

Scottish Public Pensions Agency NHS Pension Scheme (Scotland) Scottish Teachers Pension Scheme Annual Audit Plan 2023/24



 AUDIT SCOTLAND

Prepared for Scottish Public Pensions Agency

March 2024

Contents

Introduction	3
Annual report and accounts	5
Wider Scope and Best Value	11
Reporting arrangements, timetable, and audit fee	12
Other matters	15

Introduction

Summary of planned audit work

1. This document summarises the work plan for the 2023/24 external audit of the Scottish Public Pensions Agency (SPPA), the NHS Pension Scheme Scotland (NHSPSS) and the Scottish Teachers' Pension Scheme (STPS). The main elements include:

- an audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement
- an audit opinion on regularity and other statutory information published with the financial statements in the annual report and accounts, including the Performance Report, Governance Statement, and the Remuneration and Staff Report for SPPA and the Report of the Scheme Manager and Annual Governance Statement for NHSPSS and STPS
- consideration of arrangements in relation to the wider scope areas of financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
- providing assurance on the Whole of Government Accounts (WGA) return
- provision of an Annual Audit Report setting out conclusions on all aspects of the audit.

2. There has been no change to the audit team as we move into the second year of our audit appointment. Carole Grant remains the appointed auditor.

Respective responsibilities of the auditor and SPPA

3. The [Code of Audit Practice](#) sets out in detail the respective responsibilities of the auditor and the SPPA. Key responsibilities are summarised below.

Auditor responsibilities

4. My responsibilities as appointed auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

5. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the wider scope arrangements in place at the SPPA, including those for the administration of NHSPSS and STPS. In doing this, we aim to support improvement and accountability.

SPPA responsibilities

6. SPPA is responsible for maintaining adequate accounting records and internal controls and preparing financial statements for audit that give a true and fair view. They are also required to produce other reports in the annual report and accounts in accordance with applicable requirements.

7. SPPA has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety, and regularity that enable them to deliver their objectives.

Adding Value

8. We aim to add value by being constructive and forward looking and providing independent conclusions on all aspects of the audit. We will attend committee meetings and recommend and encouraging good practice. In so doing, we will help SPPA promote improved standards of governance, better management and decision making and more effective use of resources.

Annual report and accounts

Introduction

9. The annual report and accounts are an essential part of demonstrating the SPPA's stewardship of resources and its performance in the use of those resources, including for the administration of NHSPSS and STPS.

10. As appointed auditor, I am required to perform an audit of the financial statements, consider other information within the annual report and accounts, and express a number of audit opinions in an Independent Auditor's Report. Our audit work is conducted in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 and guidance from Audit Scotland.

11. My team and I focus our work on the areas of highest risk. As part of our planning process, we perform a risk assessment highlighting the audit risks relevant to the production of the financial statements.

Materiality

12. The concept of materiality is applied by auditors in planning and performing the audit and in evaluating the effect of any uncorrected misstatements on the financial statements. I am required to plan my audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2023/24 audit

13. We assess materiality at different levels and the materiality values for SPPA, NHSPSS and STPS are set out in [Exhibit 1](#).

Exhibit 1

2023/24 Materiality levels

SPPA Materiality	Amount
<p>Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements. For the year ended 31 March 2024, we have set our materiality at 2 per cent of gross expenditure based on the audited financial statements for 2022/23.</p>	£0.50 million

SPPA Materiality	Amount
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures are required. Using our professional judgement, we have assessed performance materiality at 60 per cent of planning materiality.	£0.30 million
Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£25,000

Materiality	NHSPSS Amount	STPS Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements. For the year ended 31 March 2024, we have set our materiality at 2 per cent of gross expenditure based on the audited financial statements for 2022/23.	£34.4 million	£24.2 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures are required. Using our professional judgement, we have assessed performance materiality at 60 per cent of planning materiality.	£20.6 million	£14.5 million
Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£500,000	£500,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

14. Our risk assessment draws on our cumulative knowledge of SPPA, NHSPSS and STPS, the major transaction streams, key systems of internal control and overall risk management processes. It is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

15. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the audit. Where such changes occur, we will advise management and, where relevant, report them to those charged with governance.

16. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the risks, management's sources of assurance and the further audit procedures we plan to perform to gain the necessary assurance.

Exhibit 2

2023/24 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p> <p>This is presumed to be a significant risk in every audit.</p> <p>(SPPA, NHSPSS and STPS)</p>	<p>Owing to the nature of this risk, assurances from management are not applicable.</p>	<ul style="list-style-type: none"> • Assess the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual journal activity and other adjustments. • Test journals at the year-end and post-closing entries and focus on significant risk areas. • Consider the need to test journal entries and other adjustments during the year. • Evaluate significant transactions outside the normal course of business. • Assess any changes to the methods and underlying assumptions used to prepare accounting estimates. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>2. Estimation in the valuation of land and buildings</p> <p>There is a significant degree of subjectivity in the valuation of land and buildings which is based on specialist and management assumptions.</p> <p>SPPA held land and buildings with a net book value of £4.9 million as at 31 March 2023.</p> <p>Changes in assumptions can result in material changes to the asset valuations disclosed in the annual report and accounts.</p> <p>(SPPA only)</p>	<p>SPPA shall ensure that there are appropriate management checks on year-end revaluation adjustments, that assets are appropriately classified and that the fixed asset register is updated appropriately (including post-dating any adjustments relating to prior years correctly). SPPA shall also reconcile the fixed asset register to the general ledger (SEAS).</p>	<ul style="list-style-type: none"> • Focused testing of accounting accruals and prepayments. • Review the information provided by SPPA to the external valuer to assess for completeness. • Review detailed working papers to support asset reviews and impairments. • Evaluate the competence, capabilities and objectivity of the professional valuer. • Obtain an understanding of the management's involvement in the valuation process to assess if appropriate oversight has occurred. • Assess SPPA's approach to assessing the risk that assets not subject to valuation are materially misstated and consider the robustness of the approach. • Review the appropriateness of the reconciliation between the financial ledger and the fixed asset register.
<p>3. Police and Fire year-end balances</p> <p>SPPA has material year-end receivables (£43.6 million at 31 March 2023) and payables (£14.7 million at 31 March 2023) balances relating to the payment of pensions on behalf of the Police Service of Scotland and Scottish Fire and Rescue Service.</p> <p>The accuracy of these balances depends on SPPA's calculations, which use data provided by the Scottish</p>	<p>SPPA shall ensure that appropriate management checks are carried out on year-end balances regarding the police and fire pension schemes. In addition, SPPA shall confirm these year-end balances with SPA and SFRS.</p>	<ul style="list-style-type: none"> • Assess the design and implementation of key controls over the processing of the police and fire pension schemes. • Review the year end process for the agreement of police and fire pension scheme balances. • Focused substantive testing of receipts and payments for the police and fire pension schemes.

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>Police Authority and Scottish Fire and Rescue Service.</p> <p>(SPPA only)</p>		
<p>4. Information supporting scheme valuations</p> <p>Decisions taken by SPPA for NHSPSS and STPS are reliant on the work of the Government Actuary Department (GAD).</p> <p>The actuarial valuation methodology relies on significant judgements and assumptions in relation to financial, mortality and demographic factors.</p> <p>(NHSPSS and STPS only)</p>	<p>SPPA shall ensure appropriate management checks on its data submissions to GAD, together with requisite liaison with GAD to provide assurance on actuarial assumptions consistent with the Service Level Agreement between the parties. In this respect SPPA also notes that GAD is accredited under the Institute and Faculty of Actuaries' Quality Assurance Scheme.</p>	<ul style="list-style-type: none"> • Review of the work of GAD, focusing on reliability, professional competence and capability. • Meet with GAD to discuss work practices, validation processes and quality review arrangements to establish whether reliance can be placed on GAD's internal processes. • Review reports to GAD supporting valuation data. • Commission review of GAD by independent expert.

Source: Audit Scotland

17. As set out in ISA (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements.

18. We consider the risk of fraud to be low for SPPA because, excluding Scottish Government funding, we expect SPPA's income to be immaterial.

19. We also do not consider this to be a significant risk for NHSPSS and STPS. The revenue streams come mainly from individual pension contributions and transfers into schemes. The high volume of transactions means that the likelihood of fraud resulting in a material misstatement to the financial statements is low.

20. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk for revenue.

21. We consider this risk to be low for SPPA because the majority of SPPA's expenditure is in areas which are stable and predictable. Staff costs, IT maintenance and the actuarial services contract with GAD represented 84 per cent of SPPA's 2022/23 operating costs.

22. We also do not consider this risk to be significant for NHSPSS and STPS. Expenditure is on individual pension payments, lump sums and transfers out of the scheme. The high volume of transactions means the likelihood of fraud resulting in a material misstatement to the financial statements is low.

23. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Other areas of audit focus

24. As part of our assessment of audit risks, we consider whether there are any other risks of material misstatement to the financial statements that require specific audit focus.

25. We have not identified any other areas of audit focus for SPPA, NHSPSS or STPS.

Regularity

26. Auditors are required by the Public Finance and Accountability (Scotland) Act 2000 to report on whether expenditure and income were incurred or applied, in all material respects, in accordance with applicable enactments and guidance issued by the Scottish Ministers (generally referred to as the regularity opinion).

27. We will adopt an integrated audit approach to meeting this responsibility and use work on the audit of the financial statements supplemented by additional testing for any irregular transactions, where necessary.

Wider Scope and Best Value

Introduction

28. Reflecting the fact that public money is involved the Code of Audit Practice sets out the four areas that frame the wider scope of public sector audit. Auditors are required to conclude on the effectiveness and appropriateness of the arrangements in place for each area.

29. Our planned work on our wider scope responsibilities is risk based and proportionate. In addition to local risks, we consider challenges which are impacting the public sector as a whole. In summary we will be considering:

- **Financial management** – this means having sound budgetary processes. We will consider the arrangements in place at SPPA to secure sound financial management, including the strength of the financial management culture, accountability and arrangements to prevent and detect fraud, error, and other irregularities.
- **Financial sustainability** – we will look ahead to consider whether SPPA is planning effectively to continue to deliver services. We will also comment on financial sustainability in the medium term (two to five years) and longer term (longer than five years).
- **Vision, leadership, and governance** – we will conclude on the clarity of plans in place to deliver the vision, strategy and priorities adopted by SPPA. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how SPPA demonstrates economy, efficiency and effectiveness through the use of financial and other resources. We will continue to review progress with SPPA's two main projects, PPP and Remedy.

Duty of Best Value

30. [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will be carrying out a high-level review to confirm that such arrangements are in place within SPPA.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

31. Audit reporting is the visible output for the annual audit. All audit outputs on matters of public interest, including those detailed in [Exhibit 4](#), will be published on our website: www.audit-scotland.gov.uk.

32. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be shared with the relevant officers to confirm factual accuracy.

33. We will provide provide an Independent Auditor's Report to SPPA, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and accounts of SPPA, NHSPSS and STPS. We will also provide SPPA and the Auditor General for Scotland with an Annual Audit Report containing observations and recommendations on significant matters which have arisen during the audit and conclusions on wider scope areas for SPPA, NHSPSS and STPS.

34. [Exhibit 3](#) outlines the target dates for our audit outputs. We will issue our outputs in sufficient time to enable scrutiny by the Audit and Risk Committee at the meeting date detailed below. The achievement of this is dependent on successful delivery of the timetable set out in [Exhibit 4](#).

Exhibit 3 2023/24 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	19 March 2024	26 March 2024
Independent Auditor's Report (SPPA)	By 2 October 2024	9 October 2024
Independent Auditor's Report (NHSPSS and STPS)	By 2 October 2024	9 October 2024
Annual Audit Report	By 2 October 2024	9 October 2024

Source: Audit Scotland



Timetable

35. To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 4](#) that has been discussed with management.



36. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management over the course of the audit.



Exhibit 4

Proposed annual report and accounts timetable for SPPA

 Key stage	 Provisional Date
Receipt of the unaudited annual report and accounts with complete working papers package	30 June 2024
Latest date for final clearance meeting with the Head of Finance	20 September 2024
Agreement of audited and unsigned annual report and accounts	By 2 October 2024
Issue of significant findings, independent auditor's report and letter of representation to those charged with governance	By 2 October 2024
Signed independent auditor's report	By 31 October 2024
Latest date for signing SG Consolidation return	To be confirmed

Proposed annual report and accounts timetable for NHSPSS and STPS

 Key stage	 Provisional Date
Receipt of the unaudited annual report and accounts with complete working papers package	2 August 2024
Latest date for final clearance meeting with the Head of Finance	20 September 2024
Agreement of audited and unsigned annual report and accounts	By 2 October 2024
Issue of annual audit report (SPPA, NHSPSS and STPS), letter of representation (NHSPSS and STPS) and proposed independent auditor's reports (NHSPSS and STPS) to those charged with governance	By 2 October 2024

 Key stage	 Provisional Date
Consideration of audited annual report and accounts of NHSPSS and STPS and audit reporting by those charged with governance	9 October 2024
Signed independent auditor's report	By 31 October 2024
Latest date for WGA assurance (if required)	To be confirmed

Source: Audit Scotland

Audit fee

37. In determining the audit fee, we have taken account of the risk exposure of SPPA, NHSPSS and STPS and the planned management assurances in place. Fee levels are also impacted by inflation which increases the cost of audit delivery. The agreed audit fees for 2023/24 are set at the baseline levels of:

- SPPA: £28,580 (2022/23: £26,980)
- NHSPSS: £74,520 (2022/23: £70,340)
- STPS: £70,840 (2022/23: £66,870)

38. In setting the fee for 2023/24, we have assumed that SPPA has effective governance arrangements and will prepare comprehensive and accurate accounts for the agency and schemes in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

39. It is the responsibility of SPPA to establish adequate internal audit arrangements. From our initial review of the internal audit plans, we do not plan to place formal reliance on internal audit's work for our financial statements' responsibilities.

40. We will review the following internal audit reports and assess the impact of the findings on our audit responsibilities:

- Performance Reporting
- IT Contract Management
- Financial/Operational Transaction Controls
- Pensioner PAYE Tax Compliance

Independence and objectivity

41. I am independent of SPPA, NHSPSS and STPS in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors.

42. Audit Scotland has robust arrangements in place to ensure compliance with Ethical Standard including an annual 'fit and proper' declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

43. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. I am not aware of any such relationships pertaining to the audit of SPPA, NHSPSS and STPS.

Audit Quality

44. Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the Audit Scotland website.

45. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are:

- ISQM (UK) 1 which deals with an audit organisation's responsibilities to design, implement and operate a system of quality management (SoQM) for audits. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to high-quality audit through our engagement performance and resourcing arrangements, and ensuring we have robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of our SoQM and has concluded that we comply with this standard.
- ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in the audit to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions of high-risk audit engagements.

46. To monitor quality at an individual audit level, Audit Scotland also carries out internal quality reviews of a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews.

47. Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan which is used to support continuous improvement. Progress with implementing planned actions is regularly monitored by Audit Scotland's Quality and Ethics Committee.

48. Audit Scotland may periodically seek your views on the quality of our service provision. The team would also welcome feedback more informally at any time.

SPPA, NHSPSS and STPS

Annual Audit Plan 2023/24

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

For the latest news follow us on social media or [subscribe to our email alerts.](#)



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 Email: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk