year recommendations

27. SPPA has made progress in implementing our prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

Part 2

Financial management



Main judgements

SPPA has appropriate in-year financial management arrangements. It managed its finances in 2019/20 with an underspend of £2 million against a budget of £23.4 million.

Systems of internal control operated effectively in 2019/20.

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

SPPA operated within budget in 2019/20

28. The main financial objective for SPPA is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers.

29. SPPA reported an outturn of £21.4 million against its overall budget of £23.4 million for 2019/20 with an underspend of £2.0 million. The resource underspend is mainly due to lower than expected staff costs. SPPA deferred recruitment of newly created posts because the Scottish Government gave priority to meeting resource requirements from Covid-19. The capital underspend is due to SPPA agreeing a longer timetable for procurement of its new pensions platform and delays in the guaranteed minimum pensions project.

30. SPPA's financial performance against Departmental Expenditure Limits (DEL) is shown in [Exhibit 3](#).

Exhibit 3 Performance against DEL in 2019/20

Performance	Initial budget £m	Final budget £m	Actual outturn £m	Over/(under) spend £m
Resource DEL	19.2	19.4	17.9	(1.5)
Capital DEL	4.0	4.0	3.5	(0.5)
Total DEL	23.2	23.4	21.4	(2.0)

Source: Scottish Budget: 2019-20, SPPA Annual Report and Accounts 2019-20

Budget processes were appropriate

31. We reviewed SPPA's budget setting and monitoring arrangements. From our review of budget monitoring reports and committee papers, and attendance at committees we confirmed that senior management and non-executive members receive regular and accurate information on SPPA's financial position. SPPA has appropriate budget setting and monitoring arrangements.

32. SPPA prepares regular finance update reports for its Audit and Risk Committee and Management Advisory Board. These reports provide details of SPPA's performance against budget for the current financial year and forecast its year-end financial position. The reports also highlight new and ongoing developments affecting SPPA's finances.

33. SPPA's total budget allocation for 2020/21 is £24.7 million, which is contingent on full in-year transfer of £0.4 million from the local government pension scheme. The budget includes a contingency of £1.0 million but SPPA has identified potential budget pressures including:

- additional staff costs for work to implement guaranteed minimum pension equalisation and pension changes due to the outcome of the McCloud legal case
- higher than anticipated costs for its replacement pensions platform project
- some uncertainty over the costs of extending the contract with a key supplier.

Financial systems of internal control are operating effectively

34. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that SPPA has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

35. We reviewed the controls within SPPA's key financial systems and concluded that appropriate internal controls are in place and operating effectively. Our audit work did not identify any significant control weaknesses which could affect SPPA's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

Internal audit

36. SPPA's internal audit function is carried out by the Scottish Government's Directorate of Internal Audit and Assurance. The Public Sector Internal Audit Standards (PSIAS) require the 'chief audit executive' to provide an annual internal audit opinion and report that can be used to inform the governance statement. Internal audit provided reasonable assurance on SPPA's risk management, control and governance arrangements in its annual assurance report.

37. Audit Scotland carries out an annual review of internal audit. The 2019/20 review found that internal audit maintained the improvements in its work made in 2018/19, and reported no areas of significant non-compliance with PSIAS.

38. We reviewed SPPA's internal audit arrangements in terms of International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent to which we could use the work of internal audit. We did not place formal reliance on any areas of internal audit work however we considered internal audit report findings as part of our wider dimension audit work.

Standards of conduct and arrangements for the prevention and detection of fraud and error are appropriate

39. SPPA is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities. It is also responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.

40. We have reviewed the arrangements in place to maintain standards of conduct including the Framework Document and Civil Service and Members' Codes of Conduct. There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption.

41. Appropriate arrangements are in place for the prevention and detection of fraud, error and irregularities.

Arrangements for preventing fraud and corruption in the procurement function are appropriate

42. Our consideration of financial management includes evaluating the arrangements in place for preventing and detecting fraud and corruption. Instances of fraud and corruption can be particularly prevalent in the procurement function. We reviewed controls around SPPA's procurement process including segregation of duties, registers of hospitality and gifts, and staff training. SPPA has suitable arrangements in place for preventing fraud and corruption in the procurement function.

Part 3

Financial sustainability



Main judgements

SPPA needs to demonstrate how it will manage its finances in an increasingly challenging financial climate.

SPPA is in the final stages of implementing its Target Operating Model to deliver services more efficiently. It needs to ensure it is adequately resourced and organised to carry out its core functions and achieve planned efficiencies.

Financial sustainability looks forward to the medium and longer term to consider whether a body is planning effectively to continue to deliver its services or the way in which they should be delivered.

SPPA faces a challenging financial climate

43. The Scottish Government's Medium-Term Financial Strategy (MTFS) sets out the main financial challenges facing the Scottish Government and provides the context for its spending review and the Scottish budget. The MTFS highlights the importance of financial sustainability and the Scottish Government's requirement for a more systematic link between budgets and what those budgets deliver.

44. We reported last year that SPPA's strategic plan outlines the requirement for SPPA to achieve an annual balanced financial position but does not include any financial forecasts. There are also no details of the financial savings SPPA plans to achieve from its Target Operating Model (TOM) to deliver future services more efficiently. We recommended that SPPA should work to complete its longer-term financial strategy to demonstrate how it plans to address funding gaps from the closure of the PS Pensions project and ensure its finances are sustainable.

45. SPPA has prepared five-year revenue and capital budgets for 2020/21 to 2024/25. These include assumptions on future Scottish Government funding, the impact of the TOM on staff costs and the likely costs of responding to ongoing pension legal cases. SPPA has forecast significant annual revenue budget deficits of:

- £4.6 million in 2021/22
- £6.8 million in 2022/23
- £6.8 million in 2023/24
- £4.7 million in 2024/25.

46. These forecasts highlight the increasingly challenging financial climate that SPPA is operating in. SPPA also, like other executive agencies, faces growing expectations from the Scottish Government to demonstrate how it will manage its finances in the longer term and the outcomes it will deliver. SPPA's five-year budgets do not include details of the actions SPPA is taking to address forecast funding gaps. SPPA has confirmed it will prepare business cases to the Scottish Government where it needs extra funding to address business priorities associated

with the McCloud pensions legal case, the replacement pension platform and Guaranteed Minimum Pension equalisation. These will quantify the budget pressures it has previously flagged to Scottish ministers.



Recommendation 1

SPPA should work to develop a longer-term financial strategy to demonstrate how it will ensure its finances are sustainable.

SPPA is in the final stages of implementing its Target Operating Model (TOM) to deliver future services more efficiently

47. SPPA continued to implement its TOM in a phased way during 2019/20. This process looks at the structures, skills and capacity needed to deliver services. The TOM has taken longer than planned due to the closure of the PS Pensions project and delays in recruitment to key posts. SPPA made new appointments during 2019/20 to its senior leadership team for the business management, business affairs, customer services and digital transformation and IT operations departments. Each of these business areas will complete their TOM during 2020/21.

48. SPPA has rolled out the TOM to the other parts of its business, which represents most of its workforce. The TOM has resulted in changes to how services are resourced and organised. SPPA is still to complete a workforce plan which sets out how it will ensure it has sufficient capacity to achieve its strategic objectives and provide the level and quality of services expected by its customers. It is developing the 2020/21 People Strategy and its workforce plan, which will set out how it becomes the organisation it needs and wants to be for the future.



Recommendation 2

SPPA should continue to develop its workforce plan with a focus on ensuring that it is adequately resourced and organised to carry out its core functions and achieve planned efficiencies.

Part 4

Governance and transparency



Main judgements

SPPA has adequate governance arrangements in place. It should ensure it has the right capacity to support effective governance and scrutiny.

SPPA should review arrangements for preparing its performance report to ensure they are effective.

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.

Overall governance and transparency arrangements are adequate

49. The corporate governance framework within SPPA is centred around the Management Advisory Board (MAB). The MAB is the main forum for discussing strategic priorities and ensuring effective governance. The MAB's responsibility is to support the accountable officer. It does not have a formal decision making or scrutiny role. It is supported by the Audit and Risk Committee (ARC). The ARC's responsibilities include reviewing risk management, internal and external audit outputs and monitoring budgets, as well as discussing key business decisions.

50. Actions taken by SPPA in response to Covid-19 are set out in the 2019/20 annual report and accounts. SPPA has made appropriate adjustments to its governance arrangements to respond to the Covid-19 pandemic. Recent MAB and ARC meetings have been conducted virtually.

51. In assessing governance and transparency arrangements we consider:

- board and committee structure and conduct
- overall arrangements and standards of conduct including those for the prevention and detection of fraud, error, bribery and corruption
- openness of board and committees
- public access to information via websites
- reporting of performance and whether this is fair, balanced and understandable.

52. We concluded that SPPA has adequate governance arrangements in place that support the scrutiny of decisions.

53. The TOM has resulted in changes to how SPPA supports the MAB and ARC. This includes a new structure for the governance team which SPPA is in the process of implementing. The MAB carried out a self-assessment of its operation and effectiveness at the beginning of 2019/20. Many of the resulting actions have not progressed due to limited resource within the governance team. SPPA should

ensure the new structure gives it the capacity to support MAB and ARC members in providing scrutiny and provide committees with good quality, timely information. The MAB will carry out another self-assessment in 2020/21.

54. SPPA should also consider whether there are opportunities for it to enhance transparency. This includes making MAB and ARC papers publicly available where appropriate.



Recommendation 3

SPPA should ensure it has the right capacity to support effective governance and scrutiny and transparent decision making.

Covid-19 had an impact on performance reporting in 2019/20

55. In addition to the opinion on the performance report covered in Part 1 of our Annual Audit Report, we also consider the qualitative aspects of SPPA's performance report. The performance report should provide information on SPPA's main objectives and the principal risks faced. It should provide a fair, balanced and understandable analysis of SPPA's performance as well as helping stakeholders understand the financial statements.

56. As noted in part one of this report we received the performance report over three months later than planned. We identified that improvements were needed to the presentation and content of the report to ensure it met the minimum requirements of the 2019/20 Government Financial Reporting Manual (FRoM). This included more comprehensive coverage of performance measures and the impact of Covid-19 on SPPA and actions it has taken to respond to the pandemic.

57. We received an updated performance report on 15 October 2020. This included information on SPPA's performance in 2019/20 and details on how funding was spent. The content of the performance report is in line with the minimum requirements of the FRoM and includes details of the impact of Covid-19.

58. SPPA changed its arrangements for preparation of the performance report during the year with the senior leadership team taking responsibility for preparing relevant sections of the report. Capacity issues due to Covid-19 meant that this process did not work as planned. SPPA should review the arrangements to ensure they are effective.

59. FRoM guidance requires SPPA to identify its key performance measures and explain the link between these measures, risk and uncertainty. The Audit Scotland [*Good practice note on improving the quality of central government annual report and accounts*](#) is a useful tool to help enhance performance report disclosures.



Recommendation 4

SPPA should review arrangements for preparing the performance report to ensure they are effective, and the report provides a fuller analysis of SPPA's performance.

Part 5

Value for money



Main judgements

SPPA has learned lessons from the closure of the PS Pensions project. It is clear from its approach to developing the replacement system that it recognises the need for a clear business case, realistic timetable and effective governance and project management arrangements.

Value for money is concerned with using resources effectively and continually improving services.

SPPA should review its arrangements for securing Best Value

60. *Ministerial guidance to Accountable Officers* for public bodies and the *Scottish Public Finance Manual* (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure Best Value. The guidance sets out the key principles of Best Value and the requirement to have a systematic approach to self-evaluation and continuous improvement.

61. SPPA's Framework Agreement includes its vision to provide excellent customer service, combining skills and technology to maximise efficiency and deliver Best Value to taxpayers in Scotland. SPPA has set out to embed Best Value principles in its planning, governance and decision-making arrangements.

SPPA has learned lessons from the closure of the PS Pensions project

62. In February 2018 SPPA closed its PS Pensions project to deliver a unified pension administration and payment system. The aims of this project included replacing existing systems to improve business efficiency and service quality for members, and to make financial savings in the longer term. The new system was to be operational by March 2017.

63. The Auditor General reported on SPPA's management of the project in the Section 23 report *Scottish Public Pensions Agency – Update on management of PS Pensions project* published in June 2019. This report sets out the history of the PS Pensions project and considers SPPA's management of the project. The key messages are in [Exhibit 4](#) below.

Exhibit 4

Update on management of PS Pensions project – Key messages

1. SPPA did not prepare a clear business case for its new integrated pension administration and payment system (PS Pensions). It set an unrealistic 18-month timescale while SPPA was going through significant change. It did not adequately scrutinise the winning tender for the project which it identified as being abnormally low cost.

2. **Changes in the leadership of SPPA and the management of the project made it more difficult for SPPA to manage the supplier and hold it to account. SPPA's governance and project assurance arrangements did not support effective scrutiny of the project.**
3. **Capita was not able to provide a working system and did not achieve any of the project milestones. This was a main contributor to the project failure. Capita paid SPPA £0.7 million in November 2018 following the conclusion of a legal process.**
4. **SPPA spent £6.3 million on the project and a further £2.4 million extending contracts with existing suppliers when the project failed to meet the original timetable. The failure of the project means SPPA has been unable to progress strategic, business and workforce plans as originally intended. As a consequence SPPA requires additional revenue budget of £9.8 million between 2019/20 and 2022/23, and capital allocations of £13.6 million over the next five years. SPPA failed to achieve value for money in this project.**

Source: Audit Scotland: [Scottish Public Pensions Agency – Update on management of PS Pensions project](#)

64. SPPA and Scottish Government officers attended evidence sessions of the Scottish Parliament's Public Audit and Post-legislative Scrutiny committee in September and December 2019. SPPA's chief executive updated the committee on actions taken in response to the Section 23 report. These include:

- training for the new senior leadership team on developing business cases
- a new structure for digital transformation and IT operations to ensure SPPA's programme of digital improvements have robust governance
- the Scottish Government's digital directorate is supporting SPPA's approach to procuring the pensions platform replacement
- SPPA has recruited experienced officers to fill vacancies in the senior leadership team and ensure it has effective and consistent project management capacity.

65. In the Section 23 report we provided details of SPPA's new project to improve its pensions administration and payroll systems. SPPA has completed this project with the enhanced system operational from November 2019. SPPA set up a programme board to ensure appropriate governance of the project. The board was chaired by a senior responsible officer and membership included senior officers, supplier representatives and an experienced non-executive board member as critical friend. The ARC received regular updates on the progress of the project.

66. SPPA recognises that it needs a more comprehensive digital solution to improve business efficiency and service quality and make longer term financial savings. It appointed independent consultants to support it in developing the new system. The consultants recommended a model for pensions and payroll administration based on the Scottish Government's digital first service standards and provided a short list of options for SPPA to consider.

67. SPPA's senior leadership team met in April 2020 to consider the consultants' recommendations and agreed:

- to tender for a componentised solution
- negotiate contract extensions for current systems to ensure there is enough time to implement the new system within current procurement regulations
- to assess the resources required for the programme
- to obtain agreement 'in principle' from ministers for funding.

68. The pensions platform replacement programme started in June 2020, following recruitment of the programme manager. SPPA presented an update report to the July 2020 ARC. This confirmed:

- initial programme and project governance arrangements are in place
- a procurement and commercial manager has been appointed to lead the procurement approach and strategy
- an initial roadmap for the project has been developed
- SPPA plans to award the contract for the new system in December 2021, subject to approval of the business case in January 2021.

69. SPPA has learned lessons from the closure of the PS Pensions project and the recommendations of the Section 23 report. Its pensions platform replacement programme is at an early stage, but work done so far recognises the need for a clear business case, realistic procurement timetable and clear governance and project management arrangements. SPPA has also demonstrated it can deliver digital projects by successfully implementing pensions administration and payroll system improvements last year.



Recommendation 5

SPPA should build on work underway to ensure it successfully completes its pensions platform replacement programme.

SPPA has appropriate performance management arrangements

70. The performance of SPPA is monitored by the MAB against several performance targets set out in SPPA's Business Plan. Performance reports are presented in a "dashboard" form to allow non-executive board members to monitor progress against the performance targets. The MAB is kept well informed of performance across all areas of activity and responsibility.

71. SPPA's performance management framework supports the achievement of value for money and continuous improvement in the way services are delivered.

72. SPPA, as pension scheme managers, has responsibility for issuing annual benefits statements to members. The deadline for this is 31 August. SPPA was made aware, following customer enquiries, that the 2020 NHS and teachers' pension scheme members statements contained an unacceptable number of errors. It has put a plan in place to correct and reissue them by the end of November. It has informed all stakeholders, including the Pensions Regulator which has accepted the revised plan. SPPA is investigating what caused this to happen. We will follow-up this issue as part of next year's audit.

National performance audit reports

73. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2019/20 several reports were published which are of direct interest to SPPA. These are outlined in [Appendix 3](#).

74. SPPA's Audit and Risk Committee periodically considers relevant Audit Scotland reports.

Appendix 1

Action plan 2019/20



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Financial sustainability</p> <p>SPPA has prepared five-year revenue and capital budgets. These include assumptions on future Scottish Government funding, the impact of the TOM on staff costs and the likely costs of responding to ongoing pension legal cases. SPPA has forecast significant annual revenue budget deficits for the next four years. This highlights the increasingly challenging financial climate that SPPA is operating in. SPPA also faces growing expectations from the Scottish Government to demonstrate how it will manage its finances in the longer term and the outcomes it will deliver. SPPA's five-year budgets do not include details of the actions SPPA is taking to address funding gaps.</p> <p>Risk</p> <p>SPPA cannot demonstrate how it will manage its finances in the longer term.</p>	<p>SPPA should work to complete a longer-term financial strategy to demonstrate how it will ensure its finances are sustainable.</p> <p>Paragraph 45 to 46</p>	<p>The Agency remains committed to preparing its rolling 5-year forecasting and budgeting in alignment with the updating of the Agency's rolling 5-year Strategic Plan and Annual Business Plan. This is informed by UK Comprehensive Spending Reviews and Scottish Spending Reviews. Sustainable funding over the term is predicated on SG acceptance of relevant business cases for mandatory legal and regulatory work some of which may be reimbursable at the UK level and the remainder through funded business pressures of which Scottish ministers have been apprised since they arose.</p> <p>[Head of Finance and Procurement 30 June 2021]</p>
2	<p>Workforce capacity</p> <p>SPPA is still to complete a workforce plan which sets out how it will ensure it has sufficient capacity to achieve its strategic objectives and provide the level and quality of services expected by its customers. It is developing the 2020/21 People Strategy which will set out how it becomes the organisation it needs and wants to be for the future.</p> <p>Risk</p>	<p>SPPA should continue to develop its workforce plan with a focus on ensuring that it is adequately resourced and organised to carry out its core functions and achieve planned efficiencies.</p> <p>Paragraph 48</p>	<p>A comprehensive workforce plan remains a key business priority to be taken forward by the soon to be recruited Planning and Performance Manager identified in the Target Operating Model.</p> <p>[Head of Business Management 1 April 2021]</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>SPPA is not adequately organised and resourced to carry out its core functions and achieve planned efficiencies.</p>		
3	<p>Governance and transparency</p> <p>The TOM has resulted in changes to how SPPA supports the MAB and ARC. This includes a new structure for the governance team which SPPA is in the process of implementing. The MAB carried out a self-assessment of its operation and effectiveness at the beginning of 2019/20. Many of the resulting actions have not progressed due to limited resource within the governance team. SPPA should ensure the new structure gives it the capacity to support MAB and ARC members and provide committees with good quality, timely information.</p> <p>SPPA should also consider whether there are opportunities for it to enhance transparency. This includes making MAB and ARC papers publicly available where appropriate.</p> <p>Risk</p> <p>MAB and ARC members are not given the support and quality of information needed to provide effective scrutiny.</p>	<p>SPPA should ensure it has the right capacity to support effective governance and scrutiny and transparent decision making.</p> <p>Paragraph 53 and 54</p>	<p>The Target Operating Model (TOM) for the Governance team has been designed and approved. Recruitment and appointment of several roles has already completed. Recruitment continues for the remaining vacancies.</p> <p>Minutes from all our MAB, ARC, SAB and Pension Board meetings are published on the SPPA website following formal approval. Each Board meeting formally approves the preceding meeting minutes following which the minutes will be posted.</p> <p>[Head of Business Management 1 April 2021]</p>
4	<p>Performance report</p> <p>SPPA changed its arrangements for preparation of the performance report during the year with the senior leadership team taking responsibility for preparing relevant sections of the report. Capacity issues due to Covid-19 meant that this process did not work as planned.</p> <p>Risk</p>	<p>SPPA should review arrangements for preparing the performance report to ensure they are effective, and the report provides a fuller analysis of SPPA's performance.</p> <p>Paragraph 58 and 59</p>	<p>The Agency's Performance Report which forms part of the overall Annual Report and Accounts will be considered as part of lessons learned from 2019-20 exercise and will be taken into account in the planning and preparation for the 2020-21 exercise.</p> <p>[Head of Business Management 31 July 2021]</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>SPPA does not provide users of the annual report and accounts with a clear analysis of its performance.</p>		
5	<p>Replacement pensions platform</p> <p>SPPA has learned lessons from the closure of the PS Pensions project. Its pensions platform replacement programme is at an early stage, but work done so far recognises the need for a clear business case, realistic procurement timetable and clear governance and project management arrangements.</p> <p>Risk</p> <p>SPPA's project management and governance arrangements for the new system prove to be ineffective resulting in the failure of the project.</p>	<p>SPPA should build on work underway to ensure it successfully completes its pensions platform replacement programme.</p> <p>Paragraph 69</p>	<p>The programme team are developing a robust business case based on the treasury five case model, with input and collaboration both from SPPA SLT members and wider Scottish Government. A long term timeline of events, including milestones for market engagement, contract award and platform transition has been defined based on both experience of programmes of a similar size together with input from other departments such as the Cabinet Office. Programme governance and assurance is underpinned by the development of an Integrated Audit and Assurance Plan that has been developed with the close input of the SG Digital Assurance Office and internal audit, which is then scrutinised as part of the SPPA Audit and Risk Committee. The first assurance point is a business case and programme health check in November, followed by Gateway 0 and Pre-Procurement gates in 2021.</p> <p>[Head of Digital Transformation and IT 31 March 2022]</p>

Follow up of prior year recommendations

b/f 1	<p>Dependency on key suppliers</p> <p>SPPA has a number of key suppliers and recognises the risk of <i>effective management of external suppliers</i> in its risk register. SPPA plans to increase its monitoring of key suppliers, with a focus on their financial sustainability. This includes implementing a contract management strategy for all its contracts. SPPA's</p>	<p>SPPA should ensure it has effective arrangements in place for contract management and risk assessment of key suppliers. This includes having appropriate contingency planning in place to respond to the failure or collapse of a key supplier.</p>	<p>Complete</p> <p>SPPA has agreed to review its contract management arrangements to ensure at least annual reviews of high-risk contracts. This will include documented financial review, risk assessment and review of its contingency plans.</p>
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No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>work in this area has not progressed as quickly as planned.</p> <p>Risk</p> <p>The impact of a failure or collapse of a key supplier can be significant and can result in either delays or non-completion of major contracts or, disruptions in the continued provision of vital services.</p>		
b/f 2	<p>Governance arrangements</p> <p>During 2018/19, new chairs were appointed to both the ARC and the MAB. The MAB is also now chaired by the Accountable Officer, SPPA's Chief Executive. This arrangement is consistent with <i>On Board: A Guide for Members of Management Advisory Boards</i>. The SPPA Chief Executive should consider evaluating these new arrangements at the end of the financial year to determine whether they are sufficiently supporting her in her Accountable Officer role.</p> <p>Risk</p> <p>SPPA cannot assure itself that its governance arrangements support effective leadership and decision-making.</p>	<p>SPPA should review its new governance arrangements to ensure they sufficiently support the Accountable Officer.</p>	<p>Ongoing</p> <p>The MAB carried out a self-assessment of its operation and effectiveness at the beginning of 2019/20. Due to limited resource within the governance team many of the resulting actions have not progressed. The MAB will carry out another self-assessment in 2020/21. See action plan point 3.</p>
b/f 3	<p>Information security</p> <p>SPPA, in common with many other public sector bodies, is at risk from loss of personal data. It holds a significant amount of personal information. SPPA's Information Assurance Strategy covers the period 2014 to 2018. It sets out the key legislation and governance affecting SPPA. This strategy needs to be updated to reflect the implementation of the General Data Protection Regulation (GDPR). SPPA has also not finalised its digital strategy due to the delay in</p>	<p>SPPA should finalise and implement its digital strategy and refresh its Information Assurance Strategy to ensure its data remains secure.</p>	<p>Complete</p> <p>SPPA updated and refreshed the Information Assurance Strategy in November 2019. Its pension platform replacement programme board approved the digital strategy in September 2020.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>implementing its Target Operating Model.</p> <p>Risk</p> <p>A significant data loss or data theft could lead to financial and reputational losses for SPPA.</p>		
b/f 4	<p>Management of PS Pensions project</p> <p>SPPA closed its PS Pensions project in February 2018. The lack of a clear business case for the new system, an unrealistic timetable for the project and weaknesses in governance and project assurance arrangements contributed to the closure of the project.</p> <p>SPPA is undertaking a new project to develop an integrated system.</p> <p>Risk</p> <p>SPPA does not learn lessons from the failure of the PS Pensions project and experiences similar issues with the Altair Improvement project.</p>	<p>SPPA should ensure effective arrangements are in place to support delivery of the Altair Improvement project. This includes clear governance arrangements and effective project management to ensure SPPA and its contractors have clear expectations from the outset.</p>	<p>Complete</p> <p>SPPA has completed the Altair Improvement project with the enhanced system operational from November 2019.</p>

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating to our wider responsibility under the [Code of Audit Practice 2016](#).

Risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of material misstatement caused by management override of controls</p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions which are outside the normal course of business.</p>	<p>Sample tested year end journals. No issues identified.</p> <p>Accounting estimates were reviewed, and no issues identified.</p> <p>Focused testing on accruals and prepayments was carried out and no issues were identified.</p> <p>There was no evidence of transactions outside the course of normal business.</p> <p>From work carried out in year, we found no evidence of management override of controls.</p>
<p>2 Risk of material fraud over expenditure</p> <p>The Financial Reporting Council's Practice Note 10 (revised) requires public sector auditors to consider the risk of fraud over expenditure, extending the requirements of ISA240. The extent of expenditure means that there is an inherent risk of fraud.</p>	<p>System review of accounts payable and payroll focusing on key controls for SPPA.</p> <p>Focused substantive testing on higher risk areas and more complex areas.</p>	<p>We concluded that the controls tested were operating effectively. We did not identify any significant control weaknesses.</p> <p>We did not find any issues from substantive testing of expenditure.</p>
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
<p>3 Financial sustainability</p> <p>The Scottish Government published its second Medium-Term Financial Strategy (MTFS) in May 2019. The MTFS sets out the main financial challenges facing the Scottish Government and provides the context for its spending review and the Scottish budget. The MTFS highlights the importance of financial sustainability and the Scottish</p>	<p>Review SPPA's longer term financial plans and forecasts.</p> <p>Review efficiency savings reported by SPPA.</p>	<p>SPPA is still to complete its longer-term financial strategy. See action point 1 at Appendix 1.</p> <p>SPPA reported an outturn of £21.4 million against its overall budget of £23.4 million for 2019/20 with an underspend of £2.0 million.</p>

Risk	Assurance procedure	Results and conclusions
<p>Government's requirement for a more systematic link between budgets and what those budgets deliver.</p> <p>There is a risk that SPPA cannot demonstrate how it will manage its finances in the longer term and the outcomes it will deliver.</p>		
<p>4 Organisational change and capacity to deliver services</p> <p>SPPA has rolled out its TOM to the majority of the organisation and plans to fully implement it during 2019/20. The TOM has resulted in changes to how services are resourced and organised. SPPA has also made a number of new appointments to its senior leadership team. SPPA will need to manage the impact of this significant change on service delivery. SPPA does not have a workforce plan in place setting out the resources it requires to achieve its objectives.</p> <p>There is a risk that SPPA is not adequately organised and resourced to carry out its core functions and achieve planned efficiencies.</p>	<p>Review SPPA's progress in implementing the TOM.</p> <p>Review SPPA's progress in developing a workforce plan.</p>	<p>SPPA continued to implement the TOM during 2019/20. This has taken longer than planned due to the closure of the PS Pensions project and delays in recruitment to key posts. It has now rolled out the TOM to most of its workforce and remaining business areas will complete their TOM during 2020/21.</p> <p>SPPA is still to complete a workforce plan. See action point 2 at Appendix 1.</p>
<p>5 Procurement arrangements</p> <p>We highlighted weaknesses in the procurement process for SPPA's PS Pensions project in our <i>Update on management of PS Pensions project</i> report, published in June 2019. These issues contributed to the failure of the project. SPPA is undertaking a new project to develop an integrated pensions payroll and administration system which may require another procurement exercise.</p> <p>There is a risk that SPPA does not learn lessons from the failure of the PS Pensions project and experiences similar issues with procurement of a new system. There is also a risk of procurement fraud if effective and appropriate arrangements are not in place.</p>	<p>Review SPPA's progress in implementing the recommendations of the <i>Update on management of PS Pensions project</i> report.</p> <p>Review procurement plan for new system.</p> <p>Review controls around the procurement process such as segregation of duties, registers of hospitality and gifts, staff training and whistle-blowing.</p>	<p>SPPA has made good progress in implementing the recommendations of the Section 23 report. It demonstrated it can deliver digital projects by successfully implementing pensions administration and payroll system improvements last year. Its early work on the pensions platform replacement programme recognises the need for a clear business case, realistic timetable for the procurement and clear governance and project management arrangements. See action point 4 at Appendix 1.</p> <p>We reviewed controls around SPPA's procurement process and concluded it has suitable arrangements in place for preventing fraud and corruption in the procurement function.</p>

Appendix 3

Summary of national performance reports 2019/20

		 2019/20 Reports	
		Apr	
Social security: Implementing the devolved powers		May	
Scotland's colleges 2019		Jun	 Enabling digital government
		Jul	
NHS workforce planning - part 2		Aug	
Finances of Scottish universities		Sept	
NHS in Scotland 2019		Oct	
		Nov	
Local government in Scotland: Financial overview 2018/19		Dec	
Scotland's City Region and Growth Deals		Jan	 Privately financed infrastructure investment: The Non-Profit Distributing (NPD) and hub models
		Feb	
		Mar	 Early learning and childcare: follow-up

The following reports may be of interest to SPPA

[Social security: Implementing the devolved powers](#) – May 2019

[Enabling digital government](#) – June 2019

Scottish Public Pensions Agency

2019/20 Annual Audit Report

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