

# Social Security Scotland

Annual Audit Plan 2018/19



 AUDIT SCOTLAND

Prepared for Social Security Scotland

February 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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# Contents

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Risks and planned work	4
Audit scope and timing	10

# Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan sets out the work necessary to allow us to provide an independent auditor's report on the financial statements and meet the wider scope requirements of public sector audit.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.

## Adding value

3. We aim to add value to Social Security Scotland through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help Social Security Scotland promote improved standards of governance, better management and decision making and more effective use of resources.

## Audit risks

4. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for Social Security Scotland. We have categorised these risks into financial statement risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1 2018/19 Key audit risks

 Audit Risk	Source of assurance	Planned audit work
<b>Financial statements issues and risks</b>		
<p><b>1 Risk of management override of controls</b></p> <p>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.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> <li>• Detailed testing of journal entries.</li> <li>• Review of accounting estimates.</li> <li>• Focused testing of accruals and prepayments.</li> <li>• Evaluation of any significant transactions that are outside the normal course of business.</li> </ul>
<p><b>2 Risk of fraud and error over assistance</b></p> <p>The Financial Reporting Council's Practice Note 10 (revised) requires public sector auditors to give</p>	<p>Management information provided by DWP to Social Security Scotland under the Agency Agreement in place.</p>	<ul style="list-style-type: none"> <li>• System review of SPM key controls</li> <li>• Focused substantive testing on higher risk areas and more complex</li> </ul>

	Audit Risk	Source of assurance	Planned audit work
	<p>consideration to the risk of fraud over expenditure, extending the requirements of ISA 240. The nature and extent of assistance expenditure means that there is an inherent risk of fraud. The complexity of social security systems, interrelationships between devolved and delegated assistance and the volume of payments also means that there is an inherent risk of error.</p>		<p>areas including benefit payments.</p> <ul style="list-style-type: none"> <li>• Work completed by NAO in relation to benefit expenditure will be reviewed and relied upon</li> </ul>
<b>3</b>	<p><b>Assistance administered by agency agreement with DWP</b></p> <p>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 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>Management information provided by DWP to Social Security Scotland under the Agency Agreement in place.</p>	<ul style="list-style-type: none"> <li>• We will liaise with NAO to obtain assurances over the completeness and accuracy of the carers allowance which is transferred.</li> <li>• Review the invoice from DWP to Social Security Scotland in relation to carer's allowance payments for Scottish individuals.</li> <li>• We will liaise with NAO in relation to controls in place over carer's allowance expenditure.</li> </ul>
<b>4</b>	<p><b>DWP data used to support administration of assistance</b></p> <p>Information was obtained from DWP in relation to the Carer's Allowance payments to allow Carer's Allowance Supplement 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</p>	<p>Controls in place over the data received by Social Security Scotland from the Scottish Government following the DWP transfer of the data.</p>	<ul style="list-style-type: none"> <li>• We will liaise with NAO to obtain assurances over the completeness and accuracy of the data provided.</li> <li>• Checks will be completed on the data to give ourselves assurances as checks are not completed by Social Security Scotland upon receipt from the Scottish Government.</li> </ul>

 <b>Audit Risk</b>	<b>Source of assurance</b>	<b>Planned audit work</b>
<p>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><b>5 Financial statements preparation</b></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 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>Early identification of key areas and review of guidance at an early stage.</p> <p>Implementing effective planning and project management arrangements.</p>	<ul style="list-style-type: none"> <li>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.</li> </ul>
<p><b>6 Establishing Effective Financial Systems</b></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 fully embed 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>Management checks are completed to identify any errors e.g. duplicate payments.</p> <p>Controls are being developed and reviewed on an ongoing basis.</p>	<ul style="list-style-type: none"> <li>Review key controls for accounts payables, receivables and payroll to ensure they are operating as expected</li> <li>Review the processes in place for the payment of benefits (carers allowance supplement and best start grant).</li> <li>Review exception reports to ensure any unusual items are subject to review</li> <li>Review the budgetary controls in place</li> <li>Assess the reports that are taken to key governance bodies in relation to the budget position</li> </ul>
<p><b>7 Transfer of historic debt</b></p> <p>There will be a transfer of a capital grant in relation to historic Carer's</p>	<p>Accounting policies for debt recognition are being</p>	<ul style="list-style-type: none"> <li>Review the accounting policies in relation to debt recognition</li> </ul>

	Audit Risk	Source of assurance	Planned audit work
	<p>Allowance debt relating to Scottish residents from the Department of 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>prepared and will be taken to the AAC.</p>	<ul style="list-style-type: none"> <li>Review the accounting treatment of the grant in kind</li> <li>Review the guidance provided by the Scottish Government in relation to the treatment of the debt.</li> </ul>
<b>8</b>	<p><b>Governance Statement Assurances</b></p> <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>A draft Governance Statement will be taken to the Audit and Assurance Committee (AAC) prior to being included in the accounts.</p>	<ul style="list-style-type: none"> <li>Review the draft governance statement once it has been to the AAC</li> <li>Audit the Governance Statement and ensure the necessary assurances are included.</li> </ul>
<b>9</b>	<p><b>Classification of administration expenditure</b></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>Regular reports on the expenditure of the Agency are provided to the AAC.</p>	<ul style="list-style-type: none"> <li>Journal testing to confirm that transactions have been classified correctly and that all transactions have been captured.</li> <li>Discussions with Scottish Government audit team to confirm the transactions that have been allocated to the directorate.</li> </ul>
<b>Wider dimension issues and risks</b>			
<b>10</b>	<p><b>Establishing effective governance</b></p>	<p>Governance arrangements are under review and constantly</p>	<ul style="list-style-type: none"> <li>Review of the governance arrangements in place</li> </ul>

	Audit Risk	Source of assurance	Planned audit work
	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.	being updated by management.  Internal Audit undertaken in 2018 on Governance. Also currently review into Business Planning.	<ul style="list-style-type: none"> <li>Review the Internal audit review on governance.</li> <li>Review high level arrangements for the management of performance, including corporate/ business planning and performance reporting.</li> <li>Review of the website for information in relation to committees</li> <li>Regular updates with the Head of Governance to assess the update to the governance arrangements.</li> </ul>

Source: Audit Scotland

## Reporting arrangements

5. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

6. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy.

7. We will provide an independent auditor's report to Social Security Scotland, Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual accounts. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

8. Under the Public Finance and Accountability (Scotland) Act 2000 there is a requirement for the resource account of the Scottish Government to be presented to Parliament within nine months of the financial year-end, i.e. 31 December.

## Exhibit 2 2018/19 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	19 February 2019	19 February 2019
Performance Audit	2 May 2019	14 May 2019 (for information only)
Interim Management Report	14 May 2019	14 May 2019
Annual Audit Report	6 August 2019	6 August 2019
Independent Auditor's Report	20 August 2019	20 August 2019

Source: Audit Scotland

## Audit fee

**9.** The proposed audit fee for the 2018/19 audit of Social Security Scotland is £111,050. In determining the audit fee we have taken account of the risk exposure of Social Security Scotland, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual accounts, with a complete working papers package on 3 June 2019.

**10.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

## Responsibilities

### Audit and Assurance Committee and Accountable Officer

**11.** Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

**12.** The audit of the annual accounts does not relieve management or the Audit and Assurance Committee as those charged with governance, of their responsibilities.

### Appointed auditor

**13.** Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

**14.** Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

# Audit scope and timing

## Annual accounts

**15.** The annual accounts, which include the financial statements, will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of Social Security Scotland and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how Social Security Scotland will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

**16.** We will give an opinion on whether the financial statements:

- whether they give a true and fair view of the financial position of Social Security Scotland and their expenditure and income
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
- the regularity of the expenditure and income.

## Other information in the annual accounts

**17.** We also review and report on other information published within the annual accounts including the performance report, accountability report including the governance statement and the remuneration and staff report.

**18.** We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

**19.** We also read and consider any information in the annual accounts other than the financial statements and audited part of the remuneration report and report any uncorrected material misstatements.

## Materiality

**20.** We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.



21. We calculate materiality at different levels as described below. The calculated materiality values for Social Security Scotland are set out in [Exhibit 3](#).

### Exhibit 3 Materiality values

Materiality	Amount
<b>Planning materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 0.75% of gross expenditure (including benefit expenditure) for the year ended 31 March 2019 based on the latest budget projections for 2019.	£1.562 million
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 60% of planning materiality.	£0.938 million
<b>Reporting threshold (i.e., clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 1% of planning materiality.	£0.015 million

Source: Audit Scotland

### Timetable

22. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#).

### Exhibit 4 Annual accounts timetable

 Key stage	 Date
Working paper checklist	March 2019
Latest submission date of unaudited annual accounts with complete working papers package	3 June 2019
Latest date for final clearance meeting with Director of Finance	5 July 2019
Latest date for signing Scottish Government consolidation return	12 July 2019
Issue of Letter of Representation and proposed independent auditor's report and agreement of audited unsigned annual accounts	17 July 2019
Issue of Annual Audit Report to those charged with governance	6 August 2019
Independent auditor's report signed	22 August 2019

### Internal audit

23. Internal audit is provided by Scottish Government Internal Audit Directorate overseen by the Director of Internal Audit. As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in

accordance with Public Sector Internal Audit Standards (PSIAS). We will report any significant findings to management on a timely basis.

### Using the work of internal audit

**24.** Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible to avoid duplication. We plan to consider the findings of the work of internal audit as part of our planning process to minimise duplication of effort and to ensure the total resource is used efficiently or effectively.

**25.** We will consider the work of internal audit in the following areas to inform our own conclusions:

- Workforce planning
- Recruitment
- Governance structures
- Business planning.

### Audit dimensions

**26.** Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

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## Exhibit 5

### Audit dimensions



Source: Code of Audit Practice

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### Financial sustainability

**27.** As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the body's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will consider:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps

## Financial management

**28.** Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will consider:

- whether Social Security Scotland has arrangements in place to ensure systems of internal control are operating effectively
- whether Social Security Scotland can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance
- how Social Security Scotland has assured itself that its financial capacity and skills are appropriate
- whether Social Security Scotland has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

## Governance and transparency

**29.** 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. We will consider:

- whether Social Security Scotland can demonstrate that the governance arrangements in place are appropriate and operating effectively (including services delivered by DWP).
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports.
- the quality and timeliness of financial and performance reporting.

## Value for money

**30.** Value for money refers to using resources effectively and continually improving services. We will consider whether:

- Social Security Scotland can provide evidence that it is demonstrating value for money in the use of its resources.
- Social Security Scotland can demonstrate that there is a clear link between money spent, output and outcomes delivered.
- There is sufficient focus on the planning for, and implementation of, the devolved benefits and the capacity and capability within the Agency to do this.

## Performance audit of implementation of devolved social security

**31.** The Auditor General is preparing a section 23 report under the Public Finance and Accountability (Scotland) Act and we will complete work to support this. This audit will examine how effectively the Scottish Government is managing the delivery of the social security powers being devolved under the Scotland Act 2016. It is intended that the report will be published in Spring 2019 and will cover the establishment of the agency and the overall progress made across the social security programme in each of the four audit dimensions as outlined above.

## Independence and objectivity

**32.** Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the

independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

**33.** The engagement lead (i.e. appointed auditor) for Social Security Scotland is Mark Taylor, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Social Security Scotland.

## Quality control

**34.** International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor’s report or opinion is appropriate in the circumstances.

**35.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

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

# Social Security Scotland

## Annual Audit Plan 2018/19

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

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