

Social Security Scotland

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

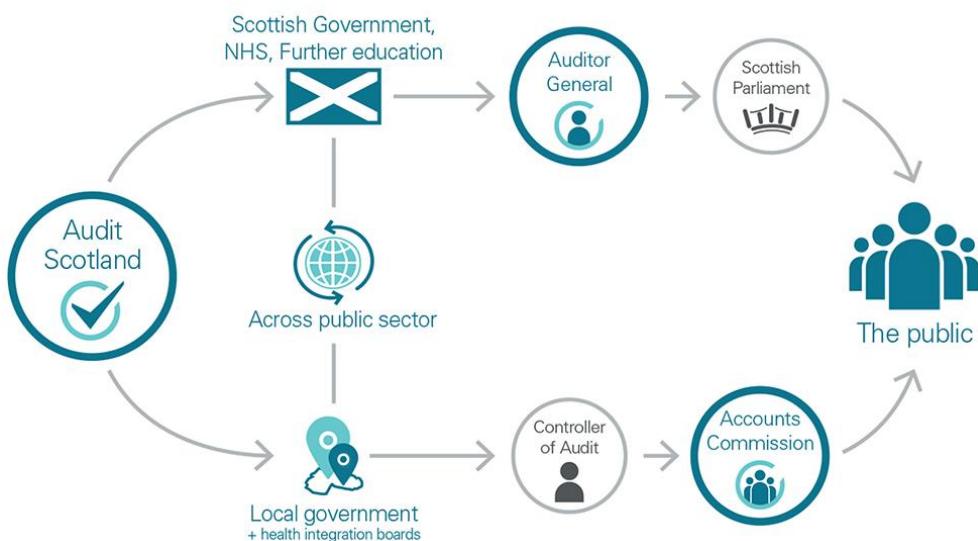
Prepared for Social Security Scotland

February 2020

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts.

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 (the agency) 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 the agency 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 significant risks for the agency. We have categorised these risks into financial statements risks and wider dimension risks as detailed in [Exhibit 1](#).

Exhibit 1 2019/20 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements risks		
1 Risk of material misstatement caused by 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 the risk of management override of controls that results in fraudulent financial statements.	<i>Owing to the nature of this risk, assurances from management are not applicable in this instance.</i>	<ul style="list-style-type: none"> Detailed testing of journal entries, including specific analysis of the classification between the agency and the Scottish Government. Review of accounting estimates. Focused testing of accruals and prepayments. Evaluation of any significant transactions that are outside the normal course of business.

	Audit Risk	Source of assurance	Planned audit work
2	Risk of material misstatement caused by error or fraud over expenditure	<p>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 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 and fraud.</p>	<ul style="list-style-type: none"> Review the Social Programme Management system and the controls in place. Detailed substantive testing focused on more complex, higher risk areas such as benefit payments including the testing by the National Audit Office (NAO) on our behalf.
3	Insufficient audit evidence to support the regularity of the Carer's Allowance expenditure	<p>In 2018/19 the regularity audit opinion was qualified on the basis of a limitation of scope with respect to Carer's Allowance expenditure. The available estimates of error and fraud levels did not provide sufficient evidence to determine whether this spending was in line with relevant legislation. The error and fraud estimates are being revised by the DWP and this is expected to be published in May 2020. The levels of error and fraud within the Scottish Carer's Allowance expenditure could continue to be material based on the revised estimates.</p>	<ul style="list-style-type: none"> Review the revised levels of error and fraud within Carer's Allowance expenditure. Detailed review of the revised error and fraud estimates will be completed by the NAO on our behalf.
4	Social Programme Management (SPM) system controls	<p>SPM is the system used to make Best Start Grant pregnancy and baby payments and will be used in 2019/20 to process additional Best Start Grant and funeral support payments. A number of system control weaknesses were identified in 2018/19 which resulted in manual controls being put in place. System fixes have been added to the backlog listing, however these are not being cleared in a prioritised manner therefore there remains a risk that the system is exposed to unnecessary human error and the potential for fraud.</p>	<ul style="list-style-type: none"> Review the SPM system and the controls in place. Focused substantive testing on Best Start Grant payments. Focused substantive testing on funeral support payments.

 Audit Risk	Source of assurance	Planned audit work
5 Assurances from the DWP in relation to Carer's Allowance debt <p>The information on the debt in relation to Carer's Allowance is provided by the DWP who manage the debt, impairment and write offs in year. There were a number of misunderstandings between the agency and the DWP in 2018/19 in relation to these balances and adjustments. If accurate information for the Carer's Allowance debt balance is not obtained, this could result in a material misstatement to the receivables balance within the financial statements.</p>	<p>Management are in communication with the DWP in relation to fully understanding the debt process.</p> <p>A clear timetable is in place which sets out the information requirements.</p>	<ul style="list-style-type: none"> Review accounting policies in relation to debt recognition and impairment. Review the agency's arrangements for ensuring the completeness and accuracy of the impairment figure. Review actual experience of significant estimates made in the prior year.
Wider dimension risks		
6 Error and fraud arrangements <p>The error and fraud arrangements within the agency are still at an early stage, with the Code of Practice for investigations still to be approved. Residency is an important factor when considering the eligibility for each of the benefits that are delivered by the agency. As this measure of residency is deemed to be an estimation, it can be susceptible to fraud and therefore benefits are paid to recipients that are not eligible.</p>	<p>Implementation of compliance checks for approvals and denials within Operations.</p> <p>Additional verification checks with agreed standardised note format recorded in SPM.</p>	<ul style="list-style-type: none"> Review the progress made in developing operational processes in relation to residency Review updated documentation in relation to error and fraud. Review the compliance checks including the additional verification checks as part of our sample testing of benefits expenditure.
7 Medium to long term financial plans and workforce planning <p>A medium to long term financial plan is an important tool which supports the agency to manage future budgets and cost pressures. This is particularly important given the future growth as more benefits are delivered by the agency. Scenario planning is also an essential part to ensure that the agency is able to handle future challenges in relation to budgets and resource requirements. There is currently no medium to long term financial or workforce plans in place.</p>	<p>The agency do not consider it necessary to develop medium to long term financial and workforce plans at this time.</p>	<ul style="list-style-type: none"> Review the financial and workforce planning arrangements to ensure these include appropriate scenario planning and are fit for purpose.

 Audit Risk	Source of assurance	Planned audit work
<p>8 Performance and risk management arrangements</p> <p>The agency's strategic objectives are set out in its interim corporate plan, including potential measures for success, however there are no measurable metrics to assess and track performance. Performance management arrangements are at an early stage and there is a risk that they will not provide useful and actionable data.</p> <p>Risk management arrangements within the agency are also being developed. The annual update commenced in late 2019 but is still to be completed. There is a risk that these are not sufficiently developed to support the agency as it is growing and developing.</p>	<p>The performance management function is being improved and we continue to engage with the Strategy, Policy and Assurance lead.</p> <p>Quality checking introduced with follow up action following performance management procedures.</p>	<ul style="list-style-type: none"> • Early review of the performance report. • Ongoing engagement with Strategy, Policy and Assurance lead on progress. • Reviewing the development of performance managements arrangements as they are being established. • Review progress in developing risk management arrangements, including risk registers.

Source: Audit Scotland

5. As set out in ISA 240, there is a presumed risk of fraud in the recognition of income. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. We have rebutted the risks of material misstatement caused by fraud in income recognition in 2019/20 as the only income the agency has is via the Scottish Government, therefore we do not assess there to be any risk in relation to this.

Reporting arrangements

6. Audit reporting is the visible output for the annual audit and is detailed in [Exhibit 2](#). All outputs will be published on our website: www.audit-scotland.gov.uk.

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

8. We will provide an independent auditor's report to the agency, Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and 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.

9. 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

2019/20 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	3 February 2020	11 February 2020
Interim Management Report	8 May 2020	19 May 2020
Social Security Performance Audit	28 May 2020	25 August 2020
Independent Auditor's Report	17 September 2020*	15 September 2020
Annual Audit Report	17 September 2020*	15 September 2020

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

Audit fee

10. The proposed audit fee for the 2019/20 audit of the agency is £155,165 (2018/19: £111,050). In determining the audit fee, we have taken account of the risk exposure of the agency, 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 report and accounts, with a complete working papers package on 29 June 2020.

11. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and 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

Accountable Officer and Audit and Assurance Committee

12. 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.

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

Appointed auditor

14. 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.

15. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the 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

16. The annual report and 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 the agency and the associated risks
- assessing the key systems of internal control, and establishing the impact of any identified weaknesses
- identifying major transaction streams, balances and areas of estimation and understanding how the agency 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.

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

- give a true and fair view in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2020 and of its net operating costs for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 FReM;
- have been prepared in accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

18. We shall also express an opinion on the regularity of the expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Statutory other information in the annual report and accounts

19. We review and report on other information published within the annual report and accounts including the performance report, accountability report including the governance statement and the staff and remuneration report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

20. We also review the content of the annual report and accounts for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.



21. There should be a robust timetable in place for the processes surrounding the annual report and accounts preparation, including sufficient time for management to review all aspects, and in particular the performance report. This should be evidence from the quality of the annual report and accounts presented for audit and should result in a limited number of additional versions.

Materiality

22. 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.

23. We calculate materiality at different levels as described below. The calculated materiality values for the agency are set out in [Exhibit 3](#).

Exhibit 3 Materiality values

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2020 based on the latest budget information.	£3.9 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 60% of planning materiality.	£2.3 million
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 1% of planning materiality.	£0.04 million

Source: Audit Scotland

Timetable

24. 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	6 March 2020
Submission of unaudited annual report and accounts with working papers package	29 June 2020
Receipt of updated annual accounts for agreement of early audit changes	17 August 2020
Latest date for signing Scottish Government consolidation return	18 August 2020
Issue of draft annual audit report for clearance	24 August 2020
Latest date for final clearance meeting with Head of Finance	31 August 2020
Agreement of audited unsigned annual report and accounts	4 September 2020
Issue of annual audit report, letter of representation and proposed independent auditor's report	
Consideration of audited annual report and accounts and audit reporting by those charged with governance	15 September 2020
Independent auditor's report signed	17 September 2020

Source: Audit Scotland

Internal audit

25. Internal audit is provided by Scottish Government Internal Audit Directorate overseen by the Director of Internal Audit. As part of our planning process we carried out an early assessment of the internal audit function and concluded that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS).

Using the work of internal audit

26. 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. From our initial review we plan to place formal reliance on the work internal audit are completing on budget monitoring, and we will take consideration of other internal audit reports as part of the audit.

Audit dimensions

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

Exhibit 5

Audit dimensions



Source: Code of Audit Practice

Financial sustainability

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

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

Governance and transparency

30. 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 the agency 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
- the quality and timeliness of financial and performance reporting.

Value for money

31. Value for money refers to using resources effectively and continually improving services. We will consider whether the agency can:

- provide evidence that it is demonstrating value for money in the use of its resources
- demonstrate that there is a clear link between money spent, output and outcomes delivered
- show that outcomes are improving.

Best Value

32. The Accountable Officer of the agency has a duty to ensure arrangements are in place to secure best value. We will review and report on how this duty is met.

Performance audit of implementation of devolved social security

33. 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. We will examine what progress the Scottish Government is making on managing the delivery of the devolved social security powers and how well placed it is to successfully deliver the remaining benefits. We will follow up on the recommendations of our previous audit ([Social Security: Implementing the devolved powers](#)) and focus on progress in three main areas; programme planning, financial management and skills, capacity and workforce planning. It is intended that the report will be published in May 2020 and will cover the work of the agency and the overall progress made across the social security programme in each of the four audit dimensions as detailed above.

Independence and objectivity

34. Auditors appointed by the 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.

35. The engagement lead (i.e. appointed auditor) for the agency 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 the agency.

Quality control

36. 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.

37. 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.

38. 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

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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

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