

# Social Security Scotland

2019/20 Annual Audit Report



 AUDIT SCOTLAND

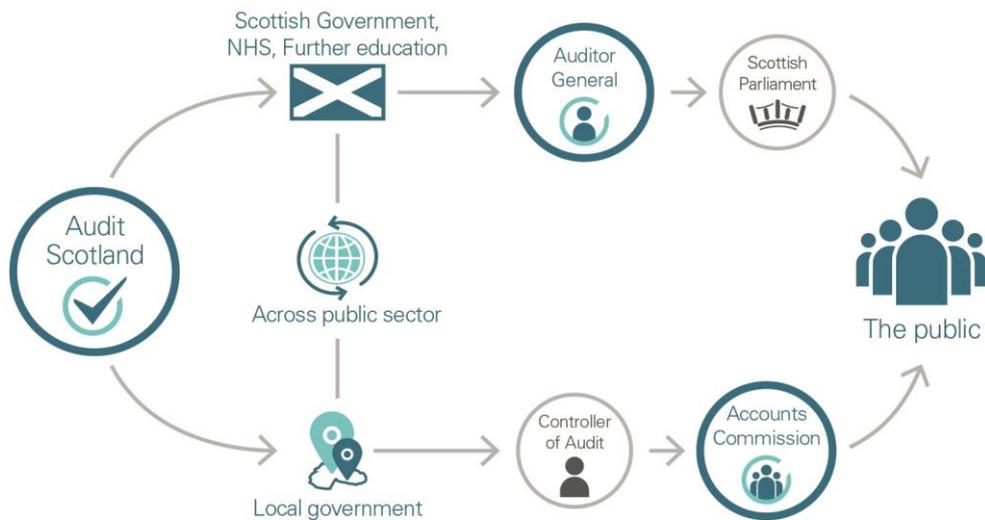
Prepared for Social Security Scotland and the Auditor General for Scotland

20 October 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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# Key messages

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## 2019/20 annual report and accounts

- 1** The financial statements of Social Security Scotland give a true and fair view of the state of the affairs as at 31 March 2020 and of the net expenditure for the year then ended. They have been properly prepared in accordance with the financial reporting framework.
- 2** We qualified our opinion on the regularity of expenditure and income because estimated overpayments of Carer's Allowance attributable to error and fraud of 5.2 per cent (£14.8 million) were material. Expenditure resulting from such overpayments was not incurred in accordance with the Social Security Contributions and Benefits Act 1992.
- 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** Although there were good working relationships between Social Security Scotland staff and the audit team the Covid-19 restrictions impacted on aspects of the audit and delayed reporting to the Audit and Assurance Committee.

## Financial management

- 5** Social Security Scotland managed its operating budget effectively in year reporting an underspend of £2.5 million for operating expenditure.
- 6** Internal controls over the main financial systems operated effectively during 2019/20.
- 7** Appropriate arrangements are in place to help ensure appropriate standards of conduct are maintained. Arrangements for the prevention and detection of error and fraud are being developed and were strengthened during the year.

## Financial sustainability

- 8** Social Security Scotland has introduced four-year financial forecasts to underpin its forward planning. It has not yet developed longer term planning in key areas such as workforce, estates, and finance which will be critical to the success of the Scottish social security system.
- 9** The full impact of the Covid-19 pandemic is not yet known and introduces additional uncertainty into an already complex environment. The delivery timetable and financial forecasts need to be revised to provide more clarity of the impact on Wave 2 benefits of the new financial pressures now being faced.

## Governance and transparency

- 10** Social Security Scotland has effective governance arrangements and demonstrates a commitment to openness and transparency.
- 11** Social Security Scotland adapted its governance arrangements effectively to manage the unprecedented risks created by Covid-19.
- 12** Performance management and reporting is still being developed with few targets currently set against which performance can be measured. Progress was impacted by the Covid-19 pandemic. Despite this, Social Security Scotland was able to publish a full annual report and did not have to take advantage of more flexible requirements introduced this year.

## Value for money

- 13** Social Security Scotland is developing performance management arrangements which support the achievement of Best Value. These are not yet fully embedded. Further work is required to implement the Charter Measurement Framework published in October 2019.

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# Introduction

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1. This report summarises the findings from our 2019/20 audit of Social Security Scotland. The scope of our audit was set out in our Annual Audit Plan which was presented to the meeting of the Audit and Assurance Committee on 11 February 2020. This report comprises the findings from:

- an audit of the Social Security Scotland’s annual report and accounts
- a review of the controls within the key financial systems
- 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](#).

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## Exhibit 1 Audit dimensions



Source: *Code of Audit Practice 2016*

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2. After the publication of the Annual Audit Plan, in common with all public bodies, Social Security Scotland has had to respond to the global Covid-19 pandemic. Our approach to audit during these circumstances is to be pragmatic, flexible and consistent. We issued a paper, [Covid-19 How public audit in Scotland is responding](#), setting out Audit Scotland’s strategy and approach to our financial and performance audit programmes. It provided detail about the scope, timing and areas of focus for our audit work.

## Adding value through the audit

### 3. We add value to Social Security Scotland by:

- identifying and providing insight on significant risks and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability
- reporting our findings and conclusions in public and sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides.

## Responsibilities and reporting

**4.** Social Security Scotland has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from the Scottish Ministers. It is also responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity that enable it to successfully deliver its objectives.

**5.** Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000, the [Code of Audit Practice 2016](#), and supplementary guidance, and International Standards on Auditing in the UK. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on the appropriateness of the performance management arrangements, the suitability and effectiveness of corporate governance arrangements, the financial position and arrangements for securing financial sustainability.

**6.** This report raises matters from our audit. 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.

**7.** Our Annual Audit Report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, responsible officers and dates for implementation. It also includes any outstanding actions from last year and progress against these.

## Arrangements for delivering devolved benefits

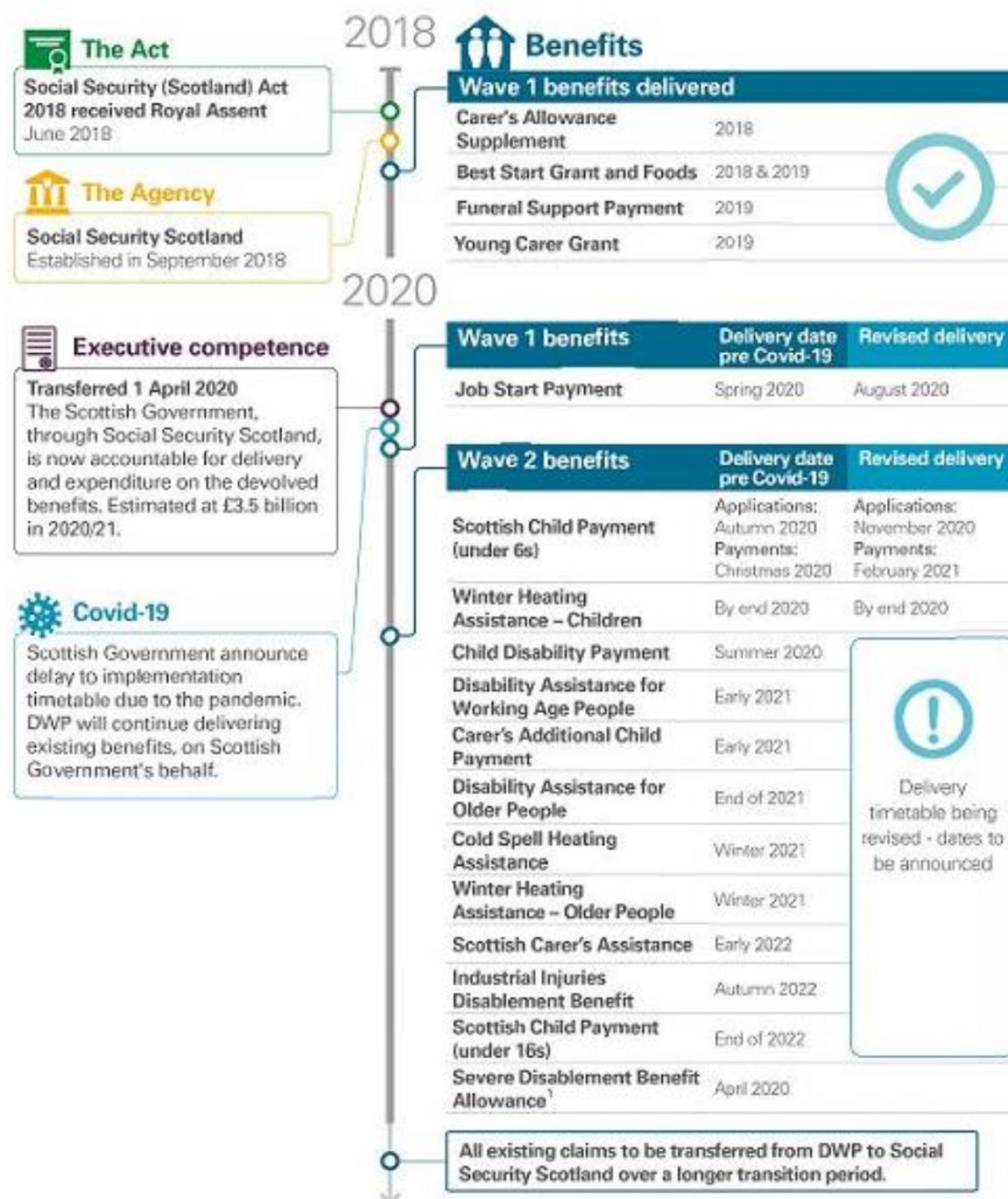
**8.** Social Security Scotland is an executive agency of the Scottish Government. The Scottish Government set up a social security programme (the programme), within its social security directorate, to manage the implementation of the devolved benefits.

**9.** The programme is responsible for designing and implementing the benefits and the supporting systems and processes needed to allow them to be administered. Social Security Scotland 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.

**10.** Legislative competency for the powers was devolved through the Scotland Act 2016, allowing the Scottish Government to develop the necessary legislation. The Scottish and UK governments agreed a phased approach to the devolution of the social security powers to support a safe and secure transition with delivery split over two 'waves'.

11. Wave one included less complex benefits that largely consisted of one-off payments. Wave two includes the more complex benefits, where eligibility may change over time and there is a high volume of payments. Executive competence for all wave two benefits transferred on 1 April 2020. Executive competence refers to the point where administrative responsibility and financial accountability transfers to Social Security Scotland. 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.

## Exhibit 2 Timeline of social security powers being devolved through the Scotland Act 2016



Note 1: This benefit will continue to be delivered by the DWP on behalf of Scottish Government

**12.** On 1 April 2020, Shirley-Ann Somerville, Cabinet Secretary for Social Security and Older People, updated the Scottish Parliament on changes to the delivery timetable due to the impact of Covid-19. Plans for the Child Disability Payment and the Scottish replacement for Personal Independence Payment (Disability Assistance for Working Aged People) were paused. The Scottish Government prioritised the delivery of its new benefit, the Scottish Child Payment, which it plans to open for applications for children under six in November 2020 with payments starting in February 2021. Revised dates have not yet been announced for other aspects of the programme.

**13.** The UK Government have agreed to continue to deliver wave two benefits for existing and new Scottish clients over an extended transition period. Social Security Scotland will progressively take on administration of benefits from the Department for Work and Pensions (DWP), but a revised timetable has not yet been agreed. This is discussed further in [Part 3](#).

## **Auditor Independence**

**14.** 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 therefore the 2019/20 audit fee of £155,165 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

**15.** 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](http://www.audit-scotland.gov.uk) in due course. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

# Part 1

## Audit of 2019/20 annual report and accounts



### Main judgements

The financial statements of Social Security Scotland give a true and fair view of the state of the affairs as at 31 March 2020 and of the net expenditure for the year then ended. They have been properly prepared in accordance with the financial reporting framework.

We qualified our opinion on the regularity of expenditure and income because estimated overpayments of Carer's Allowance attributable to error and fraud of 5.2 per cent (£14.8 million) were material. Expenditure resulting from such overpayments was not incurred in accordance with the Social Security Contributions and Benefits Act 1992.

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.

Although there were good working relationships between Social Security Scotland staff and the audit team the Covid-19 restrictions impacted on aspects of the audit and delayed reporting to the Audit and Assurance Committee.

### We qualified our audit opinion on the regularity of Carer's Allowance expenditure

16. The annual report and accounts for the year ended 31 March 2020 were approved by the Accountable Officer on 20 October 2020. 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 £284.4 million as we consider the estimated level of overpayments attributable to error and fraud to be material to our opinion on the accounts. (see [paragraph 18](#)).
- 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.
- 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.

The annual report and accounts are the principal means of accounting for the stewardship of resources and performance

**17.** 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. The 2019/20 accounts include Carer's Allowance expenditure of £284.4 million. 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. 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.

**18.** The DWP measures the level of error and fraud in the benefits it pays out. It measured the error and fraud levels for Carer's Allowance in May 2020 (previously 1996/97), with the overpayment rate found to be 5.2 per cent of total Carer's Allowance expenditure. We have qualified our regularity opinion as the estimated level of overpayments attributable to error and fraud of £14.8 million in relation to Carer's Allowance amounts paid to Scottish residents is material. The expenditure resulting from such overpayments was not incurred in accordance with the Social Security Contributions and Benefits Act 1992.

### **Covid-19 impacted on the audit of the annual report and accounts**

**19.** In March 2020, in response to the global Covid-19 pandemic, Scotland went into lockdown. Since then Audit Scotland and Social Security Scotland staff have been working from home and we have therefore had to adapt our 'normal' audit approach and work together to develop new ways to audit remotely.

**20.** During early discussions we agreed that the financial statements would be provided to audit, as planned, on 29 June 2020, and the performance report would follow two weeks later. This was subsequently extended by a further week, meaning the full unaudited annual report and accounts were provided on 20 July 2020.

**21.** Throughout the audit there has been on-going discussions with Social Security Scotland staff and their support enabled the audit to proceed well, but the limitations of remote working did impact on our audit timetable. The planned September audit and assurance committee moved to October, to allow an additional month to support the audit process. The annual report and accounts were signed by the Accountable Officer on 26 October 2020.

**22.** Due to the pressures of auditing remotely we experienced some challenges in obtaining the necessary audit evidence and this often required working with finance staff to identify the most appropriate way to proceed. We acknowledge the support provided which enabled us to obtain the audit evidence required to complete the audit.

### **Overall materiality was unchanged from planning and remained at £3.9 million**

**23.** 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 the nature of a misstatement. It is affected by our perception of the financial information needs of users of the annual report and accounts.

**24.** Our initial assessment of materiality for the annual report and accounts was carried out during the planning phase of the audit and is summarised in [Exhibit 3](#). On receipt of the unaudited annual report and accounts we reviewed our planning materiality calculations and concluded that they remained appropriate.

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## Exhibit 3

### Materiality values

Materiality level	Amount
Overall materiality	£3.9 million
Performance materiality	£2.3 million
Reporting threshold	£40,000

Source: Social Security Scotland Annual Audit Plan 2019/20

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### Audit work addressed the main risks of material misstatement identified during the audit planning process

**25.** Our Annual Audit Plan detailed the risks of material misstatement identified for the annual report and accounts for Social Security Scotland. We also highlighted any wider dimension audit risks identified. These risks influence our overall audit strategy, the allocation of staff resources to the audit, and indicate how the efforts of the audit team were directed. These risks, the work we undertook to address them, and our conclusions from this work are detailed in [Appendix 2](#).

### We have a number of significant findings to report from the audit

**26.** 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. The significant findings from our audit of the annual report and accounts are summarised in [Exhibit 4](#).

## Exhibit 4

### Significant findings from the audit of financial statements

Issue	Resolution
<p><b>1. Underlying error and fraud – Carer's Allowance</b></p> <p>The 2019/20 financial statements include Carer's Allowance expenditure of £284.4 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 fraud or error, does not comply with the legislation and is therefore irregular.</p> <p>In May 2020 the extent of error and fraud within the Carer's Allowance benefit expenditure was remeasured by DWP. A rate of 5.2 per cent was reported by the DWP. The sample included payment to Scottish residents as well as England and Wales. The rules and administrative arrangements are consistent across all payments administered by DWP. We consider that there is a material level of error in the Scottish Carer's allowance expenditure. An estimate of £14.8 million of Carer's Allowance overpayments is disclosed within the accounts.</p>	<p>We have qualified our regularity opinion in relation to the level of error and fraud within the Carer's Allowance expenditure.</p> <p><a href="#">paragraph 17-18</a></p>
<p><b>2. Carer's Allowance recharges</b></p> <p>When testing the Carer's Allowance recharges from DWP, a case was identified where the amount recharged to Social Security Scotland from DWP was incorrect. This was identified as part of the work the National Audit Office (NAO) completed on our behalf. Upon investigation, it was found the necessary adjustment had not been made for debts owed by the claimant to DWP. No adjustments for such cases had been incorporated in the amounts recharged to Social Security Scotland. The DWP completed a detailed review to establish the total value they have not recharged Social Security Scotland. Estimating that this was approximately £1.5 million.</p>	<p>We have reviewed the evidence supporting this understatement of Carer's Allowance expenditure. While the agency agreement between DWP and Social Security Scotland provides that Social Security Scotland should be recharged for all amounts relating to Scottish recipients, on this occasion DWP confirmed that they will not recharge Social Security Scotland for this issue due to the timing and limitations of the estimate. The methodology has now been reviewed to ensure that the process is rectified for 2020/21 accounts.</p> <p>We are content that, given the commitment not to recover the expenditure from Social Security Scotland, there is no adjustment required to the financial statements.</p>
<p><b>3. Overstatement of plant and equipment</b></p> <p>During the audit process finance staff advised us that the plant and equipment balance within the unaudited accounts was overstated by £190,000. It was established that assets were included in the asset register that had not been transferred from the Scottish Government prior to the year end.</p>	<p>This has been amended in the audited financial statements resulting in a £190,000 reduction in the net asset position.</p>

Issue	Resolution
<p><b>4. Asset adjustment misclassification</b></p> <p>Audit testing identified that there was an adjustment that was being incorrectly described as a revaluation in the unaudited accounts. This related to the correction for £253,000 of assets that were below the asset capitalisation threshold but had been included in non-current assets in the 2018/19 accounts. They should have been treated as operating expenditure and not capitalised.</p>	<p>The terminology within note 5 has been updated to make it clear that this is an adjustment rather than a revaluation.</p> <p>We are content that a prior year adjustment is not required due to the value involved, and it was appropriate to make the adjustment in year.</p>
<p><b>5. Staff costs supporting documentation</b></p> <p>Audit testing identified issues with the availability of evidence held by the Scottish Government to support key staff changes including starters and leavers. Social Security Scotland are reliant on the Scottish Government payroll system as part of the shared service agreement in place. We liaised with the Scottish Government audit team to obtain assurances over the balances and the sample testing was extended to obtain the required assurance.</p>	<p>The results of the additional samples were satisfactory, and we were able to obtain the necessary assurances over the staff costs expenditure.</p>

Source: Audit Scotland

**27.** In accordance with The Funeral Expense Assistance (Scotland) Regulations 2019, Social Security Scotland is required to pursue recovery of Funeral Support Payments from the deceased's estate where possible. This means the payments are classified as loans and met from the capital budget (classified as financial transactions). During 2019/20 there was very limited recovery with most of these loans written off. We considered the accounting treatment during our audit of the accounts and confirmed it was correct.

**28.** Best Start Foods is delivered by Social Security Scotland on an agency basis, and the associated expenditure is not part of the annual report and accounts. This is due to the funding for the Best Start Foods coming from the health budget. As such, Best Start Foods is included within the Scottish Government annual report and accounts. The treatment of this benefit is clearly explained within the performance report of Social Security Scotland.

### **Identified misstatements of £190,000 were adjusted in the accounts, these were less than our performance materiality and we did not need to further revise our audit approach**

**29.** There were no material adjustments to the unaudited annual report and accounts arising from our audit. Total misstatements identified were £190,000 due to an overstatement of plant and equipment. We have concluded that the misstatements identified arose from issues that were isolated and identified in their entirety and do not indicate systematic error.

**30.** It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected although the final decision on making the correction lies with those charged with governance considering advice from senior staff and materiality. All misstatements have been amended in the audited financial statements.

## Good progress was made on prior year recommendations

**31.** Social Security Scotland has made good progress in implementing our prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

# Part 2

## Financial management



### Main judgements

Social Security Scotland managed its operating budget effectively in year reporting an underspend of £2.5 million for operating expenditure and £1.1 million for benefit expenditure.

Internal controls over the main financial systems operated effectively during 2019/20.

Appropriate arrangements are in place to help ensure appropriate standards of conduct are maintained. Arrangements for the prevention and detection of error and fraud are being developed and were strengthened during the year.

### Social Security Scotland operated within budget in 2019/20 and has a net asset position of £1.4 million

32. The main financial objective for Social Security Scotland is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers. Social Security Scotland has reported an outturn of £386.7 million remaining within its overall budget for 2019/20 as shown in [Exhibit 5](#).

### Exhibit 5 Performance against Budget in 2019/20

Performance	Initial budget £m	Final budget £m	Outturn £m	Over (under) spend £m
<b>Operating Expenditure</b>	<b>41.5</b>	<b>38.5</b>	<b>36.0</b>	<b>(2.5)</b>
Benefit Expenditure				
<i>Carer's Allowance</i>	283	288	284.3	(3.7)
<i>Carer's Allowance Supplement</i>	37	37	37	0
<i>Best Start Grant</i>	12.4	20.6	20.8	0.2
<i>Funeral Support Payments</i>	6.2	6.2	4.1	(2.1)
<i>Funeral Support Payments write off</i>	0	0	4.1	4.1
<i>Young Carer's Grant</i>	0	0	0.4	0.4
<b>Total Benefit Expenditure</b>	<b>338.6</b>	<b>351.8</b>	<b>350.7</b>	<b>(1.1)</b>
<b>Total Budget</b>	<b>380.1</b>	<b>390.3</b>	<b>386.7</b>	<b>(3.6)</b>

Source: Social Security audited annual report and accounts 2019/20

**33.** The financial statements show that Social Security Scotland has net assets of £1.4 million, a significant change from the £14.8 million net liability reported to 31 March 2019. The movement is largely due to an increase in cash and cash equivalents of £30.6 million partially offset by a £12.6 million increase in trade and benefits payable. This increase in cash and cash equivalents is due to Social Security Scotland drawing down funding prior to the year end to enable them to make payments for the new benefits that transferred on 1 April 2020. The Scottish Government is aware of the balance within the bank accounts for Social Security Scotland at the year end and this is correctly disclosed in the financial statements.

### Appropriate budget setting and monitoring arrangements are in place

**34.** We reviewed the internal audit work that was completed on budget monitoring as part of the audit process. It was confirmed via this review, that the budget information was reviewed at the period end and subject to an internal scrutiny process, prior to being presented to the Executive Advisory Body and Audit and Assurance Committee. Information was obtained regularly and in a timely manner to enable any decisions to be made.

**35.** Monthly meetings take place between budget holders and finance to allow for accurate updates to be made to budgets. As a result of Covid-19 Social Security Scotland had to reduce their 2020/21 budget by £18 million, this is further detailed in [paragraph 57](#).

**36.** Social Security Scotland has appropriate budget setting and monitoring arrangements in place which supports sound decision making and effective scrutiny.

### Financial systems of internal control generally operated effectively

**37.** 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 body has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

**38.** Our findings from this work were included in the management report presented to the Audit and Assurance Committee on 25 August 2020. We concluded that the controls tested were operating effectively, but we made four recommendations to improve the overall control environment.

**39.** At the end of March 2020 Social Security Scotland, along with most of the public sector, moved to a homeworking environment as a result of the Covid-19 pandemic. Discussions with staff have confirmed that some control arrangements have been adapted to reflect the current restrictions. Additional building blocks are being put in place to ensure that they can mitigate the additional risks that home working brings particularly in mitigating fraud and error. This includes measures such as staff being asked to sign disclosures to confirm they are adhering to the new working practices and additional internal checks. These changes will be subject to audit consideration as part of the 2020/21 audit process.

### Internal audit operated in accordance with the Public Sector Internal Audit Standards (PSIAS)

**40.** The internal audit function for Social Security Scotland is carried out by the Scottish Government's Internal Audit Division. PSIAS require the 'chief audit executive' to provide an annual internal audit opinion and report that can be used to inform the annual governance statement. The opinion provided in 2019/20 is that of "Reasonable" assurance, which means that some improvements are required to enhance the adequacy and effectiveness of controls.

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

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**41.** As part of our audit planning, we reviewed the internal audit arrangements in accordance with International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent to which we could use the work of internal audit. We confirmed that internal audit complied with the main requirements of PSIAS and have placed reliance on the work on budget monitoring. We also consider all internal audit reports to support our understanding and inform our conclusions on the audit dimensions.

### **Arrangements are in place help ensure appropriate standards of conduct are maintained**

**42.** Public sector bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption. They must also ensure that their affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.

**43.** 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.

### **During the year the arrangements for the prevention and detection of error and fraud were strengthened**

**44.** Due to the nature of the benefits being paid by Social Security Scotland the management of error and fraud has increased significance as it is an inherent risk in a social security system that is driven by individual claims. For most of the benefits paid by Social Security Scotland there is a reliance on the DWP ensuring claimant entitlement. It is therefore vital that there are appropriate checks in place to obtain the required assurance that entitlement exists.

**45.** In September 2019 the Intervention Team was established and began to carry out random sampling. This newly established process was to provide an insight into error rates and sampling focusing on proactively on cases where error is more likely. Of the cases sampled up until the end of March 2020 there was a 1 per cent error rate. Data mining has also been introduced to identify higher risk cases. This work identified an error rate of 43 per cent in the higher risk cases checked, with 55 of the 128 cases sampled having a payment error. Of the 55 cases identified, 40 had already been referred to the interventions team. This confirmed underlying arrangements to identify overpayments were operating but require ongoing development to ensure a higher proportion of errors are routinely identified.

**46.** As noted at [paragraph 39](#), the current homeworking arrangements will impact on control arrangements. Discussions with management have confirmed that they recognise the new error and fraud risks this may introduce and have identified and implemented arrangements to mitigate them.

### **The approach to monitoring error and fraud is being developed**

**47.** Monitoring the levels of error and fraud in the benefits system supports decision-making on what actions can be taken to ensure the appropriate and effective use of public money. Social Security Scotland has started to make progress in developing an approach to estimating error and fraud across the benefits that it delivers with the measurement and reporting on this is currently limited.

**48.** Social Security Scotland has been working on estimating the error in the benefits caseload throughout 2019. It has started to explore approaches and methodologies with the Cabinet Office Counter Fraud Centre of Expertise. Due to the impact of Covid-19, the Cabinet Office have had to postpone assisting with this work as resources have been redeployed elsewhere. Social Security Scotland hopes to be able to continue this work early in 2021 but is dependent on support being available.

49. In addition, for the benefits administered by the DWP, Social Security Scotland is reliant on the estimates produced by the DWP, who have indicated that Covid-19 will impact on how they estimate error and fraud for 2020/21. The normal review activity will be challenging due to the current restrictions in place which will limit claimant visits alongside the need to temporarily redeploy staff. DWP still intend to publish a statistically valid global (overall) estimate of fraud and error in 2020/21.



### Recommendation 1

**Social Security Scotland should continue to develop its approach to measuring and reporting on error and fraud and engage with the DWP to understand and plan for the impact of changes in the measurement of error and fraud estimates.**

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# Part 3

## Financial sustainability



### Main judgements

**Social Security Scotland has introduced four-year financial forecasts to underpin its forward planning. It has not yet developed longer term planning in key areas such as workforce, estates and finance which will be critical to the success of the Scottish social security system.**

**The full impact of the Covid-19 pandemic is not yet known and introduces additional uncertainty into an already complex environment. The delivery timetable and financial forecasts need to be revised to provide more clarity of the impact on Wave 2 benefits of the new financial pressures now being faced.**

### Social Security Scotland has four-year financial forecasts but longer-term planning has not yet been fully developed

**50.** Social Security Scotland's expenditure is made up of the costs of the benefits themselves and the associated administrative costs of delivering them. Benefit expenditure is initially forecast by the Scottish Fiscal Commission (SFC) which then informs the budgets that are set by the Scottish Parliament. Social Security Scotland has a role in monitoring and reporting on this, but shares responsibility for planning for future expenditure with the Scottish Government. The SFC provides updated benefit expenditure forecasts in May and December each year.

**51.** In our report last year, we stated that Social Security Scotland needed to further develop its longer-term financial planning to help it manage the consequences of the planned growth. Four-year financial forecasts have now been introduced which set out staffing, administrative and benefit expenditure on a month to month basis over the period to 2023/24. The four-year forecast sufficiently covers the medium term. There is scope to build on what is already there to extend it into the longer term, and link in with other key plans such as workforce, estates and IT.

**52.** We recognise that Social Security Scotland is reliant on the Scottish Government's social security programme for the timeline for new benefits and the processes by which they will be administered. These are central factors in determining the profile of staffing needs and productivity expectations. We also acknowledge the increased uncertainty that currently exists. Longer-term planning will be critical to the success of the Scottish social security system and is therefore something that Social Security Scotland should continue to develop.

**Financial sustainability looks forward to the medium and longer term to consider whether a body is planning effectively to continue to deliver its services or the way in which they should be delivered**



### Recommendation 2

**Social Security Scotland should continue to develop the four-year financial forecast to include longer-term planning in key areas such as finance, workforce, estates and IT to support the future success of the Scottish social security system.**

**53.** In March 2020 the programme published a refreshed programme business case, including revised cost estimates for both implementation activity and running costs for Social Security Scotland. These estimates provide updates to the high-level costs set out in the financial memorandum to the Social Security Act (2018). The estimated annual running costs for Social Security Scotland have increased from £144 million - £156 million (as per 2016/17 prices) to £193 million - £208 million. The introduction of Scottish Child Payment adds to Social Security Scotland's responsibilities.

### **Delivery and financial plans will need to be revised due to the impact of the Covid-19 pandemic**

**54.** The Covid-19 pandemic has impacted significantly on the Scottish Government's social security devolution programme. The transfer of executive competency for the remaining devolved benefits (except Severe Disablement Allowance) went ahead as planned on 1 April 2020 as detailed in [Exhibit 2](#). This means that from 2020/21 Social Security Scotland is now accountable for around £3.5 billion of annual social security spending. The UK Government has agreed to continue to administer these benefits for longer than originally planned.

**55.** The Scottish Government announced on 20 August 2020 that the Scottish Child Payment will open for applications in November 2020 with first payments expected to start in February 2021. Child Winter Heating Assistance is also still planned to be delivered in winter 2020 and regulations for this benefit are currently being considered by the Scottish Parliament's Social Security Committee. On 17 August 2020 the Scottish Government also launched an additional new benefit, the Job Start Payment.

**56.** There has been a significant increase in the uptake rates for Universal Credit since the start of the Covid-19 pandemic. While this is a UK benefit, and therefore does not in itself affect Social Security Scotland's expenditure, it is a qualifying benefit for many of the devolved Scottish benefits. It is too early to assess what impact the uptake in Universal Credit rates will mean for all Scottish benefits. The SFC have increased their forecast by £15 million for the next financial year as a result of the increased uptake of Universal Credit. Social Security Scotland will need to work with central Scottish Government finance colleagues to robustly plan for this impact.

**57.** The Scottish Government's social security programme is revising both its delivery timetable and the programme business case. This will inevitably have an impact on Social Security Scotland. For example, the SFC has forecast that the delay to launching the Scottish Child Payment will result in a £12 million reduction to the previously forecast 2020/21 expenditure. In addition, the Scottish Government has diverted £18 million from the 2020/21 Social Security Scotland budget to be redeployed into Covid-19 response areas. The reduction in budget is likely to be offset by a VAT rebate as, in July 2020, Social Security Scotland were advised that they could claim the VAT back on agency agreements with the DWP (£17.4 million when back dated to the inception of Social Security Scotland).

**58.** The pandemic, and action in response to it, raise significant economic and financial pressures for the Scottish Government. These new financial pressures will need to be balanced alongside existing budget commitments such as social security. The implementation of the devolved social security powers is a significant funding commitment for the Scottish Government and the new benefits or changes in uptake which divert from the UK position need to be funded through the Scottish budget. At this point the impact of these pressures remains very uncertain.



### Recommendation 3

**Social Security Scotland should work with the Scottish Government, its social security programme and DWP to ensure its operational needs and capacity are reflected in revised delivery and financial plans for Wave Two benefits.**

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# Part 4

## Governance and transparency



### Main judgements

**Social Security Scotland has effective governance arrangements and demonstrates a commitment to openness and transparency.**

**Social Security Scotland adapted its governance arrangements effectively to manage the unprecedented risks created by Covid-19.**

**Performance management and reporting is still being developed with few targets currently set against which performance can be measured. Progress was impacted by the Covid-19 pandemic.**

### Overall governance arrangements are appropriate, but have been impacted by the Covid-19 pandemic

**59.** As part of our audit process we continually assess Social Security Scotland's main governance arrangements, including:

- board and committee structure and conduct
- public access to information via websites
- reporting of performance and whether this is fair, balanced and understandable.

**60.** Social Security Scotland has recognised the need to keep its governance arrangements under review as it continues to grow and take on responsibility for delivering more benefits. In November 2019 it established an Agency Leadership Team to support the Executive Team. This is comprised of senior managers from all agency divisions, meets weekly and the Chief Executive attends part of it. Additionally, a Governance Team Leader was appointed in March 2020 to focus on reviewing and improving the current arrangements.

**61.** Social Security Scotland is represented fully within the social security programme's governance structure and staff are embedded within the programme's multidisciplinary teams. The Chief Executive has a joint sign-off with the Programme Director to authorise the go-live of new benefits. Social Security Scotland will also need to keep under review its role and representation within the social security programme's governance arrangements.

**62.** Last year we reported that '*Social Security Scotland has established appropriate governance arrangements and these are developing as we would expect within a new agency*'. These arrangements continued to operate effectively during 2019/20. Additional measures had to be introduced in response to the Covid-19 pandemic to maintain benefit payments and support critical operations.

**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**

**63.** The impact of Covid-19 has been set out in the Governance Statement in the annual report and accounts. Whilst the pandemic only began to affect Social Security Scotland in March 2020 the impact was significant. To manage the unprecedented threat to its staff and operations we note that the following steps were taken by Social Security Scotland in response to the outbreak:

- Most staff moved to remote working and committee meetings were conducted virtually.
- The Chief Executive, as the Accountable Officer, made all key decisions but was informed by the existing governance arrangements.
- A Business Continuity Steering Group was established during the initial stages of the pandemic. Its role was to inform decision making and record any actions taken. This was replaced with the Covid-19 Working Group as Social Security Scotland moved into the 'recovery' phase. It examined the operational work undertaken by the sub-groups created in response to the pandemic. It provided additional assurance to the Agency Leadership Team but was not a decision-making body.
- The Executive Team was responsible for addressing the impact of the pandemic on Social Security Scotland. It controlled the Social Security Scotland's resources and agreed the strategy for dealing with the pandemic.
- The Agency Leadership Team acted as the Tactical Team. It followed the strategic direction of the Executive Team and managed the tactical implementation. It provided a framework to co-ordinate the strategic goals and decisions; and set actions to be taken by teams below.

**64.** The governance structure implemented reflects Social Security Scotland's ability to adapt its decision-making processes effectively to meet the changing needs and maintain benefit payments. These arrangements support good governance and accountability during this period of higher risk and uncertainty.

### **Risk management arrangements have been strengthened**

**65.** Social Security Scotland has continued to strengthen its risk management arrangements. This included revising the strategic risk register, establishing divisional risk logs and working groups, reviewing the risk appetite and tolerance levels, and undertaking an internal audit on risk management. Risk awareness training has also been provided to those managing risk.

**66.** A monthly Risk Review Group has been established to report to the Executive Team. Risk management also remains a standing item on the Audit and Assurance Committee agenda. The committee has undertaken two deep dive sessions to establish if risks are being managed effectively and this will continue in the virtual committee environment.

**67.** Social Security Scotland is reviewing its risk management strategy to mitigate the impact of Covid-19. This has provided an opportunity to reduce critical risks associated with the launch of the Scottish Child Payment and development of disability assessments. Social Security Scotland will have to work closely with the programme to manage risks highlighted on the risk register.

**68.** Ongoing development is needed to support the continuous improvement of the digital systems. As part of an agile approach to systems development the programme initially produces a minimum viable product (MVP) system or enhancement for Social Security Scotland to use. The tight timescales that are available to introduce enhancements can pose a risk that functionality of the product or enhancement deployed does not have all the features originally planned.

**69.** Technical debt is the work needed to add desirable elements to a digital system and rework existing elements. There are two types of technical debt:

- Planned - deliberate decisions made to implement a tactical solution knowing that it will need to be replaced in the future, these tend to be long term and macro in nature.
- Unplanned - unintended consequences of decisions (or the accumulating effect of multiple decisions) during technology selection or implementation, these tend to be short term and micro in nature. It also includes defects that accompany the delivery of an MVP solution.

**70.** Where the MVP is restricted to facilitate timely implementation, there is a risk that unplanned technical debt will be increased with a need for additional manual workarounds to be put in place until a technical solution is available. It is therefore important that there is enough time for testing built into the delivery timetable to ensure that any bugs or issues with the product are identified and rectified before the go-live. It is expected that there will be an element of continuous improvement with all future MVPs delivered by the programme.



#### Recommendation 4

**Social Security Scotland should ensure the MVP initially deployed meets their needs and is sufficiently tested. Consideration should also be given to reducing technical debt more quickly, especially in areas where manual workarounds are needed.**

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### Social Security Scotland demonstrates a commitment to openness and transparency

**71.** There continues to be an increasing focus on demonstrating the best use of public money. Openness and transparency in how a body operates and makes decisions is key to supporting 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.

**72.** Social Security Scotland demonstrates a commitment to openness and transparency in a number of ways including:

- public availability of Executive Advisory Body and Audit and Assurance Committee agendas, minutes and action trackers on the website
- engagement on the development of the form and content of the annual report
- consulting on the Interim Corporate Plan
- welcoming two staff members to observe at Executive Advisory Body meetings
- the publication of statistics on current benefit delivery and a range of corporate documentation on service design and delivery.

## Social Security Scotland is still developing its performance reporting

**73.** In addition to our opinion on the performance report contained in the annual report and accounts of Social Security Scotland we also consider the qualitative aspects. The performance report should provide information on a body, its main objectives and the principal risks faced. It should provide a fair, balanced and understandable analysis of a body's performance as well as helping to explain the financial statements to stakeholders.

**74.** HM Treasury issued an addendum to the 2019/20 FReM to set out minimum reporting requirements for the annual report and accounts as a result of the impact of Covid-19 suppression measures. The addendum permits bodies to omit the performance analysis section from the Performance Report. Social Security Scotland included more than the reduced requirements in their Performance Report.

**75.** The 2019/20 performance report covered the first full year of Social Security Scotland's operations. While there is a good description of activity a clearer summary of overall performance could be made. The report contains many statistics, which could be better focussed and connected more closely with narrative assessment to provide a more balanced story of Social Security Scotland's overall performance.

**76.** Overall, the performance report represents a reasonable picture of Social Security Scotland's performance in 2019/20. Last year there was a recommendation to further improve the report by including the use of infographics and providing more information on performance against target. The changes to the presentation style this year has been limited due to the impact of Covid-19 on staff. We would continue to encourage the use of clear infographics and the assessment of performance against agreed targets.



### Recommendation 5

**Social Security Scotland should continue to develop performance reporting to support the assessment and scrutiny of performance by stakeholders.**

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# Part 5

## Value for money



### Main judgements

**Social Security Scotland is developing performance management arrangements which support the achievement of Best Value. These are not yet fully embedded.**

**Further work is required to implement the Charter Measurement Framework published in October 2019.**

### Social Security Scotland is developing performance management arrangements which support the achievement of Best Value, although these are not yet fully embedded

**77.** *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. The guidance sets out the key principles of best value and the requirement to have a systematic approach to self-evaluation and continuous improvement.

**78.** In September 2018 Social Security Scotland put in place an interim corporate plan covering the period 2018-21. Its aim was to produce an updated corporate plan during 2019/20 to look at arrangements and objectives beyond Wave One. This has not yet been published, with publication now due by the end of 2020.

**79.** The disclosures within the performance report have been linked to the objectives within the interim corporate plan, with the strategic objectives clearly shown. Indicators have been used to measure performance for each objective with the performance being fully reported.

**80.** As Social Security Scotland progressed into its second year of operation the collecting and analysing of performance information has increased. There are regular statistics published on the Social Security Scotland website providing information on performance across a number of areas aligned to the objectives.

**81.** We noted last year that the performance report provided statistics but most of these were not measured against targets, due to their being no prior year data available. This year the statistics provided within the annual report and accounts mainly provide a comparison of performance against last year.

**82.** In October 2019 the Charter Measurement Framework was published. Social Security Scotland had planned on using this to measure their performance. Due to capacity and priorities being directed to other areas as a result of Covid-19 it has been unable to do so. Instead they have published a separate interim analytical report based on the Charter Measurement Framework to sit alongside their annual report and accounts. Presently this document does not provide any targets just results. In order to have meaningful statistics, targets should be set as detailed in [Recommendation 4](#).

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

**83.** During 2019/20 five new benefits were introduced and administered by Social Security Scotland. Although volumes have increased significantly, calls continue to be answered quickly with an average wait time of 12 seconds. There has also been no significant drop in overall satisfaction with the way a call was handled, with a 2 per cent drop reported for Best Start Grant claimants despite the larger volume of calls.

**84.** Processing times is one area where a target is set of 10 days. This year has seen a 2 per cent improvement in Best Start Grant applications being processed within this time scale. 59 per cent of applications were turned around within 10 days with Funeral Support Payment having a rate of 61 per cent. Young Carers Grant had 30 per cent of claims processed within this target. It also has the highest percentage of cases taking longer than 21 days at 30 per cent. There is no clear explanation of why this benefit is more of an anomaly than the others and it is important that this is understood before other benefits are launched.

**85.** For next year due to the impact of Covid-19 and that 99 per cent of staff were working from home due to lockdown there will be an expected reduction in performance. Areas on answering of calls, travel costs, and turnaround on paying out on new claims are just some of the areas where results will be impacted. Social Security Scotland is working within Scottish Government guidelines to manage their response and recovery from the ongoing pandemic.

### **We paused the performance audit planned for May 2020 as a result of the Covid-19 pandemic**

**86.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2019/20 several reports were published which are of direct interest to the body. These are outlined in [Appendix 3](#).

**87.** Audit Scotland had planned to publish the latest in its series of performance audits looking at the Scottish Government's implementation of the devolved benefits in May 2020. Due to the Covid-19 pandemic, this audit was paused in March 2020. Much of the audit work had been completed prior to pausing the audit and, where relevant, this work has informed the annual audit of Social Security Scotland. Audit Scotland will set out a refreshed performance audit programme in autumn 2020 which will include plans for further reporting on social security.

# Appendix 1

## Action plan 2019/20



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p><b>Measuring error and fraud</b></p> <p>Error and fraud are an inherent risk in a social security system that is driven by individual claims. Social Security Scotland is still reliant on the DWP for many error and fraud estimates as well as developing its own arrangements for the benefits being delivered directly.</p> <p><i>Error and fraud measurements are insufficient to support the development of the social security system and the preparation of the annual report and accounts.</i></p>	<p>Social Security Scotland should continue to develop its approach to measuring error and fraud and engage with the DWP to understand and plan for the impact of changes in the measurement of error and fraud estimates.</p>	<p>Work to explore methodologies in use across the public sector to estimate fraud and error started in 2019 but was paused due to Covid-19. This will recommence as quickly as possible. We are currently engaged with DWP analysts and statisticians.</p> <p>Meg Fowler/Richard Morrison</p> <p>December 2021</p>
2	<p><b>Long-term planning</b></p> <p>Social Security Scotland has developed a medium-term plan within the four-year financial forecast. They have not yet fully developed longer-term planning for key areas such as finance, workforce, estates and IT which will be critical to the success of the Scottish social security system. The four-year financial forecast should be continually developed to take a longer-term view.</p> <p><i>Without robust longer-term planning there is a risk that key decisions may not fully consider different scenarios or the potential implications.</i></p>	<p>Longer-term planning should continue to be developed and implemented in key areas such as finance, workforce, estates and IT.</p>	<p>More capacity is now in place to allow us to develop these plans. From 1 April 2021 we will have responsibility for Chief Digital Office and so will start to develop our longer-term IT plans. We are still heavily reliant on the Social Security Directorate's programme that is developing our systems and processes, but we will be looking to further develop our medium-term plans to a longer-term view.</p> <p>James Wallace</p> <p>Dec 2021</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
3	<p><b>Delivery and financial plans</b></p> <p>The Covid-19 pandemic has impacted on the delivery of Wave Two benefits and raised significant financial pressures for the Scottish Government which will need to be balanced alongside existing commitments such as social security.</p> <p><i>The significant uncertainty prevents the successful delivery of the revised timetable.</i></p>	<p>Social Security Scotland needs to work with the Scottish Government, its social security programme and DWP to ensure its operational needs and capacity are reflected in revised delivery and financial plans for Wave Two benefits.</p>	<p>Agreed</p> <p>James Wallace</p> <p>Dec 2021</p>
4	<p><b>Improvement of Digital Systems</b></p> <p>Social Security Directorate Programme uses agile approach which will often result in a minimum viable product being available. This may lead to a significant volume of technical debt and workarounds in the interim. There is currently a back log of digital work that is outstanding for Social Security Scotland systems, with this new technical debt adding to it.</p> <p><i>There is a risk that further technical debt will be added to the already significant list of issues to be addressed.</i></p>	<p>Social Security Scotland should work on ensuring the MVP meets their needs and is fully tested. Consideration should also be given to reducing technical debt, especially in areas where manual workarounds are needed.</p>	<p>Responsibility for addressing the existing technical debt is with the Social Security Directorate Programme. We expect that for benefit services this will be addressed by March 2021 and we have put in place systems to monitor progress. The remaining work, to address continuous improvement, continues to be logged and prioritised for future action. Again, this is the responsibility of the Social Security Directorate's Programme. Its Programme Organisational Readiness and Continuous Improvement team work closely with our Live Service team and will support this and ensure that we are better placed to supplement the delivery of continuous improvement activity to the services in accordance with our risks and priorities..</p> <p>Emma Macphail</p> <p>March 2021 (Technical Debt only)</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
5	<p><b>Performance reporting</b></p> <p>The 2019/20 performance report presents a fair picture of Social Security Scotland's performance. There is room to improve the presentation by introducing infographics and a clearer assessment of performance against agreed targets.</p> <p><i>Performance information is not reported in a way that supports the overall assessment and enables lessons to be learned and action taken.</i></p>	<p>Performance reporting needs to be further developed and implemented to support the assessment and scrutiny of performance by stakeholders.</p>	<p>Agree that there is scope to focus and connect statistical information and research findings more closely with narrative assessment to provide a more balanced story of our performance.</p> <p>The building blocks of a more focussed and better connected assessment are now in place – our revised Corporate Plan will be published in the Autumn setting out our strategic framework with clear linkages to our Charter, the first report on our Charter Measurement Framework will be published alongside this year's Annual Report, work to embed a more joined-up business planning process for 2021-22 is well underway, and our first all-client survey is now out in the field.</p> <p>Next year's Performance Report should be able to bring these things together, in a more coherent and joined-up way, structured around the Charter Measurement Framework and our annual business plan for 2021-22, providing a narrative that clearly explains progress against business plan priorities and the measures in the Charter Measurement Framework.</p> <p>Chris Boyland June 2021</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
6	<p><b>Residency</b></p> <p>Social Security Scotland continues to use postcode as the determinant of residency. An issue was identified as part of the controls work that identified one instance where an incorrect postcode was used when paying out a funeral support payment. Postcode as a measure of residency should therefore be kept under review.</p> <p><i>There is a risk that residency status is not been appropriately assessed.</i></p>	<p>Processes for determining the residency of applicants should be reviewed. All risks arising from the approach should be identified and understood.</p>	<p>The policy and procedures regarding residency are currently for the Social Security Directorate to determine.</p> <p>The Social Security Programme, within the Directorate, have advised that they have reviewed the controls for determining residency and the controls currently in place will be enhanced for all existing and future benefits by December 2020.</p> <p>James Wallace December 2020</p>
7	<p><b>Preventing Error and fraud</b></p> <p>The newly implemented home working practices introduced as a result of Covid-19 means that additional building blocks will be required to ensure that they are not susceptible to higher levels of error or fraud.</p> <p><i>There is a risk that there are higher levels of error and fraud with the remote working policies in place.</i></p>	<p>Social Security Scotland 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>Fraud and error operational teams are established and working well. However the impact of Covid-19 has meant that there have been some constraints on fraud investigation activities. Preparatory work in readiness for the launch of additional benefits is well underway, with investment in training planned along with ongoing recruitment of additional specialist staff. Our statutory Code of Practice for Investigations is in place and the Social Security Assistance (Investigation of Offences) (Scotland) Regulations 2020 have provided considerable advancement in our fraud investigatory capability. A risk assessment, which included assessment of both internal and external fraud and error risks, was undertaken quickly when decision was taken to deploy remote working across the organisation. Additional measures, improvements to existing provisions and an increased focus on monitoring and checking has been deployed.</p> <p>Meg Fowler December 2021</p>



**No. Issue/risk**

**Recommendation**

**Agreed management action/timing**

**Follow up of prior year recommendations**

<b>b/f 1 Social Programme Management (SPM) system controls</b>	Management should introduce procedures to document the audit trail of mitigating controls. Social Security Scotland 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.	<b>Complete</b> The issues with the SPM system have now been resolved.
<b>b/f 2 Assurance from DWP</b>	Management should obtain a better understanding of DWP processes for impairment of benefits receivables and the impact on accounting treatment in Social Security Scotland accounts.  Management have agreed to improve communication with DWP in relation to amounts that will be included within Social Security Scotland's accounts. They have also agreed to explore how they can improve the assurance over the judgements and calculation of balances provided by DWP.	<b>Complete</b> There has been a significant amount of work put in to understanding the processes within DWP. Social Security Scotland has regular calls with a nominated contact within the DWP to ensure that on-going communication.
<b>b/f 3 Fixed Asset Register</b>	It is recommended that a fixed asset register be compiled that is at an individual asset level. This will be of greater importance as Social Security Scotland grows and purchases more assets.	<b>Complete</b> The asset register has been updated for 2019/20.
<b>b/f 4 Residency</b>	Social Security Scotland 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.	<b>On-going</b> Social Security Scotland continues to use postcode as the determinant of residency. One instance was identified, during controls work, where an incorrect postcode was used when paying a funeral support payment. Postcode as a measure of residency should be kept under review.  See <a href="#">Recommendation 5</a>



No.	Issue/risk	Recommendation	Agreed management action/timing
b/f 5	Preventing error and fraud	Social Security Scotland 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><b>On-going</b></p> <p>Social Security Scotland has implemented error and fraud processes. With the new home working practices, there are additional measures required to address the risk of error or fraud.</p> <p>See <a href="#">Recommendation 6</a></p>
b/f 6	Monitoring error and fraud	Social Security Scotland 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><b>On-going</b></p> <p>Social Security Scotland is working to understand the levels of error and fraud in Scottish benefits. This must continue to include the benefits that transferred on 1 April 2020.</p> <p>See <a href="#">Recommendation 1</a></p>
b/f 7	Medium to long-term financial planning	Social Security Scotland should develop its long-term financial and workforce planning to help it manage the resourcing consequences of organisational growth.	<p><b>On-going</b></p> <p>Social Security Scotland has prepared a 4-year forecast. This will need to be updated and further developed to reflect the impact of the Covid-19 pandemic.</p>
b/f 8	Performance management arrangements	Social Security Scotland 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. Social Security Scotland 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 Social Security Scotland to capture and extract the performance information it needs.	<p><b>On-going</b></p> <p>Performance management arrangements are being developed, with progress impacted by the Covid-19 pandemic.</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 to our wider responsibility under the [Code of Audit Practice 2016](#).

Audit Risk	Assurance procedure	Results and conclusions
<b>Financial statements risks</b>		
<p><b>1 Risk of material misstatement caused by 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 the risk of management override of controls that results in fraudulent financial statements.</p>	<ul style="list-style-type: none"> <li>• Detailed testing of journal entries, including specific analysis of the classification between Social Security Scotland and the Scottish Government.</li> <li>• Reviewed 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>Results:</b> We did not identify any significant issues within our work on journals. Our testing of accruals and prepayments did not identify any errors and there were no significant transactions outside the normal course of business.</p> <p><b>Conclusion:</b> No issues were identified that indicate management override of controls.</p>
<p><b>2 Risk of material misstatement caused by error or fraud over expenditure</b></p> <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"> <li>• Reviewed the Social Programme Management system and the controls in place.</li> <li>• 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.</li> </ul>	<p><b>Results:</b> There were no significant issues in relation to our testing in expenditure.</p> <p><b>Conclusion:</b> No fraud issues were identified. The regularity issue for Carer's Allowance is dealt with at point 3 below.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p><b>3 Insufficient audit evidence to support the regularity of the Carer's Allowance expenditure</b></p> <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"> <li>Reviewed the revised levels of error and fraud within Carer's Allowance expenditure.</li> <li>Detailed review of the revised error and fraud estimates will be completed by the NAO on our behalf.</li> </ul>	<p><b>Results:</b> We have reviewed and assessed the revised error and fraud rate for Carer's Allowance of 5.2 per cent. This provides an error rate of £14.5 million which is material for the annual report and accounts.</p> <p><b>Conclusion:</b> We have qualified our regularity opinion for Carer's Allowance.</p>
<p><b>4 Social Programme Management (SPM) system controls</b></p> <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.</p> <p>A number of system control weaknesses were identified in 2018/19 which resulted in manual controls being put place. System fixes have been added to the backlog listing. 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"> <li>Reviewed the SPM system and the controls in place.</li> <li>Focused substantive testing on Best Start Grant payments.</li> <li>Focused substantive testing on funeral support payments.</li> </ul>	<p><b>Results:</b> Audit testing did not identify any significant controls issues in the SPM system.</p> <p><b>Conclusion:</b> SPM controls were operating as expected.</p>
<p><b>5 Assurances from the DWP in relation to Carer's Allowance debt</b></p> <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 Social Security Scotland 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>	<ul style="list-style-type: none"> <li>Reviewed accounting policies in relation to debt recognition and impairment.</li> <li>Reviewed Social Security Scotland's arrangements for ensuring the completeness and accuracy of the impairment figure.</li> <li>Reviewed actual experience of significant estimates made in the prior year.</li> </ul>	<p><b>Results:</b> No significant issues were identified in relation to the debt, impairments and write offs in year.</p> <p><b>Conclusion:</b> The receivable balance within the financial statements was correct.</p>

Audit Risk	Assurance procedure	Results and conclusions
<b>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</b>		
<p><b>6 Error and fraud arrangements</b></p> <p>The error and fraud arrangements within Social Security Scotland 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 Social Security Scotland. 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>	<ul style="list-style-type: none"> <li>Reviewed the progress made in developing operational processes in relation to residency.</li> <li>Reviewed updated documentation in relation to error and fraud.</li> <li>Reviewed the compliance checks including the additional verification checks as part of our sample testing of benefits expenditure.</li> </ul>	<p><b>Results:</b> The Statutory Code of Practice for Investigations was laid in Scottish Parliament in February 2020 and the Social Security Assistance (Investigation of Offences) (Scotland) Regulations 2020 came into force around the same time. Investigation work has continued despite Covid-19 restrictions.</p> <p>Residency continues to be used to determine eligibility. Social Security Scotland is working to understand the levels of error and fraud in Scottish benefits.</p> <p><b>Conclusion:</b> Error and fraud arrangements should continue to be developed to include the benefits that transferred on 1 April 2020.</p>
<p><b>7 Medium to long term financial plans and workforce planning</b></p> <p>A medium to long term financial plan is an important tool which supports Social Security Scotland to manage future budgets and cost pressures. This is particularly important given the future growth as more benefits are delivered by Social Security Scotland. Scenario planning is also an essential part to ensure that Social Security Scotland 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>	<ul style="list-style-type: none"> <li>Reviewed the financial and workforce planning arrangements to ensure these include appropriate scenario planning and are fit for purpose.</li> </ul>	<p><b>Results:</b> Social Security Scotland has developed 4-year forecasts.</p> <p><b>Conclusion:</b> Social Security Scotland has 4-year forecasts. Further development is required to reflect the impact of the Covid-19 pandemic.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p><b>8 Performance and risk management arrangements</b></p> <p>Social Security Scotland's strategic objectives are set out in its interim corporate plan, including potential measures for success. 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 Social Security Scotland 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 Social Security Scotland as it is growing and developing.</p>	<ul style="list-style-type: none"> <li>• Ongoing engagement with Strategy, Policy and Assurance lead on progress.</li> <li>• Reviewed the development of performance managements arrangements as they are being established.</li> <li>• Reviewed progress in developing risk management arrangements, including risk registers.</li> </ul>	<p><b>Results:</b> Within the performance report for 2019/20 there are comparisons to prior years to give context over the statistics.</p> <p>Risk management has been developed with the risk register having been re-worked to ensure that it provides the best information.</p> <p><b>Conclusion:</b> Performance and risk management arrangements have improved.</p>

# Appendix 3

## Summary of national performance reports 2019/20

		 <b>2019/20 Reports</b>	
		Apr	
Social security: Implementing the devolved powers		<b>May</b>	
Scotland's colleges 2019		<b>Jun</b>	 Enabling digital government
		Jul	
NHS workforce planning - part 2		<b>Aug</b>	
Finances of Scottish universities		<b>Sept</b>	
NHS in Scotland 2019		<b>Oct</b>	
		Nov	
Local government in Scotland: Financial overview 2018/19		<b>Dec</b>	
Scotland's City Region and Growth Deals		<b>Jan</b>	 Privately financed infrastructure investment: The Non-Profit Distributing (NPD) and hub models
		Feb	
		<b>Mar</b>	 Early learning and childcare: follow-up

### Central Government relevant reports

[Social security: Implementing the devolved powers](#) – May 2019

[Enabling digital government](#) – June 2019

[Scotland's City Region and Growth Deals](#) – October 2019

[Privately financed infrastructure investment: The Non-Profit Distributing \(NPD\) and hub models](#) – Jan 2020

[Early learning and childcare: follow-up](#) – March 2020

# Social Security Scotland

## 2019/20 Annual Audit Report

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