

Social Security Scotland

2018/19 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Social Security Scotland and the Auditor General for Scotland

26 September 2019

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

2018/19 annual report and accounts

- 1** The financial statements of Social Security Scotland give a true and fair view of the state of the affairs of the agency as at 31 March 2019 and of the net expenditure for the year then ended; and have been properly prepared in accordance with the financial reporting framework.
- 2** We qualified our opinion on the regularity of Carer's Allowance expenditure of £151.7 million due to a limitation on the scope of our audit. This means that we are unable to determine whether this expenditure was incurred in accordance with the relevant legislation. This is because there is not enough evidence of the extent of error and fraud in this spending.
- 3** All other expenditure and income was regular and in accordance with relevant legislation and guidance. All spending was in line with the Budget Act, was related to devolved matters and was appropriately met from the Scottish Consolidated Fund.
- 4** The audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

Financial management

- 5** Social Security Scotland managed its operating budget effectively in year. It spent £12.8 million in 2018/19 on running the agency, this is £3.2 million under the budget of £16 million. Careful budgeting will be required as the agency's activities grow significantly in the years ahead.
- 6** Internal controls over the main financial systems operated effectively during 2018/19. For benefit expenditure the agency identified some operational weaknesses in the core case management system and mitigating manual controls were put in place. This should be addressed as part of the wider ongoing development of digital systems.
- 7** The agency is in the early stages of developing its approaches and processes for managing error and fraud. It has established core processes and policies but there is much more to be done, including the introduction of effective investigation, reporting and monitoring arrangements. This will become increasingly important as the scale and complexity of benefits the agency is responsible for grows.

Financial sustainability

- 8** We have no significant concerns about the overall financial position of Social Security Scotland. The agency is responsible for managing its operational expenditure within budget. Benefit expenditure is demand led, and needs to be managed by the agency and the Scottish Government as part of its overall budget management.
- 9** The agency has taken initial steps towards bringing together financial and workforce planning. It needs to further develop this and establish a long-term financial plan to help it manage the financial consequences of the growth in the agency. This should be developed alongside clearer workforce planning.

Governance and transparency

- 10** Social Security Scotland has established appropriate governance arrangements. The agency will need to keep these under review as it expands and takes on delivery of more benefits. It will also need to keep under review its role and representation within the social security programme's governance arrangements.

Value for money

- 11** Social Security Scotland has an interim corporate plan in place which sets out its strategic objectives and clearly reflects the principles set out in the Social Security (Scotland) Act 2018 and the Social Security Charter.
- 12** The agency is at an early stage in developing its performance management arrangements. It needs to develop arrangements to manage its own organisational performance, and to support the delivery of wider statutory performance management requirements set out in the Act and Charter.
- 13** The agency demonstrates a clear awareness of performance requirements. It will need to work closely with the Scottish Government to ensure that cohesive arrangements are established to gather, monitor and report on a broad package of relevant performance and outcome measures.

Introduction

1. This report summarises the findings from our 2018/19 audit of Social Security Scotland (the agency).
2. The scope of our audit was set out in our Annual Audit Plan presented to the 19 February 2019 meeting of the Audit and Assurance Committee (AAC). This report sets out the findings from:
 - an audit of the Social Security Scotland'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 2018/19 have been:
 - review of Social Security Scotland 's main financial systems
 - an audit of Social Security Scotland 's 2018/19 annual report and accounts including the issue of an independent auditor's report
 - consideration of the four audit dimensions of public audit
 - a national performance report in relation to Social Security: Implementing the devolved powers.

Adding value through the audit

4. We add value to Social Security Scotland through the audit by:
 - identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements that have been accepted by management
 - reporting our findings and conclusions in public
 - sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides
 - providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.
5. In so doing, we aim to help the agency promote improved standards of governance, better management and decision making and more effective use of resources.

Responsibilities and reporting

6. Social Security Scotland was established on 1 September 2018. It has primary responsibility for ensuring the proper financial stewardship of public funds available to it. This includes preparing annual report and accounts that are in accordance with the accounts direction from the Scottish Ministers. Social Security Scotland annual report and accounts includes the following:
 - Performance Report
 - Accountability Report (which includes the Governance Statement, Staff and Remuneration Report and Parliamentary Accountability Report)
 - Financial statements and supporting notes.
7. The agency is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity that enable it to successfully deliver its objectives.
8. 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.
9. 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
 - suitability and effectiveness of corporate governance arrangements
 - financial position and arrangements for securing financial sustainability.
10. In doing this we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.
11. This report raises matters from the audit of the annual report and accounts and consideration of the audit dimensions. 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

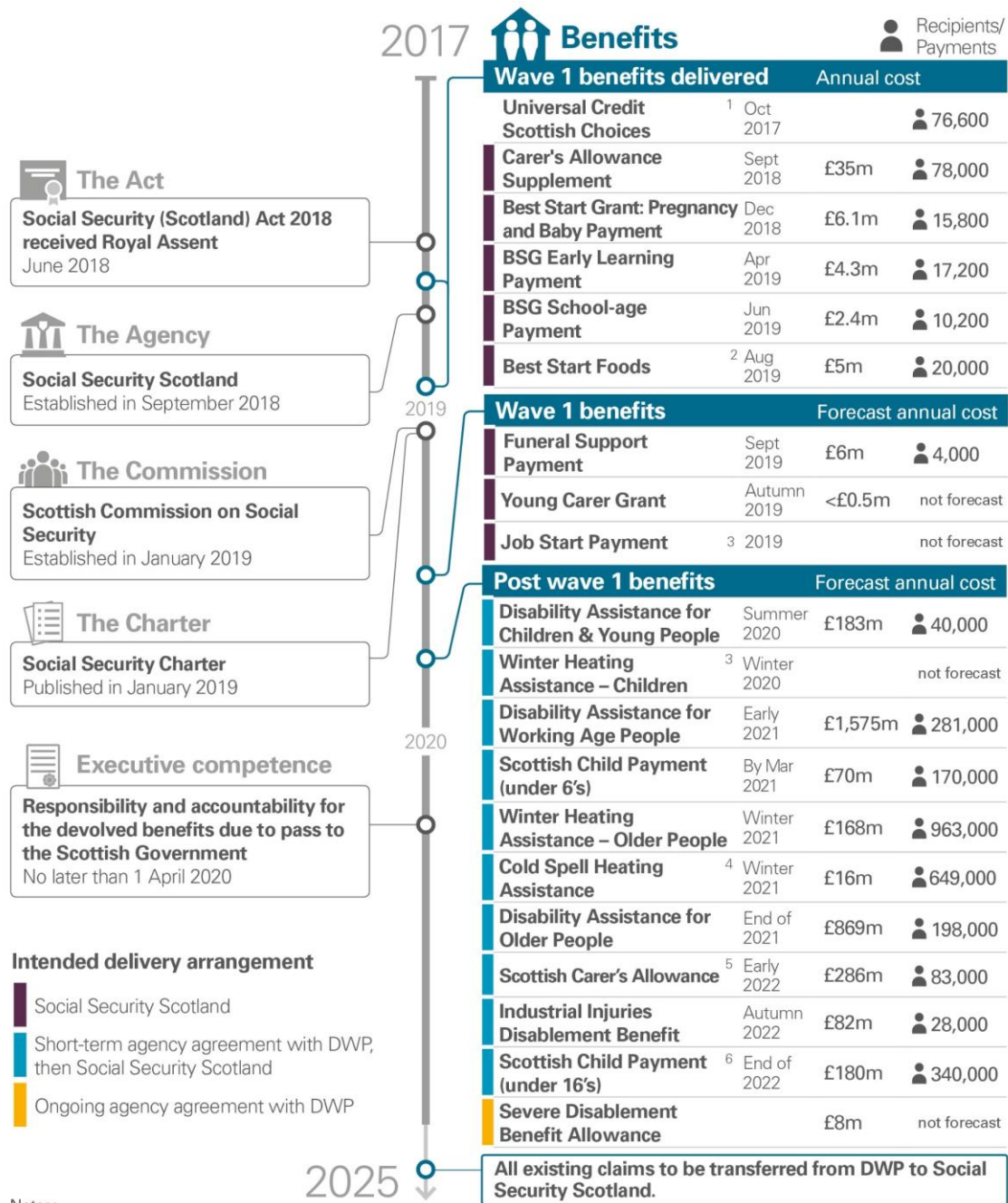
its responsibility to address the issues we raise and to maintain adequate systems of control.

12. This annual audit report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, responsible officers and dates for implementation.
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 the 2018/19 audit fee of £111,050 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 Social Security Scotland 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.

Arrangements for delivering devolved benefits

16. Social Security Scotland is an executive agency of the Scottish Government. The Scottish Government set up a social security programme (the programme), within its social security directorate, to manage the implementation of the devolved benefits.
17. The programme is responsible for designing and implementing the benefits and the supporting systems and processes needed to allow them to be administered. The agency is dependent on the programme for the processes and digital systems it needs to deliver the Scottish social security system in the way intended by the Scottish Government.
18. Devolved benefits are being delivered on a phased basis, split over two delivery 'waves'. Wave one includes less complex, one-off payments including the Carer's Allowance Supplement (CAS), Best Start Grant (BSG), Funeral Support Payment, and the Young Carers Grant. This wave started on commencement of the agency in September 2018. Wave two includes the more complex benefits where eligibility may change over time, with a high volume of regular payments, this includes disability benefits. [Exhibit 2](#) sets out the devolved benefits and arrangements the Scottish Government has delivered so far and its commitments for delivery of the remaining benefits.
19. The agency is represented fully within the programme's governance structure and agency staff are embedded within the programme's multidisciplinary teams. The agency's Chief Executive has a joint sign-off with the Programme Director to authorise the go-live of new benefits.
20. The Scottish and UK government agreed a phased approach to the devolution of the social security powers to support a safe and secure transition. Legislative competency for the powers was devolved through the Scotland Act 2016, allowing the Scottish Government to develop the necessary legislation for the devolved powers. Administrative responsibility and accountability for the benefits - executive competence - is being devolved incrementally. By 31 March 2019 the Scottish Government had taken on executive competence for Carer's Allowance (CA) and had started delivering the BSG Payment, which replaced the Sure Start Maternity Grant. Executive competence for most of the remaining devolved benefits is to be transferred by 1 April 2020. The agency becomes accountable for all expenditure on the devolved benefits at the point of executive competence transfers.

Timeline of social security powers being devolved through the Scotland Act 2016



Notes:

1. Universal Credit Scottish Choices offers Scottish recipients choices about how Universal Credit is paid to them. The benefit itself remains reserved to the UK Government.
2. Scottish Fiscal Commission forecast used. No official statistics currently available.
3. New benefit being introduced by the Scottish Government. No forecast figures currently available.
4. Cold Spell Heating Assistance, the intended replacement for Cold Weather Payments, can vary significantly year-on-year depending on the severity of winter weather.
5. Scottish Carer's Allowance will subsume the Carer's Allowance Supplement and associated expenditure.
6. The Scottish Child Payment for Children under 16 will subsume the Scottish Child Payment for children under 6 and associated expenditure.

Source: Audit Scotland using data from the Scottish Government and the Scottish Fiscal Commission. Current as at September 2019.

21. Three benefits were paid out during 2018/19: Carer's Allowance (CA), Carer's Allowance Supplement (CAS) and Best Start Grant (BSG) pregnancy and baby. The Department for Work and Pensions (DWP) has continued to administer Carer's Allowance under an agency agreement, whereas CAS and BSG were administered directly by Social Security Scotland with some aspects of support being received from DWP. [Exhibit 3](#) sets out the current delivery arrangements for these benefits.

Exhibit 3

Current delivery arrangements for Carer's Allowance, CAS and BSG

Benefit (2018/19 value in £)	Delivery arrangement	Data requirements	Applications process
Carer's Allowance £151.7 million	DWP delivering on Scottish Government's behalf under agency agreement	No change to previous delivery by DWP	Applications made to DWP with no change to previous processes
Carer's Allowance Supplement £34.9 million	Social Security Scotland	The agency receives a data scan from DWP which identifies Scottish Carer's Allowance recipients, based on postcode. DWP data scan also provides payment (e.g. bank account) details.	No application process. The agency uses data from DWP to identify those eligible and to make payments.
Best Start Grant £4.3 million	Social Security Scotland	The agency requires data from DWP to check applicants' receipt of a qualifying benefit. The agency can also access DWP data to verify an applicant's identity.	Application made to the agency (online, telephone or paper)

Part 1

Audit of 2018/19 annual report and accounts



Main judgements

The financial statements give a true and fair view of the state of the affairs of the agency as at 31 March 2019 and of the net expenditure for the year then ended; and have been properly prepared in accordance with the financial reporting framework.

We qualified our opinion on the regularity of Carer's Allowance expenditure of £151.7 million due to a limitation on the scope of our audit. We are unable to determine whether this expenditure was incurred in accordance with the relevant legislation. This is because there is not enough evidence of the extent of error and fraud in this spending.

All other expenditure and income was regular and in accordance with relevant legislation and guidance. All spending was in line with the Budget Act, related to devolved matters and was appropriately met from the Scottish Consolidated Fund.

The audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

Audit opinions on the annual report and accounts

22. The first financial statements for Social Security Scotland have been prepared for the seven months ended 31 March 2019. These include expenditure and balances relating to social security assistance provided to Scottish residents in relation to Carer's Allowance, Carer's Allowance Supplement and Best Start Grant pregnancy and baby, and the operating activities of the agency.
23. The annual report and accounts for the seven months ended 31 March 2019 were approved for issue by the Accountable Officer on 17 September 2019.
24. We reported within the independent auditor's report that:
- the financial statements give a true and fair view and were properly prepared.
 - we qualified our opinion on the regularity of Carer's Allowance expenditure of £151.7 million due to a limitation on the scope of our audit. This means that we are unable to determine whether this expenditure was incurred in accordance with the relevant legislation. This is because there is no reliable measurement of the extent of error and fraud in this spending. As a result, we also reported that we were unable to obtain sufficient appropriate evidence about error and fraud levels we required for our audit (see paragraphs 26 to 30).
 - all other expenditure and income were regular and in accordance with applicable enactments and guidance issued by Scottish Ministers. All spending was in line with the Budget Act, related to devolved matters and was appropriately met from the Scottish Consolidated Fund.

Social Security Scotland's annual accounts are the principal means by which it accounts for the stewardship of resources and its performance in the use of those resources.

- the audited part of the staff and remuneration report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

25. Otherwise, we had nothing to report in respect of misstatements in information other than the financial statements, the adequacy of accounting records and the information and explanations we received.

Regularity qualification – Carer’s Allowance

26. The 2018/19 accounts include Carer's Allowance expenditure of £151.7 million. We have qualified our regularity opinion in relation to this because there is not enough evidence to determine whether this spending was in line with the relevant legislation.

27. There is an inherent risk of error and fraud in a social security system that is driven by individuals' entitlement to benefits. The system is complex and can be difficult to navigate as each benefit has its own individual regulations and assessment criteria. Error and fraud can result in both overpayments and underpayments. Mistakes can be made by the Department for Work and Pensions (DWP) working on the agency's behalf and individual claimants. Carer's Allowance payments made as a result of error and fraud will not meet the eligibility criteria set out in the legislation and related regulations.

28. As set out in [Exhibit 3](#) Carer's Allowance is currently delivered by DWP through an agency agreement. Due to the delivery arrangement being used, Social Security Scotland cannot directly assess the levels of error and fraud in Carer's Allowance and is instead reliant on the DWP's published estimates.

29. The DWP measures the level of error and fraud in the benefits it pays out. It last measured the error and fraud levels for Carer's Allowance in 1996/97, at which point the overpayment rate was found to be 5.5 per cent of total Carer's Allowance expenditure. This figure was based on confirmation of the circumstances of a statistical sample of individuals in receipt of the benefit at that time and is still used in DWP estimates. The caseload and expenditure on Carer's Allowance has increased significantly since this last measurement was taken. The estimate is calculated at UK level and therefore does not reflect any Scottish specific influences, such as demographics or behaviours.

30. Due to these factors the agency does not have a reliable measurement of the current levels of error and fraud within Carer's Allowance in Scotland. We are unable to conduct audit procedures to independently assess the extent of irregularity in this expenditure. Given the underlying risk of error and fraud, the possible impact of this in the related Scottish expenditure is significant enough to require us to qualify our opinion.

Submission of annual report and accounts for audit

31. We received the unaudited annual report and accounts on 3 June 2019 in line with our agreed audit timetable.

32. The working papers provided with the unaudited financial statements were generally of a good standard, but information about how Carer's Allowance transactions and balances had been incorporated was poor (see [Exhibit 5](#) points 5 to 7). Finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

Risk of material misstatement

33. [Appendix 2](#) provides a description of those assessed risks of material misstatement in the annual report and accounts and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks.

34. We have reported a number of issues from our work on the risks of material misstatements highlighted in our 2018/19 Annual Audit Plan. These are included in the action plan at [Appendix 1](#).

Materiality

35. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement and involves considering both the amount and nature of the misstatement.

36. Our initial assessment of materiality for the annual report and accounts was carried out during the planning phase of the audit and this was reviewed on receipt of the unaudited annual report and accounts. The revised materiality levels are summarised in [Exhibit 4](#). With regards to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively.

Exhibit 4 Materiality values

Materiality level	Amount
Overall materiality	£1.506 million
Performance materiality	£0.903 million
Reporting threshold	£15,000

Source: Audit Scotland


Significant findings from the audit in accordance with ISA 260



37. 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 covering accounting policies, accounting estimates and financial statements disclosures.



38. The significant findings are summarised in [Exhibit 5](#). Where a finding has resulted in a recommendation to management, a cross reference to the action plan in [Appendix 1](#) has been included.


Exhibit 5

Significant findings from the audit of financial statements

Issue	Resolution
<p>1. Underlying error and fraud – Carer's Allowance</p> <p>The 2018/19 accounts include Carer's Allowance expenditure of £151.7 million. A person is entitled to Carer's Allowance if they meet the eligibility criteria set out in section 70 of the Social Security Contributions and Benefits Act 1992 and related regulations. Any payment made to a person who is not entitled to it, whether through error or fraud, does not comply with the legislation and is therefore irregular.</p> <p>We are unable to determine whether this expenditure was incurred in accordance with the 1992 Act. This is because the agency does not have a reliable measurement of the extent of error and fraud and we are not empowered to undertake our own examination of individual's circumstances. Paragraphs 26 to 29 set out further detail.</p>	<p>We have qualified our regularity opinion in relation to the possible effects of this on the extent to which Carer's Allowance expenditure is in accordance with the 1992 Act.</p>
<p>2. Underlying error and fraud – Best Start Grant (BSG) and Carer's Allowance Supplement (CAS)</p> <p>Entitlement to BSG includes the person being in receipt of a DWP administered benefit, often referred to as a qualifying benefit. CAS is payable to those in receipt of Carer's Allowance. The levels of error and fraud in these qualifying benefits may mean that some individuals have received BSG or CAS despite not being entitled to the qualifying benefit. Others may have not received BSG or CAS because their entitlement to the underlying benefit had not been identified due to error.</p> <p>BSG is administered under new Scottish regulations which set out that entitlement to all forms of assistance covered by the act will be based upon a determination of entitlement being made by the Scottish Ministers. This means that any payment made as a result of a determination of eligibility by the agency complies with the legislation and is therefore regular. Similarly, under the legislation CAS payments require to be made to anyone in receipt of Carer's Allowance. This is irrespective of whether the determination or payment has been based on incorrect or fraudulent information.</p>	<p>We have concluded that BSG and CAS expenditure is in accordance with the relevant legislation.</p> <p>There are significant levels of error and fraud in the qualifying benefits administered by DWP (ranging from 3.9% to 8.6% in the most recently published data).</p> <p>It is important for the agency to understand the underlying levels of error and fraud in any qualifying benefits and what this means for how it designs and delivers the Scottish social security system, as more benefits are devolved and implemented.</p> <p> Recommendation 6 (refer Appendix 1, action plan)</p>
<p>3. Control weaknesses in the Social Programme Management (SPM) system</p> <p>SPM is the system used to make BSG pregnancy and baby payments and will be used to process other benefits directly administered by the agency. A number of control weaknesses within specific aspects of the SPM system were identified by management (see paragraphs 48 to 51). Management introduced further checks on all claims to ensure that claims were processed</p>	<p>We undertook testing of a sample of BSG payments and looked at the mitigating controls. From this work we are content that the identified weaknesses did not result in errors.</p> <p>Management should introduce procedures to document the audit trail of the mitigating controls.</p> <p>The SPM system is being developed incrementally, with improvements and additional functionality being added over time. The agency will need to work with the Scottish Government's social security programme to ensure any changes needed to</p>

Issue	Resolution
<p>accurately. However, these checks are not documented.</p>	<p>address the identified control weaknesses are appropriately factored into the SPM development plans.</p> <p> Recommendation 1 (refer Appendix 1, action plan)</p>
<p>4. Carer's Allowance - Residency</p> <p>In recording Scottish Carer's Allowance benefit expenditure, management has assumed that postcode information held by the DWP is a fair representation of residency and applied this assumption to data from DWP systems about postcodes.</p> <p>The agency agreement and underlying processes agreed between the agency and DWP means that the same approach is adopted in assessing the recharge of expenditure (and associated accruals).</p> <p>While there are a range of ongoing controls operated in relation to the recording of the status and circumstances of individuals recorded by DWP, there has been no specific review of information held about the residency of Scottish claimants to confirm its accuracy.</p> <p>We have considered the verification of individual address details for new claims or changes in circumstances undertaken by DWP. We reviewed the reasonableness of the residency assumption made by management, the extent of estimation uncertainty and whether there are any indicators of possible management bias. We also sought and obtained specific confirmation from the Accountable Officer that this expenditure has been recognised on the basis of the best available information.</p>	<p>Scottish Carer's Allowance expenditure included in the accounts is based on available address data.</p> <p>We are content that the approach adopted is reasonable.</p>
<p>5. Carer's Allowance debt and provisions</p> <p>The agency relies on DWP information for a number of material balances within the accounts, including debt and provisions. A total of £12.996 million of debt as at 1 September 2018 was transferred from DWP to the agency. The agency did not provide sufficient supporting documentation to support the opening figures from DWP and there was limited consideration of the nature and calculation of these balances by the agency prior to them being incorporated into the accounts.</p> <p>Throughout the year the agency was notified of additional cases of debt that were identified as relating to Scottish residents and this has been added to the opening balance. An impairment on the debt balances has been calculated to ensure that the debt balance is appropriately stated.</p> <p>There were a number of late amendments to the accounts relating to Carer's Allowance balances. This includes the issues outlined at 6 and 7 below.</p>	<p>We are content that Carer's Allowance balances have been appropriately reflected in the agency's accounts.</p> <p>Management have agreed to improve communication with DWP in relation to amounts that will be included within the agency's accounts.</p> <p>Management have agreed to explore how they can improve the assurance over the judgements and calculation of balances provided by DWP.</p> <p> Recommendation 2 (refer Appendix 1, action plan)</p>
<p>6. Misclassification of impairment</p>	<p>Management adjusted the accounts to move the £2.010 million from provisions to an impairment of</p>

Issue	Resolution
<p>The agency had initially misunderstood information provided by DWP relating to Carer's Allowance and included an amount as a provision for liabilities in the draft accounts. Following further investigation, we identified that the balance related to the impairment of the benefits receivables figure (also see item 7 below). An adjustment therefore required to be made to the accounts, to ensure that balances were shown correctly.</p>	<p>benefit receivables. We are content this was an appropriate adjustment.</p> <p>Management should obtain a better understanding of DWP processes for impairment of benefits receivables and the impact on accounting treatment in the agency accounts.</p> <p> Recommendation 2 (refer Appendix 1, action plan)</p>
<p>7. Impairment of Carer's Allowance debt</p> <p>The accounts include £14.8 million of receivables in relation to Carer's Allowance debts arising from overpayments of benefit to Scottish residents, including amounts that arose prior to the transfer of executive competency. The amount receivable has been impaired to recognise that not all of these debts are likely to be collectable.</p> <p>There was no clear understanding between the agency and DWP about who would calculate the impairment of Scottish Carer's Allowance debt. As a result, the agency did not have specific information on impairment rates on Scottish debt stock on which to base its calculation. The agency has applied DWP rates in its judgement about the extent of impairment for the following reasons:</p> <ul style="list-style-type: none"> • the level of CA debt each month for DWP and the agency shows the movement from month to month is similar • debt is managed under the same processes. <p>Recent discussions with DWP uncovered a discrepancy in the DWP impairment model calculations which resulted in a £1.865 million adjustment which increases the total impairment balance to £5.122 million.</p> <p>We are content that the approach adopted to impair Scottish Carer's Allowance debt is reasonable.</p>	<p>Scottish Carer's Allowance debt has been impaired on the same basis as that relating to the rest of Great Britain. The accounts have been adjusted to correct for errors in the calculation of the impairment. We also sought and obtained specific confirmation from the Accountable Officer that the impairment reflected the best available information.</p> <p>Management are responsible for this key accounting judgement and need to ensure that they have arrangements in place to get the appropriate information to support future judgements.</p> <p> Recommendation 2 (refer Appendix 1, action plan)</p>
<p>8. Carer's Allowance Supplement scan</p> <p>DWP run a scan which highlights Scottish residents who are in receipt of Carer's Allowance at the eligible date (16 April 2018 and 15 October 2018). This scan is then sent to the agency to allow them to make payments.</p> <p>The most recent scan received from DWP for April 2019 identified some people who were entitled to CAS at both April 2018 and October 2018, but had not received payment at these dates. It is not uncommon for some individuals to be paid after the scan date where they were in receipt of back-dated benefit or their eligibility was under investigation by DWP. An adjustment has been made to the accounts in respect of this and amounts have now been paid.</p>	<p>All individuals who were missed from the scan and entitled to the benefit have been paid. An adjustment was made to the draft accounts in relation to backdated carer's allowance supplement (CAS) payments, increasing expenditure by £0.941 million.</p>

Issue	Resolution
<p>9. Fixed Asset Register</p> <p>During the audit we were unable to confirm the completeness of the fixed asset register as the current format of the register does not break it down to individual asset level. The asset register totals £989,000 and this is made up of assets such as IT equipment (including laptops, scanners and mailroom equipment) and software (including firewalls and licences). This did not affect the amounts reported in the accounts.</p> <p>This will become of greater importance as the agency grows and takes on more assets, particularly in relation to the system that is being developed for the delivery of benefits. It will also be of importance when the agency gets to a point that they will be purchasing buildings as opposed to renting from local authorities.</p>	<p>Management have agreed to review the fixed asset register and consider holding individual asset level information.</p> <p>We worked with the Scottish Government audit team to ensure that assets transferred to the agency agreed to the disclosures within the accounts.</p> <p> Recommendation 3 (refer Appendix 1, action plan)</p>

Source: Audit Scotland

How we evaluate misstatements

39. There were a number of presentational and monetary misstatements identified during the audit by the audit team and by management. We identified one unadjusted misstatement which related to omitted debt. Omitted debt is the recoverable debt DWP has identified but has not referred to the debt management system. If corrected, this would decrease net expenditure by £0.045 million and increase the net assets in the statement of financial position by the same amount. All other misstatements were corrected which totalled £4.816 million. This exceeds the performance materiality level of £0.903 million. We have considered the implications of the adjustments on our audit approach and have concluded that as these are isolated incidents that have been adjusted, no further work is required.

Part 2

Financial management



Main judgements

Social Security Scotland managed its operating budget effectively in year. It spent £12.8 million in 2018/19 on running the agency, this is £3.2 million under the budget of £16 million. Careful budgeting will be required as the agency's activities grow significantly in the years ahead.

Internal controls over the main financial systems operated effectively during 2018/19. The agency identified some operational weaknesses in the core case management system and mitigating manual controls were put in place. This should be addressed as part of the wider ongoing development of digital systems.

The agency is in the early stages of developing its approaches and processes for managing error and fraud. It has established core processes and policies but further development is required, including the introduction of effective investigation, reporting and monitoring arrangements. This will become increasingly important as the scale and complexity of benefits the agency is responsible for grows.

Financial performance in 2018/19

- 40.** As an executive agency Social Security Scotland receives all of its funding directly from the Scottish Government. The agency has two types of expenditure; operational expenditure on the running of the agency, and benefits expenditure. Social Security Scotland is responsible for managing its operational expenditure within budget. This operational budget is assigned by the Scottish Government based on an assessment of the requirements of the agency. Benefit expenditure is demand led, and needs to be managed by the agency and the Scottish Government as part of its overall budget management. Budgets for benefits expenditure are informed by forecasts published by the Scottish Fiscal Commission (SFC). The financial performance against budget is set out in [Exhibit 6](#).
- 41.** The initial budget of £16.6 million for operating expenditure from the social security directorate budget was set out in the Scottish Government's Draft Budget 2018/19 published in December 2017. As part of the Spring Budget Revision published in February 2019 the final budget was £16 million for operating expenditure. The agency underspent by £3.2 million against the budget, the main reasons for this were:
- staff costs were lower than anticipated for the year
 - office costs were lower than expected in relation to document management and telecom costs.
- 42.** In May 2019 the Auditor General for Scotland reported on the Scottish Government's implementation of the devolved social security benefits, assessing its programme planning. The report highlighted that the programme has started planning for wave two but as yet, the plans do not set out a clear picture of when key decisions will be made. Uncertainty over future plans

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

makes it challenging for the agency to identify its budget needs, and careful budgeting will be required as the agency's activities grow in the years ahead.

43. The final budget for benefit expenditure in 2018/19 was £192.9 million, and actual spending was £2.0 million less than budget. Expenditure on Best Start Grant (BSG) pregnancy and baby was £2.8 million higher than forecast, while Carer's Allowance expenditure was £5.6 million less than forecast. The main reasons for these variances was set out by the SFC in its forecast evaluation report in September 2019.

Exhibit 6 Performance against budget in 2018/19

Performance	Initial budget £m	Final budget £m	Outturn £m	Over (under) spend £m
Operating Expenditure	16.6	16	12.8	(3.2)
Benefits Expenditure				
<i>Carer's Allowance Supplement</i>	<i>35</i>	<i>34.1</i>	<i>34.9</i>	<i>0.8</i>
<i>Best Start Grant</i>	<i>1.5</i>	<i>1.5</i>	<i>4.3</i>	<i>2.8</i>
<i>Carer's Allowance</i>	<i>157.3</i>	<i>157.3</i>	<i>151.7</i>	<i>(5.6)</i>
Total Benefits Expenditure	194.8	192.9	190.9	(2.0)
Total Budget	210.4	208.9	203.7	(5.2)

Source: Social Security audited Annual Report and Accounts 2018/19

2018/19 financial position

44. The Statement of Financial Position summarises what is owned and owed by Social Security Scotland. This shows taxpayers' equity – an accounting measurement of the amount invested that has continuing public benefit. It shows how much of this has arisen from the application of revenues and that which has resulted through changes over time in the value of physical assets.
45. The financial statements show that the agency has net liabilities of £14.7 million which is as a result of the Scottish Government funding being recorded when the cash is transferred to the agency whereas the agency records expenditure when it is incurred but not necessarily paid. The net liabilities will be funded by the Scottish Government as they fall due.

Systems of internal control

46. 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 the agency has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements. This work was split over two main areas:

- Operational expenditure – for example, payroll, purchasing, journal processes
- Benefit expenditure – focussed on the controls for benefits processed by the agency (BSG pregnancy and baby).

47. Our findings from the review of the main financial systems were included in the management report presented to the Audit and Assurance Committee on 14 May 2019. We concluded that the controls tested were generally operating effectively and made three recommendations for improvement.

Initial system design

48. Management identified some operational weaknesses in specific aspects of the Social Programme Management (SPM) system that is used to administer the BSG pregnancy and baby payments. These included the absence of:

- system alerts for duplicate payments and ability to override processes to verify bank details
- audit trails to record individual users' activity
- segregation of duties being enforced in the system.

49. The agency introduced an additional level of checks for all claims being processed to mitigate against the risks raised by these weaknesses as described in [Exhibit 5](#), item 3. Manual processes are not as robust as system controls as they rely on consistent application by staff and add to staff workloads. Testing carried out as part of the audit process did not identify any concerns with how individual applications had been processed.

50. The case management system is being developed in an incremental way, which means that improvements and changes can be made as it is developed. The social security programme has a process of prioritising the areas for development of the system. Agency staff are involved in this process, through being part of the multi-disciplinary teams responsible for progressing the work and through representation on relevant governance boards. The programme is already working at a high pace and work to improve and adapt current functions of the system will need to be balanced with the work required to develop the system to administer the remaining benefits. The Scottish Government and the agency need to ensure that operational impacts are sufficiently understood when decisions are taken about prioritisation of future development of the case management system.

51. We acknowledge that the system is still under development and that the first version of the system was designed to meet minimum requirements. In our report *Social Security: implementing the devolved powers* we highlighted that one of the lessons learned from the BSG delivery has been the need to look at how requirements are prioritised and to ensure that staff across the programme and agency can participate effectively in the process.

Determining residency

52. Being resident in Scotland is one of the core criteria an individual must satisfy to be eligible for the benefits currently being administered by the agency. The Scottish Government has defined this residency requirement as a person being 'ordinarily resident' in Scotland and this is reflected in the regulations implemented for BSG. It is important that individuals considering making a benefit application and the officials who make determinations are clear how the overall residency requirements are translated into specific decision rules. There is no clear guidance on this currently. This definition is used in other policy areas, such as for higher education course fees and access to NHS treatment, where substantial guidance has been developed to support its use.

53. In practice, the agency uses a person's current postcode as the main determinant of residency. For Carer's Allowance, the DWP identifies Scottish recipients by postcode from a listing provided by the agency. This, in turn also

identifies people who are entitled to CAS. The agency and DWP have carried out work to check addresses within postcodes along the Scottish-English border to ensure these are being accounted for correctly. For BSG applications, the agency uses the DWP's customer information system to help verify the address information submitted.

54. Being able to accurately define and identify people who are entitled to Scottish forms of social security assistance is critical to ensuring that the agency's expenditure is in line with the relevant regulations. This will become more significant as more benefits are devolved, caseloads and expenditure increase, and the Scottish and UK systems continue to diverge. The agency needs to make sure it fully understands any implications and risks for how it is determining residency, and ensures that people are aware of how the rules are being applied.



Recommendation 4

The agency should review operational processes for determining the residency of applicants, and the specific decision rules that it applies. It needs to make sure it fully understands any risks arising from its approach to residency, and ensures that people are aware of how the rules are being applied.

Standards of conduct for prevention and detection of error and fraud

55. Audited bodies are responsible for establishing arrangements for the prevention and detection of error, fraud and irregularities, bribery and corruption and to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place. Due to the nature of the agency and the benefits being paid the management of error and fraud has increased significance.
56. We have reviewed the arrangements in place to maintain standards of conduct including the Staff Handbook 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.
57. There is an inherent risk of error and fraud in a social security system that is driven by individual claims. Social Security Scotland needs to have effective arrangements to prevent, detect and investigate error and fraud. It will also need to have adequate arrangements in place to assess, monitor and report on error and fraud levels in the benefits that it pays out. The agency has developed and published separate individual error and fraud strategies to do this. It published its counter fraud strategy in September 2018 followed by its error control strategy in March 2019.
58. The agency has established a dedicated error and fraud team. The team has a broad remit to prevent error and fraud and is staffed by 17 FTE officers. The agency plans to increase this to 47 FTE by the end of March 2020 and to 190 FTE when fully established, reflecting the increasing scale and complexity of the agency's remit. The team has responsibility for:
 - risk analysis and control
 - external investigations (i.e. benefit fraud)
 - internal investigations and controls
 - adjudications and recovery.

59. To support its work, the agency has several key policies and strategies in place:

- *Counter Fraud Strategy 2018-2022* – which sets out the agency's five key strategy objectives which are to deter, prevent, detect, investigate and enforce against fraudulent activity.
- *Error Control Strategy 2018-2022* – which sets out the agency's approach to minimising error and fraud and meeting its strategic objective to protect its budget.
- *Non-Statutory Code of Practice* – which aims to ensure that the agency meets all legal requirements for an investigation, that investigators follow best practice, and that there are assurances over the training and accountability of staff carrying out investigations, and the processes that they will be required to follow.
- *Annual Fraud Action Plan 2019-2020* – which sets out the key actions for the error and fraud team and its key priorities for 2018/19. Key actions are to put systems in place, to test and refine processes, and to ensure that there are appropriately upskilled people in place in preparation for the introduction of the higher risk, recurring benefits.

Investigations

60. Arrangements are not yet in place to allow the agency to carry out investigation activity in the way in which it intends. The Scottish Government has produced draft regulations and a code of practice on investigations, which have been consulted on. Further work is being carried out on these to address views raised through the consultation process, which relate mainly to the proposed scope of the agency's investigation powers. It is not expected that the regulations and code will be in place, with relevant approval, until the end of 2019. As an interim solution the agency published a non-statutory code of practice on investigations in August 2019, which outlines how it intends to use existing data sharing arrangements to undertake investigatory activity. The agency needs to monitor and manage the risks arising from not being able to perform full investigatory activity.

61. To date the counter-fraud focus has been on prevention activity, including developing staff awareness and knowledge. It has also carried out some early trend analysis on overpayments and preventative action which has led to some systems improvements. There are plans to carry out more substantial case sampling over summer 2019 and to thereafter carry out quarterly analysis to develop more meaningful information of the level of error in the system.

62. The agency has put in place the building blocks needed to deliver an effective counter-fraud and prevention service. This will ensure that the agency can deliver on its key strategic policy objectives set out in the *Counter Fraud Strategy 2018-2022* to deter, prevent, detect, investigate and enforce against fraudulent activity. This will become increasingly important as the scale and complexity of benefits the agency is responsible for grows.

Supporting evidence

63. In developing application processes, the social security programme and agency have tried to balance ease of access for people with the need to have a secure system. To support ease of access the agency has adopted less stringent evidence requirements than required by other organisations, for example to access Housing Benefit from a council. The agency does not require the same type of documentation to be provided to evidence core aspects of applications including a person's identity and residency. It also accepts photocopies of some core documentation in contrast to standards applied by councils, where original copies are required.

64. This approach places a clear focus on making the social security system easy to access and on supporting people to apply for assistance. The agency should

understand and consider any impact of the evidence standards it applies on error and fraud and its ability to manage this.



Recommendation 5

The agency needs to fully understand any risks arising from the evidence standards it applies, and not yet being able to undertake investigation activity in the way it planned. This will become increasingly important as more complex benefits begin to be delivered in future years.

Monitoring error and fraud

65. Monitoring the levels of error and fraud in the benefits system supports decision-making on what actions the agency can take to ensure the appropriate and effective use of the public money it is accountable for. The agency does not yet have an approach to estimating error and fraud across the benefits that it delivers. It is currently using DWP error and fraud estimates as a base to start developing potential ranges of error and fraud across the whole Scottish system.
66. The agency is currently reliant on the estimates produced by the DWP to inform its understanding of error and fraud levels, which raises a number of challenges:
- the DWP last estimated the error and fraud levels for Carer's Allowance in 1996/97. The DWP is working on a new estimate and aims to publish the updated information in May 2020.
 - the lack of a viable error and fraud estimate for Carer's Allowance also affects the agency's ability to estimate error and fraud levels for Carer's Allowance Supplement
 - there are no recent estimates for error and fraud in Sure Start Maternity Grant, the UK benefit which the Scottish Government has replaced with BSG.
67. The DWP data is also only available at UK level. The closest estimation that the agency can make therefore is to assume Scotland's share of the error and fraud is proportionate to its expenditure.
68. The agency is yet to publish its own estimates of error and fraud in relation to Scottish benefits. As it develops its approach it will be important that it reports publicly on its assessment of the levels and causes of error and fraud, and its effectiveness in ensuring that people get what they are entitled to, and in preventing fraud.



Recommendation 6

The agency needs to develop its understanding of underlying levels of error and fraud in Scottish benefits, including the measurement and estimation of the extent and causes of error and fraud. This information will be key to ensuring that error and fraud is managed effectively, and action is targeted appropriately.

Internal audit

69. Social Security Scotland's internal audit function is carried out by the Scottish Government's Internal Audit Division. Each year we consider whether we can rely on internal audit work to avoid duplication of effort. When we plan to place

reliance on internal audit work we carry out an assessment of the internal audit function to ensure that it is sufficient in terms of documentation standards, reporting procedures, quality, and is performed in accordance with Public Sector Internal Audit Standards (PSIAS).

- 70.** Audit Scotland carries out an annual review of the Scottish Government's Internal Audit Division. The 2018/19 review found no issues with the standard of internal audit work undertaken, and no areas of significant non-compliance with PSIAS.
- 71.** We reviewed Social Security Scotland's internal audit arrangements in accordance with International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent we could use the work of internal audit. There are no areas of internal audit work that we have placed formal reliance on as there were no relevant areas reviewed by internal audit that would assist us with our work for this year.

Part 3

Financial sustainability



Main judgements

We have no significant concerns about the overall financial position of Social Security Scotland. The agency and the Scottish Government will need to manage the demand led social security assistance expenditure within its overall budget.

The agency has taken initial steps bringing together financial and workforce planning. It needs to further develop this and establish a long-term financial plan to help it manage the financial consequences of the growth in the agency. This should be developed alongside clearer workforce planning.

Financial planning

72. The Scottish Government's Budget 2019/20 was published in February 2019. The budget for Social Security Scotland is £380.1 million the breakdown of which is as follows:

- Operating expenditure - £45.1 million
- Carer's Allowance - £283 million
- Carer's Allowance Supplement - £37 million
- Best Start Grant - £12.4 million
- Funeral Expense - £6.2 million

73. The agency will go through a period of significant growth and change over the next few years as the organisation develops and becomes responsible for delivering more benefits. This will involve changes to workforce, benefit spend, and operational spend.

74. We have no significant concerns about the overall financial position of the agency. The Scottish Government has estimated that once the agency is fully established its annual operational expenditure will be in the region of £144 to £156 million. This is an early high-level estimate and is likely to change as key decisions are taken, for example on arrangements for assessments and local delivery of services.

75. The Scottish Fiscal Commission (SFC) has forecast that the agency's benefit expenditure will rise to £387 million in 2019/20 and to just under £3.5 billion in 2020/21 as executive competence transfers for all the devolved benefits. This does not include the impact of any changes the Scottish Government makes to any of the benefits or the cost of any new benefits, such as the Scottish Child Payment announced in June 2019.

76. The Scottish Government will need to fund the continuing agency growth in operational expenditure. Benefit expenditure is demand led and needs to be managed by the agency and the Scottish Government as part of its overall budget management.

Financial sustainability looks forward to the medium and longer term to consider whether the agency is planning effectively to continue to deliver its services

Medium to long-term financial planning

77. Benefit expenditure is initially forecast by the SFC which then informs the budgets that are set by Scottish Parliament. The agency will have a role in monitoring and reporting on all of its spending, but shares responsibility for planning for future expenditure with the Scottish Government. The SFC provides updated forecasts during the financial year in May and December.
78. The agency is responsible for planning for growth in organisational expenditure required to administer the increasing benefit spend. We would expect the agency to have a longer-term perspective on organisational plans and the financial, workforce and capital consequences.
79. A medium to long-term financial plan covers a period between 5 to 10 years and helps an organisation with planning for future spend and cost pressures. Social Security Scotland currently has no long term financial plan in place, this would allow it to plan for the organisational growth and its consequences, and also allow it to undertake scenario planning.
80. A workforce plan is currently being developed with a workforce team being set up to look at the planning and provide assurances to the Senior Leadership Team.
81. From our work on the annual accounts we identified high balances in relation to the holiday pay and flexi time accruals for 2018/19. This has highlighted the significant challenges that the agency has faced in the first year and that at times they have been under pressure. This suggests that there have been some pressures on capacity which should be assessed as part of future planning.



Recommendation 7

The agency should develop its long-term financial and workforce planning to help it manage the resourcing consequences of organisational growth.

EU Withdrawal

82. There remains significant uncertainty surrounding the terms of the UK's withdrawal from the European Union (EU). EU withdrawal will inevitably have implications for devolved government in Scotland and for audited bodies. It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:
 - Workforce – the extent to which potential changes to migration are likely to affect the availability of the people and skills needed to deliver services.
 - Funding – the extent to which potential changes to existing EU funding programmes are likely to affect the finances of public bodies and the activity that such funding supports.
 - Regulation – the extent to which potential changes to EU regulations are likely to affect the activities of some public bodies.
83. Social Security Scotland does not receive any funding directly from the EU and therefore there is no direct financial impact on the agency of EU withdrawal. The risks that the Scottish Government and its agencies are exposed to are being managed as part of the Scottish Government's overall approach. We will continue to monitor this during the 2019/20 audit.

Part 4

Governance and transparency



Main judgements

Social Security Scotland has established appropriate governance arrangements and these are developing as we would expect within a new agency. Governance operated effectively during 2018/19.

The agency will need to keep its governance arrangements under review as it expands and takes on delivery of more benefits. It will also need to keep under review its role and representation within the social security programme's governance arrangements.

Governance arrangements

84. Social Security Scotland is an executive agency of the Scottish Government. The agency is led by a senior leadership team, with the Chief Executive assisted by five heads of service. The Chief Executive is the accountable officer for the agency meaning he has a personal responsibility for maintaining a sound system of risk management and internal control. The agency has put in place the core governance arrangements expected of an executive agency, including establishing an Executive Advisory Body (EAB) and an Audit and Assurance Committee (AAC) to support the Chief Executive in the delivery of his responsibilities.
85. The EAB meets every six weeks and can be convened more frequently by the Chief Executive, as chair of the body, if needed. The body is comprised of the Chief Executive, the five heads of service and a further six non-executive members. The EAB is advisory in nature. Its key function is to provide advice, scrutiny, and constructive challenge to the Chief Executive and the senior leadership team. It is the responsibility of the Chief Executive to take any relevant decisions. The Scottish Government's Director of Social Security is the portfolio sponsor for the agency, providing a link into developments in the wider directorate and ministerial portfolio area. Portfolio sponsor meetings are held every six weeks between the agency leadership team and the Director.
86. The AAC meets at least four times a year and has four members. A non-executive member of the committee has been appointed as the Chair. Meetings are well attended, papers are generally of good quality, and there is a good level of scrutiny. The remits of the EAB and the AAC are clearly set out in Terms of Reference, which are published on the agency's website.
87. The agency will grow significantly over the next few years as it becomes responsible for delivering more benefits. It recognises that it will need to review its governance arrangements as it grows to ensure they remain effective and has indicated that it will consider introducing additional committees, such as a finance committee or equivalent, to support its work.
88. Register of interests are held for all members of the Senior Leadership team and for non-executive members of both the AAC and EAB. The registers of interest are updated on a regular basis and are considered when the related parties are reviewed as part of the annual accounts process.

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

89. The social security programme within the Scottish Government's social security directorate is responsible for the design of the devolved benefits, and the systems needed to support their delivery. Decisions taken within the programme will have significant and long-term implications for the agency. The Chief Executive of the agency is a member of the social security programme board and the agency is represented on the main governance boards of the programme. To date a process of joint sign-off has been used for benefit go-live decisions, whereby approval is given jointly by the programme director and the agency Chief Executive. The agency will need to keep under review its relationship with programme governance arrangements to ensure it has appropriate involvement in decisions which will affect it.
90. In April 2019 the agency and the Scottish Government reviewed the leadership needs for the agency, reflecting on the progress of the agency to date and the launch of the first two benefits. Based on this the Scottish Government decided to strengthen the leadership capacity of the agency and restructure the leadership team. This involved creating three new senior leadership posts to support the Chief Executive, and raising the grade of the Chief Executive post. The deputy director posts will cover the following areas:
- Finance and Corporate Services (post holder must be qualified accountant)
 - Operations
 - Policy and Client Experience.
91. Recruitment is currently ongoing for the new roles, with the aim of having people in post by the end of the summer. Recruitment will then take place for the re-graded Chief Executive role at a suitable point during 2019/20. In the interim, the current Chief Executive has been temporarily promoted to provide continuity of leadership.
92. This is a significant change to the management and leadership of the agency early in its development. This will need to be carefully managed to ensure risks to operational activity and staff wellbeing and morale are reviewed and mitigated.

Risk Management

93. The agency has made good progress in establishing appropriate risk management arrangements. The Internal Audit Division carried out a review of risk management during the year and concluded that reasonable assurance could be provided on the agency's risk management arrangements.
94. It has a risk management strategy in place which sets out the agency's approach to managing risk. The agency is developing its approach to risk management so that its strategic risk register supports improvements in performance.
95. The agency's risk management arrangements are still in development. The Social Security programme within the Scottish Government has well-embedded risk management arrangements. The agency has been working well with the programme team to learn from its risk management arrangements and benefit from its relative maturity.

Openness and transparency

96. There is an increasing focus on how public money is used and what is achieved. In that regard, openness and transparency supports understanding and scrutiny. Transparency means that the public have access to understandable, relevant and timely information about how the board is taking decisions and how it is using resources such as money, people and assets.
97. The agency shows a commitment to transparency; including public availability of EAB and AAC minutes and agendas on the website, the development of the

content of annual reports, and publication of statistics on current benefit delivery. The agency should keep its arrangements under review to ensure that these meet the expectations of stakeholders in terms of openness and transparency.

Performance report

- 98.** In addition to the opinion on the performance report covered in Part 1 of this report, we also consider the qualitative aspects of the performance report included in the annual report and accounts. The purpose of a performance report is to provide information on a body, its main objectives and strategies, and the principal risks that it faces. It is required to provide a fair, balanced and understandable analysis of a body's performance and is essential in helping stakeholders understand the financial statements.
- 99.** Overall the performance report represents a reasonable picture of Social Security Scotland's performance in 2018/19. A number of presentational amendments could be made next year to further improve the performance report, including the use of infographics and more information on performance against target. We shared Audit Scotland's guidance, 'Improving the quality of central government accounts – performance reports' with the agency. For future year's performance reports we would encourage the agency to review good practice and ensure that their approach develops a balanced and rounded account of performance.
- 100.** Social Security Scotland put in place an interim corporate plan when it became operational in September 2018 covering the period 2018-21. This plan outlines the agency's administrative arrangements and strategic objectives to support the delivery of the first wave of benefits, which are due to be in place by the end of 2019. This interim approach was adopted due to the agency being newly established and the significant amount of work ongoing to design and develop the second wave of benefits. The agency aims to produce an updated corporate plan later in 2019/20 which will focus on its arrangements and objectives beyond wave one delivery.
- 101.** There is a clear link between the corporate plan and the disclosures within the performance report. The vision and aims of the agency are outlined within the corporate plan and the strategic objectives. The strategic objectives are then explored within each section of the performance report.
- 102.** Over the first year of the agency's operation it has been starting to establish performance information. It will use the information gathered to inform the planning for future performance information in 2019/20.

Part 5

Value for money



Main judgements

Social Security Scotland is at an early stage in developing its performance management arrangements. The agency needs to develop arrangements to manage its own organisational performance, and to support the delivery of wider statutory performance management requirements including the Social Security (Scotland) Act 2018 and the Social Security Charter. The agency demonstrates a clear awareness of these requirements but will need to work closely with the Scottish Government to ensure that the arrangements gather all the information required.

The agency has an interim corporate plan in place which sets out its strategic objectives and clearly reflects the principles set out in the Act and the development of the Charter. These objectives are not yet supported by a broad package of performance information and measures.

Best value

- 103.** *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 .
- 104.** The Auditor General may require that we consider aspects of Best Value at an audited body. Best value was considered as part of the performance report on *Social Security: Implementing devolved powers*. Our forward work programme includes regular performance audit work to assess the implementation and delivery of the devolved social security powers.
- 105.** Key aspects of the arrangements required to deliver best value include an effective performance management system; comprehensive financial and workforce planning; systems of internal control; and engagement with users. These arrangements will be part of our future audits.

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

Performance management

- 106.** The Social Security (Scotland) Act 2018 places a number of requirements on the agency in terms of its objectives and how it is to deliver services. The Act puts into law the Scottish Government's intended approach of delivering a social security system based on the principles of dignity, fairness and respect. The Act introduces eight overarching principles for the operation of the Scottish social security system. It also committed the Scottish Government to produce a social security charter (the Charter) in collaboration with those who will be affected by the new system. The Charter was published in January 2019. A key task for the agency will be converting the principles and actions of the Charter into specific objectives, business processes, and performance measures and targets. It will need to develop effective systems to implement these and monitor and report on overall performance.
- 107.** The agency's strategic objectives are set out in its interim corporate plan, produced in August 2018. The plan states that these strategic objectives will be consulted on over the next year to ensure they meet people's expectations and

requirements. The interim corporate plan clearly reflects the principles set out in the Act and the development of the Charter.

- 108.** Within the interim corporate plan, examples are given to illustrate how the agency intends to deliver on its objectives alongside potential measures of success ([Exhibit 7](#)). The potential measures of success do not include measurable metrics, such as targets or benchmarks. This is reflective of the early stage of development of the agency's performance arrangements but will need to be addressed if the framework is to provide useful and actionable data. The corporate plan is to be supported by an annual business plan which will set out in more detail performance and progress against the strategic objectives. The agency has published its business plan for 2019-20 and sets out 20 priority areas for the reporting year, aligned to the strategic objectives. The business plan gives some detail on how the agency intends to report each area, for example through statistics or client insight reports. There are no measurable metrics included.
- 109.** The agency's performance management and reporting arrangements will need to be developed within the wider context of the social security Act and Charter, while ensuring that arrangements provide the information the agency needs to assess organisational performance. The Scottish Government is developing a measurement framework aligned to the Charter and is required under the Act to report annually on whether the standards set out in the Charter have been met. It will be important to ensure that performance management and reporting arrangements are developed in a coordinated way between the agency and central teams within the Scottish Government.



Recommendation 8

The agency should further develop its performance management and reporting arrangements, including appropriate performance measures, taking into account the requirements of the Social Security Charter and Act. The agency will need to work closely with the social security programme to do this and to plan when required systems functions will be available to allow the agency to capture and extract the performance information it needs.

- 110.** Performance of the agency is to be monitored by the Executive Advisory Body (EAB). Its remit includes to review, monitor and evaluate annually the performance of the agency in terms of its long-term strategic objectives and key performance indicators. From a review of meeting papers, there has been some reporting of management information to the EAB, covering areas such as call answering times and customer feedback. EAB members have discussed improvements to the reporting and the appropriate frequency for the board to receive this. To support the EAB to fulfil its remit, the agency will need to develop an appropriate and systematic approach to performance reporting aligned to its strategic objectives.

Exhibit 7

Social Security Scotland's strategic objectives and potential performance measures

Strategic objective	Potential measures of success
Dignity fairness and respect	<ul style="list-style-type: none">• Experience of service (positive/negative)• Number of complaints• Referrals to Scottish Public Service Ombudsman, re. performance against the Charter expectations• Inclusive communication indicators• Redeterminations carried out/upheld• Appeals applied for/upheld
Equality and tackling poverty	<ul style="list-style-type: none">• Number of awards made/totals paid• Take-up of Scottish benefits• Applications received/processed
Efficiency and alignment	<ul style="list-style-type: none">• Average application processing time• Complaints/compliments received• Complaints progressed to Scottish Public Service Ombudsman
Economy, society and environment	<ul style="list-style-type: none">• Admin budget outturn against forecast• Fraud cases identified• Recycle levels and reduction of waste to landfill• Carbon emissions as a result of staff travel

Source: Social Security Scotland, Interim Corporate Plan, August 2018

111. The agency has established an insights research programme to capture and identify lessons from client feedback. It has been using client surveys, included as part of the benefit application process, to capture service satisfaction levels. The agency has published two research reports to date. The first in May 2019, covering the period September to December 2018, and the second in June 2019, extended the period covered to March 2019. These covered client insights along with staff insights which was based on management information and a staff survey.

112. The June 2019 report found that those who had responded to the client surveys reported high levels of satisfaction with the service they had received:

- 89 per cent of respondents thought their call was answered quickly
- 80 per cent of respondents felt they got what they needed from the call
- 86 per cent of respondents were happy with service they had received
- 97 per cent of online applicant who responded were happy with the service received
- 100 per cent of telephone applicants who responded were happy with the service received.

113. The scale and functions of the agency will change significantly over the next few years. By the end of 2019/20 the agency will be responsible for delivering all wave one benefits and significant work will need to have taken place to prepare for delivery of all remaining benefits. This will affect the extent to which the agency's performance information can accurately be compared over the next few years. The agency will need to consider how it reflects this scale of change in its performance management reporting arrangements.

National performance audit reports

114. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2018/19 several reports were published which are of direct interest to the agency. These are detailed in [Appendix 3](#).




115. In May 2019 the Auditor General for Scotland reported on the Scottish Government's implementation of the devolved social security benefits (*Social Security: implementing the devolved powers*). This was the latest in a series of reports examining the government's progress in implementing the powers being devolved through the Scotland Acts 2012 and 2016.

116. This report concluded that the Scottish Government had done well to deliver on its public commitment for the last year, including establishing the new social security agency. It found that the move into delivering the next wave of benefits will be challenging and the Scottish Government does not yet have a clear understanding of the key things needed to deliver all remaining benefits in the way that it intends. The report noted that the agency had established its core approaches and processes, but these were in the early stages of development. The report was considered by the Scottish Parliament's Public Audit and Post Legislative Scrutiny Committee on 16 May 2019 and by its Social Security Committee on 30 May 2019. The Auditor General for Scotland and Audit Scotland gave evidence at both meetings.

117. Any national reports produced by Audit Scotland are considered by the agency's Audit and Assurance Committee (AAC), this also includes any performance reports that have been produced specifically for the agency. The AAC considered the *Social Security: implementing the devolved powers* report on 14 May 2019.

Appendix 1

Action plan 2018/19

No.	Issue/risk	Recommendation	Agreed management action/timing
1	 <p>Social Programme Management (SPM) system controls</p> <p>SPM is the system used to make BSG pregnancy and baby payments. A number of weaknesses within the SPM system were identified by management. Management introduced further checks on all claims to ensure that claims were processed accurately. However, these checks are not documented.</p> <p>There is a risk that the checks are not being completed and applications are being processed without secondary checks.</p>	 <p>Management should introduce procedures to document the audit trail of mitigating controls.</p> <p>The agency will need to work with the Scottish Government's social security programme to ensure any changes needed to address the identified control weaknesses are appropriately factored into the SPM development plans.</p>	 <p>We will work with the Social Security Directorate to make further improvements to SPM controls. The feasibility of documenting the additional manual checks and overall assessment of manual versus system checks will be raised with colleagues in the Social Security Directorate.</p> <p>James Wallace December 2019</p>
2	<p>Assurance from DWP</p> <p>The agency relies on DWP for a number of disclosures within the accounts including debt and provisions. There were a number of misunderstandings about the figures, and the accounting judgements required. As such there were a number of late amendments to the accounts</p> <p>There is a risk that management do not have appropriate supporting evidence to support the accounting judgements they are required to make.</p>	<p>Management should obtain a better understanding of DWP processes for impairment of benefits receivables and the impact on accounting treatment in the agency accounts.</p> <p>Management have agreed to improve communication with DWP in relation to amounts that will be included within the agency's accounts. They have also agreed to explore how they can improve the assurance over the judgements and calculation of balances provided by DWP.</p> <p>Exhibit 3</p>	<p>Initial meetings have been held with DWP and there will be further meetings to improve assurance and communication in this area.</p> <p>We also intend to work with DWP more generally on improving assurance arrangements. This is being considered in the context of our joint working agreements, but we will seek to formalise this process.</p> <p>Miriam Craven March 2020</p>
3	<p>Fixed Asset Register</p>		



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>During the audit we were unable to confirm the completeness of the fixed asset register as the current format of the register does not break it down to individual asset level.</p> <p>There is a risk that not all assets owned by the agency may feature on the asset register. The agency is currently unable to confirm the completeness of the asset register.</p>	<p>It is recommended that a fixed asset register be compiled that is at an individual asset level. This will be of greater importance as the agency grows and purchases more assets.</p> <p>Exhibit 3</p>	<p>We are now maintaining a record that details individual assets and we will be putting in place a system that ensures that there is an audit trail between the fixed asset register and other records, including the asset registers maintained by the Social Security Directorate.</p> <p>Stephanie Glavin January 2020</p>
4	<p>Residency</p> <p>Being resident in Scotland is one of the core criteria a claimant must satisfy to be eligible for the benefits currently being administered by the agency.</p> <p>The Scottish Government has defined this residency status as a person being 'ordinarily resident' in Scotland. There is currently no clear guidance on the definition of 'ordinarily resident' or how it is to be assessed when determining eligibility.</p> <p>In practice the agency uses a person's current postcode as the main determinant of residency.</p> <p>There is a risk that residency status is not been appropriately assessed.</p>	<p>The agency should review operational processes for determining the residency of applicants, and the specific decision rules that it applies. It needs to make sure it fully understands any risks arising from its approach to determining residency, and it ensures that people are aware of how the rules are being applied.</p>	<p>The Social Security Directorate are working to ensure a complimentary approach to residency and entitlement across the UK. Operational processes will be reviewed when this process is complete.</p> <p>Chris Boyland March 2020</p>
5	<p>Preventing error and fraud</p> <p>The agency is putting in place the building blocks needed to deliver an effective counter-fraud and prevention service.</p> <p>It currently does not have a full investigations function in place in the way it planned.</p>	<p>The agency needs to fully understand any risks arising from the evidence standards it applies, and not yet being able to undertake investigation activity in the way it planned. This will become increasingly important as more complex benefits begin to be delivered in future years.</p>	<p>There has not been any requirement to undertake investigation activity to date. We work with policy and processes determined by the Social Security Directorate and the Scottish Ministers. We are continuing to work</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>In developing application processes, the social security programme and agency have tried to balance ease of access for people with the need to have a secure system. To support ease of access the agency has adopted less stringent evidence requirements than required by other organisations.</p> <p>There is a risk that the agency does not have robust arrangements in place to deter and investigate error and fraud in the more complex benefits that are due to be delivered in future years.</p>		<p>closely with Directorate colleagues as planned to ensure that arrangements for error and fraud are implemented at the right time.</p> <p>Meg Fowler March 2020</p>
6	<p>Monitoring error and fraud</p> <p>The agency is in the early stages of developing its approaches and processes for managing error and fraud across the benefits that it delivers. It is currently using the DWP's fraud estimates as a base to start creating potential ranges of error and fraud within the Scottish system.</p> <p>Entitlement to both CAS and to BSG includes the requirement for a person being in receipt of a DWP administered benefit. There are significant levels of error and fraud in the qualifying benefits (ranging from 3.9% to 8.6% in the most recently published data).</p> <p>It is important for the agency to understand the underlying levels of error and fraud in any qualifying benefits and what this means for how it designs and delivers the Scottish social security system, as more benefits are devolved and implemented.</p> <p>There is a risk that error and fraud are not managed effectively as there are not</p>	<p>The agency needs to develop its understanding of underlying levels of error and fraud in Scottish benefits, including the measurement and estimation of the extent and causes of error and fraud. This information will be key to ensuring that error and fraud is managed effectively, and action is targeted appropriately.</p>	<p>We will continue to develop arrangements, in consultation with Social Security Directorate colleagues to further develop measurement techniques for error and fraud.</p> <p>Miriam Craven March 2020</p>



**Agreed
management
action/timing**

No.	Issue/risk	Recommendation	Agreed management action/timing
7	<p>Medium to long-term financial planning</p> <p>A medium to long-term financial plan covers a period between 5 to 10 years and helps an organisation with planning for future spend and cost pressures. Although the agency has taken initial steps towards bringing together financial and workforce planning, no long term financial plan is in place. This would allow the agency to plan for the organisational growth and its consequences and also allow it to undertake scenario planning.</p> <p>The agency is not appropriately looking at long term finances and potential risks and scenarios.</p>	<p>The agency should develop its long-term financial and workforce planning to help it manage the resourcing consequences of organisational growth.</p>	<p>As Audit Scotland point out at paragraph 89 of this report; <i>the Social Security Directorate is responsible for the design of the devolved benefits and the systems needed to support delivery. Decisions taken within the programme will have significant and long term implications for the agency.</i> The agency recognises the value in having long-term financial and workforce plans. We will keep the timing of production of such plans under review; as decisions are taken within the Social Security Directorate which allow such plans to be prepared. Given that Social Security is a complex and wide ranging Agile programme, we would not have expected to be in a position to prepare a long-term financial or workforce plan at this time.</p> <p>James Wallace March 2020</p>
8	<p>Performance management arrangements</p> <p>The agency's strategic objectives are set out in its interim corporate plan, including potential measures for success. The potential measures of success do not</p>	<p>The agency should further develop its performance management and reporting arrangements, including appropriate performance measures, taking into account the requirements of the Social Security</p>	<p>We agree this recommendation. We are at the stage of development where we would have expected to</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>include measurable metrics, such as targets or benchmarks. This is reflective of the early stage of development of the agency's performance arrangements.</p> <p>There is a risk that the performance management arrangements do not provide useful and actionable data.</p>	<p>Charter and Act. The agency will need to work closely with the social security programme to do this, and to plan when required systems functions will be available to allow the agency to capture and extract the performance information it needs.</p>	<p>be, at this stage of agency development.</p> <p>Chris Boyland March 2020</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 our wider responsibility under the [Code of Audit Practice 2016](#).

Audit Risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
1 Risk of management override of controls ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position and performance disclosed in the financial statements.	Detailed testing of journal entries. Review of accounting estimates. Focused testing of accruals and prepayments. Evaluation of any significant transactions that are outside the normal course of business.	We have reviewed the journal, accounting estimates, prepayment and accruals and have identified no issues, therefore there is nothing to report in relation to this risk.
2 Risk of error and fraud over assistance The Financial Reporting Council's Practice Note 10 (revised) requires public sector auditors to give consideration to the risk of fraud over expenditure, extending the requirements of ISA 240. The nature and extent of assistance expenditure means that that there is an inherent risk of fraud. The complexity of social security systems, inter-relationships between devolved and delegated assistance and the volume of payments also means that there is an inherent risk of error.	System review of SPM key controls Focused substantive testing on higher risk areas and more complex areas including benefit payments.	We have qualified the regularity opinion on limitation of scope for Carer's Allowance because there is not enough evidence to determine whether this spending was in line with the relevant legislation. From a review of the SPM controls we identified a number of weaknesses. This has been included as a risk at point 1 in the action plan at Appendix 1 . No further issues were identified from our focused detailed testing.
3 Assistance administered by agency agreement with DWP Executive competence over Carer's Allowance transferred from September 2018, and now falls to be accounted for by Social Security Scotland. The Scottish Ministers asked, and the Secretary of State agreed, that DWP would administer the delivery of Carer's	Reviewed the process to prepare the Scottish Carer's Allowance recharges for expenditure, receivables, accruals and payables Sample testing to confirm balances relating to Scottish Carer's Allowance claimants are	In recording Carer's Allowance benefit expenditure, management has assumed that information held by the DWP is a fair representation of residency (in the absence of any more specific data/assessment) and applied this assumption to data from DWP systems. In essence this

Audit Risk	Assurance procedure	Results and conclusions
<p>Allowance to people residing in Scotland under an agency agreement.</p> <p>This means that the devolved benefits will continue to be delivered by DWP for Scottish residents on behalf of Social Security Scotland. Scottish Ministers have agreed not to request changes to the DWP business as usual procedures and processes for Carer's Allowance. DWP recharge Social Security Scotland for the costs associated with this arrangement.</p> <p>Social Security Scotland is wholly reliant on DWP processes and systems in relation to carer's allowance expenditure that is brought to account and cannot directly control these. Such amounts may not appropriately reflect Scottish assistance expenditure.</p>	<p>included in recharges made by DWP.</p>	<p>represents a management estimate of the classification of transactions between Scotland and rest of the UK.</p> <p>We are content that the approach adopted is reasonable.</p> <p>The necessary disclosures have been made in relation to the management estimate within the accounting policy.</p>
<p>4</p> <p>DWP data used to support administration of assistance</p> <p>Information was obtained from DWP in relation to the Carer's Allowance payments to allow Carer's Allowance Supplement (CAS) to be paid to Scottish recipients. Upon receiving the data no checks were completed on the accuracy or completeness of the data as the Scottish Government did not have the base data to allow checks to be done. Assessment of Best Start Grant (BSG) claims involves confirmation of qualifying awards by DWP.</p> <p>Any concerns in the completeness and accuracy of data used to support CAS and BSG payments may not may have been identified and addressed.</p>	<p>Review the DWP IT systems relevant to devolved benefits,</p> <p>Review the process to prepare a listing of CAS claimants.</p> <p>Sample testing to confirm the listing includes only Scottish carers on dates defined by the agency based on data held on DWP systems.</p>	<p>No issues were identified on review of DWP systems, the process for preparing the listing of Scottish Carer's Allowance claimants or the sample testing.</p>
<p>5</p> <p>Financial statements preparation</p> <p>Social Security Scotland is required to prepare financial statements for the first time in 2018/19, involving an extensive range of accounting and disclosure requirements. The statements will cover the 7 months from the launch of Social Security Scotland.</p> <p>Detailed arrangements for preparation remain to be established. There are a number of vacancies within the finance</p>	<p>Regular discussions with the Head of Finance to identify any ongoing issues in respect of capacity and the impact these may have on the preparation of the financial statements.</p>	<p>Regular communication was had with the Head of Finance and the Deputy Head of Finance throughout the audit. A number of presentational and disclosure issues were highlighted and amended throughout the audit.</p> <p>The financial statements which were prepared were found to be compliant with the Government Financial Reporting Manual (FReM) and there were open lines of</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>department and this could have an impact on capacity.</p> <p>The accounts may not be delivered to the required standards and by the agreed date. Any significant delay could have an impact on the delivery of the audit timetable.</p>		<p>communication with the finance team during the process.</p>
<p>6 Establishing Effective Financial Systems</p> <p>There are a number of new financial systems and processes in place in Social Security Scotland which will take time for staff to become familiar with. This includes a newly established system for assistance expenditure and use of Scottish Government systems which are new to Social Security Scotland staff.</p> <p>This means financial controls, including budgetary controls have still to be fully embedded within the organisation. A number of the controls are at early stages of development.</p> <p>Many systems require some manual processes which means that there is an increased risk of error in the expenditure transactions.</p> <p>This means that some financial controls may not yet be operating effectively.</p>	<p>Review key controls for accounts payables, receivables and payroll to ensure they are operating as expected</p> <p>Review the processes in place for the payment of benefits (CAS and BSG).</p> <p>Review exception reports to ensure any unusual items are subject to review.</p> <p>Review the budgetary controls in place.</p> <p>Assess the reports that are taken to key governance bodies in relation to the budget position.</p>	<p>We reviewed the key controls in the financial systems and a number of issues were identified as highlighted in paragraph 48.</p> <p>The controls in relation to the benefits have been reviewed and generally there are no issues with the exception of the SPM issue noted below.</p> <p>The SPM controls were reviewed and risk 1 within Appendix 1 has been raised in relation to this.</p> <p>Exception reports were found to be in place and no issues identified.</p> <p>Reports that were taken to the EAB and AAC have been reviewed to ensure that the budget position is monitored at the meetings and information is available to the non-executive members.</p> <p>Overall the financial systems are generally effective, however there are issues in relation to the SPM system that have been included as a risk within Appendix 1.</p>
<p>7 Transfer of historic debt</p> <p>There will be a transfer of a capital grant in relation to historic Carer's Allowance debt relating to Scottish residents from the Department for Work and Pensions (DWP) to Social Security Scotland. The accounting treatment of this is still under review, including how the monies from debt recovery are treated.</p> <p>Inappropriate accounting treatment may be used for initial recognition and subsequent debt recovery.</p>	<p>Review the accounting policies in relation to debt recognition.</p> <p>Review the accounting treatment of the historic debt relating to Carer's Allowance.</p> <p>Review the process of preparing the Carer's Allowance debt relating to Scottish residents.</p> <p>Sample testing of debtors from the listing of Scottish debt.</p>	<p>The accounting policy in relation to debt recognition has been reviewed and it was found to be consistent with the legislation and also with the DWP policy.</p> <p>No issues were identified on review of the process for preparing the debt recharge, the way in which it was accounted for or the sample testing.</p>
<p>8 Governance Statement Assurances</p>	<p>Review the draft governance statement</p>	<p>The draft governance statement was reviewed, and a number of presentational</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Key aspects of internal control and oversight may be exercised by DWP or elsewhere within Scottish Government. Social Security Scotland will require to make arrangements to support its assessment of effectiveness of governance and risk management, and to enable it to report on any significant exceptions.</p> <p>Any gaps in arrangements to obtain assurances may mean the governance statement does not meet reporting requirements.</p>	<p>once it has been to the AAC.</p> <p>Review the assurance reporting from agency management, the Scottish Government and DWP.</p> <p>Audit the Governance Statement and ensured the necessary assurances are included.</p>	<p>and disclosure changes were requested.</p> <p>The necessary disclosures have been made in relation to the assurances from DWP and senior leadership team.</p> <p>The governance statement has been found to be FReM compliant and no issues have been noted.</p>

<p>9</p> <p>Classification of administration expenditure</p> <p>The budget for Social Security Scotland is set as part of the wider budget for the Social Security Directorate. There is close working between the directorate and the agency across a broad range of activity. It is important that arrangements are in place to ensure that spending is classified appropriately between entities. Any transfer of expenditure that may be required will be done through manual journal entries, this may result in some error or misclassification.</p> <p>Some issues have been experienced in relation to use of the payroll system however this is an issue which is Scottish Government wide and relates to incorrect codes being used within the ledger.</p>	<p>Journal testing to confirm that transactions have been classified correctly and that all transactions have been captured.</p> <p>Discussions with Scottish Government audit team to confirm the transactions that have been allocated to the directorate.</p>	<p>We found that from the journals sampled they had been correctly classified, and the transactions tested have been captured correctly as agency expenditure.</p> <p>The Scottish Government audit team has reviewed journals within the wider Scottish Government and they have found that they were allocated to the directorate.</p> <p>The expenditure was found to be correctly classified with no issues identified.</p>
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Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
<p>10</p> <p>Establishing effective governance</p> <p>Key governance and performance management arrangements have been established. These have only recently been introduced, following establishment of the agency and are likely to take time to become fully effective.</p>	<p>Review of the governance arrangements in place</p> <p>Review the Internal audit review on governance.</p> <p>Review high level arrangements for the management of performance, including corporate/ business planning and performance reporting.</p> <p>Review of the website for information in relation to committees.</p> <p>Regular updates with the Head of Governance to assess the update to the</p>	<p>The governance arrangements have been reviewed and were found to be operating effectively for an agency which is in its infancy.</p> <p>There are a number of changes being made to the governance structure as outlined in paragraphs 90 and 91.</p> <p>Information on the committees has been added to the website and therefore it is publicly available.</p> <p>Overall the governance structure is effective and developing as we would</p>

Audit Risk	Assurance procedure	Results and conclusions
	governance arrangements.	expect within the new executive agency.

Appendix 3

Summary of national performance reports 2018/19



Local government in Scotland: Challenges and performance 2018		Apr	
Councils' use of arm's-length organisations		May	Scottish Fire and Rescue Service: an update
Scotland's colleges 2018		Jun	
		Jul	The National Fraud Initiative in Scotland 2016/17
Forth Replacement Crossing		Aug	Major project and procurement lessons
Children and young people's mental health		Sept	Superfast broadband for Scotland: further progress update
NHS in Scotland 2018		Oct	
Health and social care integration: update on progress		Nov	Local government in Scotland: Financial overview 2017/18
		Dec	
		Jan	
		Feb	
		Mar	Local government in Scotland: Challenges and performance 2019
		Apr	
Social security: implementing the devolved powers		May	

Central Government relevant reports

[The National Fraud Initiative in Scotland 2016/17](#) – July 2018

[Major project and procurement lessons](#) – August 2018

Social Security Scotland

2018/19 Annual Audit Report

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