

# Scottish Commission on Social Security

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

Prepared for Scottish Commission on Social Security  
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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# Risks and planned work

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- 1.** The Scottish Commission on Social Security (SCoSS) is a new body created by the Social Security (Scotland) Act 2018. SCoSS is an advisory non-departmental public body set up to provide independent scrutiny of the Scottish Social Security system, including benefit regulations and to hold Scottish Ministers to account.
- 2.** 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](#).
- 3.** We fully recognise the unique and significant pressures that the public sector is under in responding to the threat posed by the current Covid-19 pandemic. Our approach to audit during the current Covid-19 pandemic aims to be flexible, pragmatic and consistent. It will be some time before we fully understand the impact on public services and finances but it is clear that sound financial management and effective governance are more important than ever. Audit has a key role in providing assurance and aiding scrutiny during these difficult circumstances and we will prioritise quality and independence.
- 4.** This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual report and accounts and meet the wider scope requirements of public sector audit.
- 5.** The wider scope of public audit contributes to assessments and conclusions on wider dimension risks relating to financial management, financial sustainability, governance and transparency and value for money.

## Adding value

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

## Audit risks

- 7.** Based on our discussions with staff, attendance at Board meetings and a review of supporting information we have identified the following significant risks for Scottish Commission on Social Security. We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1

### 2019/20 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
<b>Financial statements risks</b>		
<p><b>1 Risk of material misstatement caused by management override of controls</b></p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement caused by 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>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> <li>• Detailed testing of journals</li> <li>• Testing to supporting documentation for a sample of transactions</li> <li>• Review of accounting estimates</li> <li>• Evaluation of significant transactions that are outside the normal course of business</li> <li>• Substantive testing of transactions after the year end to confirm transactions have been accounted for in the correct financial year</li> <li>• Testing of accounting adjustments at the year-end.</li> </ul>
<p><b>2 Accounts preparation</b></p> <p>This is the first year that the Scottish Commission on Social Security will prepare an annual report and financial statements. While support will be provided by the Scottish Government Social Security Directorate, there remains an inherent risk around the general accounts preparation process.</p> <p>There is a risk that the financial statements and relevant disclosures are not prepared in line with the appropriate guidance and requirements or in accordance with the statutory timetable.</p>	<p>Accounts prepared by Scottish Government</p>	<ul style="list-style-type: none"> <li>• Ongoing discussions with the SCoSS over accounts preparation.</li> </ul>
<b>Wider dimension risks</b>		
<p><b>3 Governance and transparency: Audit arrangements</b></p> <p>SCoSS is governed by a Board, and there is no audit committee in place. All accounting entities to which the Scottish Public Finance Manual (SPFM) is directly applicable (including SCoSS) should establish audit committees or appropriate alternative audit arrangements.</p> <p>As SCoSS continue to develop their governance arrangements, it is important that functions which are ordinarily performed by an audit committee are adequately addressed</p>	<p>Audit outputs will be submitted to the Board of SCoSS for their consideration</p>	<ul style="list-style-type: none"> <li>• Review of the framework document</li> <li>• Ongoing discussions with SCoSS</li> </ul>

	Audit Risk	Source of assurance	Planned audit work
	<p>and for SCoSS to be in compliance with the SPFM.</p> <p>Without an audit committee or appropriate alternative arrangement, there is a risk that audit findings are not considered and addressed.</p>		

Source: Audit Scotland

**8.** 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 the 2019/20 accounts because SCoSS does not hold the ability to generate income.

**9.** In line with Practice Note 10, as most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. We have rebutted the risk of material misstatement caused by fraud in expenditure in the 2019/20 accounts because expenditure incurred by SCoSS is administered using well-established Scottish Government systems and controls. Furthermore, the nature of this expenditure is not complex, with approximately 95% of costs relating to staff and staff-related costs.

## Reporting arrangements

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

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

**12.** Under the Public Finance and Accountability (Scotland) Act 2000 there is a requirement for the resource account of the Scottish Commission on Social Security 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	20 October 2020	29 October 2020
Independent Auditor's Report	02 December 2020	09 December 2020
Annual Audit Report	02 December 2020	09 December 2020

Source: Audit Scotland

## Audit fee

**13.** The proposed audit fee for the 2019/20 audit of SCoSS is £5,000. In determining the audit fee we have taken account of the risk exposure of SCoSS, the planned management assurances in place and the level of audit work we plan to do. Our audit approach assumes receipt of the unaudited annual accounts, with a complete working papers package on 14 October 2020.

**14.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts, 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

### Board and Accountable Officer

**15.** 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.

**16.** The audit of the annual accounts does not relieve management or the Board as those charged with governance, of their responsibilities.

### Appointed auditor

**17.** 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.

**18.** 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 report and accounts

**19.** 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 SCoSS and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how SCoSS 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.

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

- give a true and fair view in accordance with the Social Security (Scotland) Act 2018 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 expenditure 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 properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
- the regularity of the expenditure
- the part of the Remuneration and Staff Report to be audited has been properly prepared
- information given in the Performance Report is consistent with the financial statements
- information given in the Governance Statement is consistent with the financial statements.



characteristics



responsibilities



principal activities



risks



governance arrangements

## Statutory other information in the annual report and accounts

**21.** We also review and report on statutory other information published within the annual report and accounts including the management commentary, annual governance statement and the remuneration and staff 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.

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

## Materiality

23. 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.

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

## Exhibit 3 Materiality values

Materiality	Amount
<b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 2% of gross expenditure for the year ended 31 March 2020 based on the latest budgeting monitoring information for 2019/20.	£4,000
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 50% of planning materiality.	£2,000
<b>Reporting threshold</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 5% of planning materiality.	£200

Source: Audit Scotland

## Timetable

25. 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
Latest submission date of unaudited annual report and accounts with complete working papers package	14 October 2020
Latest date for final clearance meeting with Accountable Officer and Lead Secretary	25 November 2020
Issue of Letter of Representation and proposed independent auditor's report	02 December 2020
Independent auditor's report signed	09 December 2020
Issue of Annual Audit Report to those charged with governance	02 December 2020

## Audit dimensions

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

### Exhibit 5 Audit dimensions



Source: Code of Audit Practice

27. The Code of Audit Practice includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services. In the light of the low volume and lack of complexity of the financial transactions, we plan to apply the small body provisions of the Code to the 2019/20 audit of SCoSS.

#### 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 longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- 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

#### Governance and transparency

29. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision – making and transparent reporting of financial and performance information. We will review, conclude and report on:

- whether SCoSS can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports

- the quality and timeliness of financial and performance reporting.

## Independence and objectivity

**30.** Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

**31.** The engagement lead (i.e. appointed auditor) for SCoSS is Michael Oliphant, 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 SCoSS.

## Quality control

**32.** 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.

**33.** 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.

**34.** 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.

# Scottish Commission on Social Security

## Annual Audit Plan 2019/20

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

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