

Scottish Public Pensions Agency NHS Pension Scheme (Scotland) Scottish Teachers Pension Scheme Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for Scottish Public Pensions Agency
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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of Scottish Public Pension Agency (SPPA), NHS Pension Scheme (Scotland) (NHSPSS) and Scottish Teachers' Pension Scheme (STPS). The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the annual report and accounts of SPPA, NHSPSS and STPS' and issue of Independent Auditor's Reports setting out our audit opinions on the financial statements, regularity and other statutory information including the Performance Report, Governance Statement and Remuneration and Staff Report for SPPA and the Report of the Scheme's Managers and the Annual Governance Statement for NHSPSS and STPS
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
- consideration of Best Value arrangements
- review SPPA's participation in the National Fraud Initiative.

Audit Appointment

2. We are pleased to be appointed as the external auditor of SPPA, NHSPSS and STPS for the period 2022/23 to 2026/27 inclusive. You can find a brief biography of your audit team at [Appendix 1](#).

3. In the first year of the audit appointment we invest time gaining an understanding of your business to support our identification and assessment of audit risks. While we use our initial assessment of risk to inform our planned audit approach, we keep it under review as the audit progresses. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.

4. The audit team will actively engage with you over the course of the audit to ensure our audit work continues to be focused on risk.

Adding value

5. We aim to add value to SPPA, NHSPSS and STPS by being constructive and forward looking, by attending meetings of the Audit and Risk Committee and by recommending and encouraging good practice. In so doing, we will help SPPA, NHSPSS and STPS promote improved standards of governance, better management and decision making and more effective use of resources.

Respective responsibilities of the auditor and SPPA, NHSPSS and STPS

6. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and the SPPA, NHSPSS and STPS. Key responsibilities are summarised below.

Auditor responsibilities

7. Our responsibilities as independent auditors 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.

8. 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 SPPA, NHSPSS and STPS. In doing this, we aim to support improvement and accountability.

SPPA, NHSPSS and STPS responsibilities

9. SPPA, NHSPSS and STPS is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

10. SPPA, NHSPSS and STPS 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.

Financial statements audit planning

Introduction

11. The annual report and accounts are an essential part of demonstrating SPPA, NHSPSS and STPS' stewardship of resources and performance in the use of those resources.

12. We focus our work on the areas of highest risk. As part of our planning process, we assess any audit risks in the main financial systems relevant to the production of the financial statements.

Materiality

13. 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. We are required to plan our audit to obtain reasonable assurance that 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 2022/23 audit

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

Exhibit 1

2022/23 Materiality levels for SPPA

Materiality	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 and the nature of SPPA's operations. For the year ended 31 March 2023 we have set our materiality at 2 per cent of gross expenditure based on the audited financial statements for 2021/22.	£0.44 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 60 per cent of planning materiality.	£0.26 million

Materiality	Amount
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£25,000

2022/23 Materiality levels for NHSPSS and STPS

Materiality	NHSPSS Amount	STPS 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 and the nature of NHSPSS's and STPS's operations.</p> <p>For the year ended 31 March 2023 we have set our materiality at 2 per cent of benefits payable based on the audited financial statements for 2021/22.</p>	£31.8 million	£23.6 million
<p>Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 60 per cent of planning materiality.</p>	£19.1 million	£14.2 million
<p>Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.</p>	£250,000	£250,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

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

16. 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 progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

17. 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 nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2022/23 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	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 International Standard on Auditing (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. • 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 period. • Evaluate significant transactions outside the normal course of business. • Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • 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	Sources of assurance	Planned audit response
<p>2. Estimation in the valuation of land and buildings</p> <p>SPPA held land and buildings with a NBV of £4.8 million as at 31 March 2022.</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>Changes in assumptions can result in material changes to valuations.</p> <p>(SPPA only)</p>	<p>SPPA has commissioned the Valuation Office Agency to undertake a physical valuation of the property. This will inform the 2022-23 accounts and be the basis of desk-top valuations in future years, consistent with our valuation policy.</p>	<ul style="list-style-type: none"> • Focused testing of accounting accruals and prepayments. • Review the information provided from 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 external valuer. • Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred. • Critically assess management's approach to ensuring that assets not subject to external valuation are not materially misstated. • Review the appropriateness of the reconciliation between the financial ledger and the fixed asset register.
<p>3. Information supporting scheme valuations</p> <p>Decisions taken by SPPA for the schemes are reliant on the work of the Government Actuary Department (GAD). The actuarial valuation methodology relies on significant judgements and assumptions in relation to financial, mortality and demographic factors.</p> <p>There is a risk that the actuarial information for valuing the schemes is affected by incomplete or inaccurate information, or the</p>	<p>SPPA will seek to rely upon the assumptions and methodology agreed with GAD.</p> <p>The above informed by:</p> <p>HM Treasury PES papers; engagement with pay policy and workforce teams for NHS and Teachers earnings growth data; Assessment of relevant demographic tables and availability of scheme specific demographic data.</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 determine whether reliance can be taken in relation to GAD's internal processes. • Review reports to GAD supporting valuation data. • Commission review of GAD by independent expert.

Significant risk of material misstatement	Sources of assurance	Planned audit response
use of unreasonable judgements and assumptions. (NHSPSS and STPS only)		

Source: Audit Scotland

18. As set out in International Standard on Auditing (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.

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

20. 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 the schemes. The high volume of transactions means that the likelihood of fraud resulting in a material misstatement to the financial statements is low.

21. 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 relating to revenue recognition.

22. 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 over 80 per cent of SPPA's 2021/22 operating costs.

23. 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.

24. We have not therefore included specific work in our audit plan for these areas over and above our standard audit procedures.

Other areas of audit focus

25. As part of our assessment of audit risks, we have identified one other area, for SPPA only, where we consider there is also a risk of material misstatement to the financial statements that requires specific audit focus:

- Police Service of Scotland and Scottish Fire and Rescue Service year end balances: SPPA has material year-end receivables and payables balances relating to the payment of pensions on behalf of Police Service

of Scotland and Scottish Fire and Rescue Service. The accuracy of these balances depends on SPPA's calculations, which use data provided by the Scottish Police Authority and Scottish Fire and Rescue Service.

26. Based on our assessment of the likelihood and magnitude of the risk, we do not consider this to be a significant risk. We will keep this area under review as our audit progresses.

27. We have not identified any other areas of audit focus for NHSPSS or STPS.

Wider Scope and Best Value

Introduction

28. The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit and requires auditors to consider the adequacy of the arrangements in place. In its role as scheme manager for NHSPSS and STPS we have assessed that SPPA's responsibilities cover wider scope areas for all three bodies.

Wider scope audit focus

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, the wider scope audit work will cover:

- **Financial management** – concerned with financial capacity, sound budgetary processes and the operation of the control environment. We will consider the arrangements in place at SPPA to secure sound financial management including the strength of the financial management culture, accountability and the arrangements to prevent and detect fraud, error and other irregularities.
- **Financial sustainability** – as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. 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 conclude on the arrangements in place at SPPA to deliver the vision, strategy and priorities. We also consider the effectiveness of the governance arrangements to support delivery on areas such as the pension platform programme (PPP) and the remedy programme.
- **Use of resources to improve outcomes** – we will consider how SPPA demonstrates economy, efficiency and effectiveness through the use of financial and other resources.
- **Climate Change** - tackling climate change is one of the greatest global challenges and the Scottish Parliament has set a legally binding target of becoming net zero by 2045. We will gather information on SPPA's arrangements for responding to climate change including the development of strategies and the monitoring and reporting of progress against targets for reducing emissions.

- **Cyber Security** - There continues to be a significant risk of cyber-attacks to public bodies and a number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation. In 2022/23, we will consider SPPA's arrangements for managing and mitigating cyber security risks.

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 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 management reports will be issued to the relevant officers to confirm factual accuracy.

33. We provide independent auditor's reports 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 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 audits of SPPA, NHSPSS and STPS.

34. Under the Public Finance and Accountability (Scotland) Act 2000 there is a requirement for the resource account of the Scottish Government to be presented to Parliament within nine months of the financial year-end, i.e. 31 December. Management are required to submit the SPPA audited financial statements by 31 August to meet the consolidation timetable.

35. [Exhibit 3](#) outlines the target dates for our audit outputs and we aim to issue the independent auditor's reports by 31 August 2023 for SPPA and 31 October 2023 for NHSPSS and STPS. The achievement of this is dependent on successful delivery of the timetable set out in [Exhibit 4](#).

Exhibit 3

2022/23 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	28 April 2023	27 June 2023
Independent Auditor's Report (SPPA)	By 30 September 2023*	26 September 2023
Independent Auditor's Report (NHSPSS and STPS)	By 31 October 2023*	By 31 October 2023
Annual Audit Report	By 31 October 2023*	By 31 October 2023

Source: Audit Scotland

* These dates represent when the independent auditor's report will be signed, and the final annual audit report issued. We will provide copies to those charged with governance in advance of the relevant committee to enable them to be considered.



Timetable

36. 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](#).



37. The Covid-19 pandemic has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. We are identifying ways to work more efficiently to expedite the 2022/23 audits whilst at the same time maintaining high standards of quality.

38. We intend to take a hybrid approach to the 2022/23 audit with a blend of onsite and remote working. 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 2023
Latest date for final clearance meeting with the Director of Finance, Procurement and Risk	24 August 2023
Agreement of audited and unsigned annual report and accounts	19 September 2023
Issue of significant findings, letter of representation and proposed independent auditor's report to those charged with governance	19 September 2023
Consideration of audited annual report and accounts of SPPA and audit reporting by those charged with governance	26 September 2023
Independent auditor's report signed	By 30 September 2023
Latest date for signing SG Consolidation return	30 September 2023

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	4 August 2023
Latest date for final clearance meeting with the Director of Finance, Procurement and Risk	21 September 2023
Agreement of audited and unsigned annual report and accounts	By 24 October 2023
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 24 October 2023
Consideration of audited annual report and accounts of NHSPSS and STPS and audit reporting by those charged with governance	By 31 October 2023
Signed Independent Auditor's Report	By 31 October 2023

Source: Audit Scotland

Audit fee

39. In determining the audit fees we have taken account of the risk exposure of SPPA, NHSPSS and STPS and the planned management assurances in place. The proposed audit fees for the 2022/23 audits are:

- SPPA: £26,980 (2021/22: £26,880)
- NHSPSS: £70,340 (2021/22: £70,090)
- STPS: £66,870 (2021/22: £66,630)

40. In setting the fee for 2022/23 we have assumed that SPPA, NHSPSS and STPS have effective governance arrangements and will prepare comprehensive and accurate accounts for audit 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

41. It is the responsibility of SPPA, NHSPSS and STPS to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

42. 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. We will, however, review all internal audit reports and assess the impact of the findings on our wider scope audit responsibilities.

Independence and objectivity

43. Auditors appointed by the Auditor General for Scotland or Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors.

44. Audit Scotland has robust arrangements in place to ensure compliance with these standards 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.

45. The appointed auditor for SPPA, NHSPSS and STPS is Carole Grant, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of SPPA, NHSPSS and STPS.

Audit Quality

46. Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value and can support public bodies to achieve their objectives.

47. Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC (UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits.

48. ISQC(UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality Management (ISQM (UK) 1) applicable from 15 December 2022 and (ISQM(UK) 2) effective for the 2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.

49. Audit Scotland is committed to delivering high quality audits. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the [Code of Audit Practice](#) (and supplementary guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

50. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the appointed auditor.

Appendix 1. Your audit team

51. The audit team involved in the audit of SPPA, NHSPSS and STPS have significant experience in public sector audit.

Carole Grant
Audit Director

cgrant@audit-scotland.gov.uk

Carole has over 20 years of public sector auditing experience across the breadth of the public sector on both financial and performance audits.

Stuart Nugent
Senior Audit Manager

snugent@audit.scotland.gov.uk

Stuart has over 20 years of public sector audit experience and has delivered external audit services to a range of bodies including local authorities, health boards and central government bodies.

Alison Turner
Senior Audit Manager

alturner@audit.scotland.gov.uk

Alison has considerable experience in planning and delivering audits. Alison will provide further management support to Stuart and Carole to deliver the audit.

Mick Duff
Senior Auditor

mduff@audit-scotland.gov.uk

Mick has considerable experience in planning and delivering audits. Mick will manage the team and work alongside Stuart and Carole to deliver the audit.

Ross Hubert
Senior Auditor

rhubert@audit-scotland.gov.uk

Ross has considerable experience in planning and delivering audits. Ross will assist Mick to deliver the audit.

Grace Symes
Auditor

gsymes@audit-scotland.gov.uk

Grace has worked on a range of audits covering health and local government.

Calum Finlayson-Crawshaw
Trainee Auditor
CFinlayson-Crawshaw@audit-scotland.gov.uk

Calum is a professional trainee and is currently studying for his ICAS qualification. Calum has worked on health and central government audits.

Kirsty McCartney
Trainee Auditor
kmccartney@audit-scotland.gov.uk

Kirsty is a professional trainee and is currently studying for her ICAS qualification. Kirsty has worked on health and central government audits.

Philip Keane
Trainee Auditor
pkeane@audit-scotland.gov.uk

Philip is a professional trainee and is currently studying for his ICAS qualification.

The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

Where possible and appropriate, we use our data analytics team to enable us to capture whole populations of your financial data. This analysis allows us to identify specific exceptions and anomalies within populations to enhance the focus of audit testing and support efficiency.

Scottish Public Pensions Agency

NHS Pension Scheme (Scotland)

Scottish Teachers Pension Scheme

Annual Audit Plan 2022/23

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.](#)



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