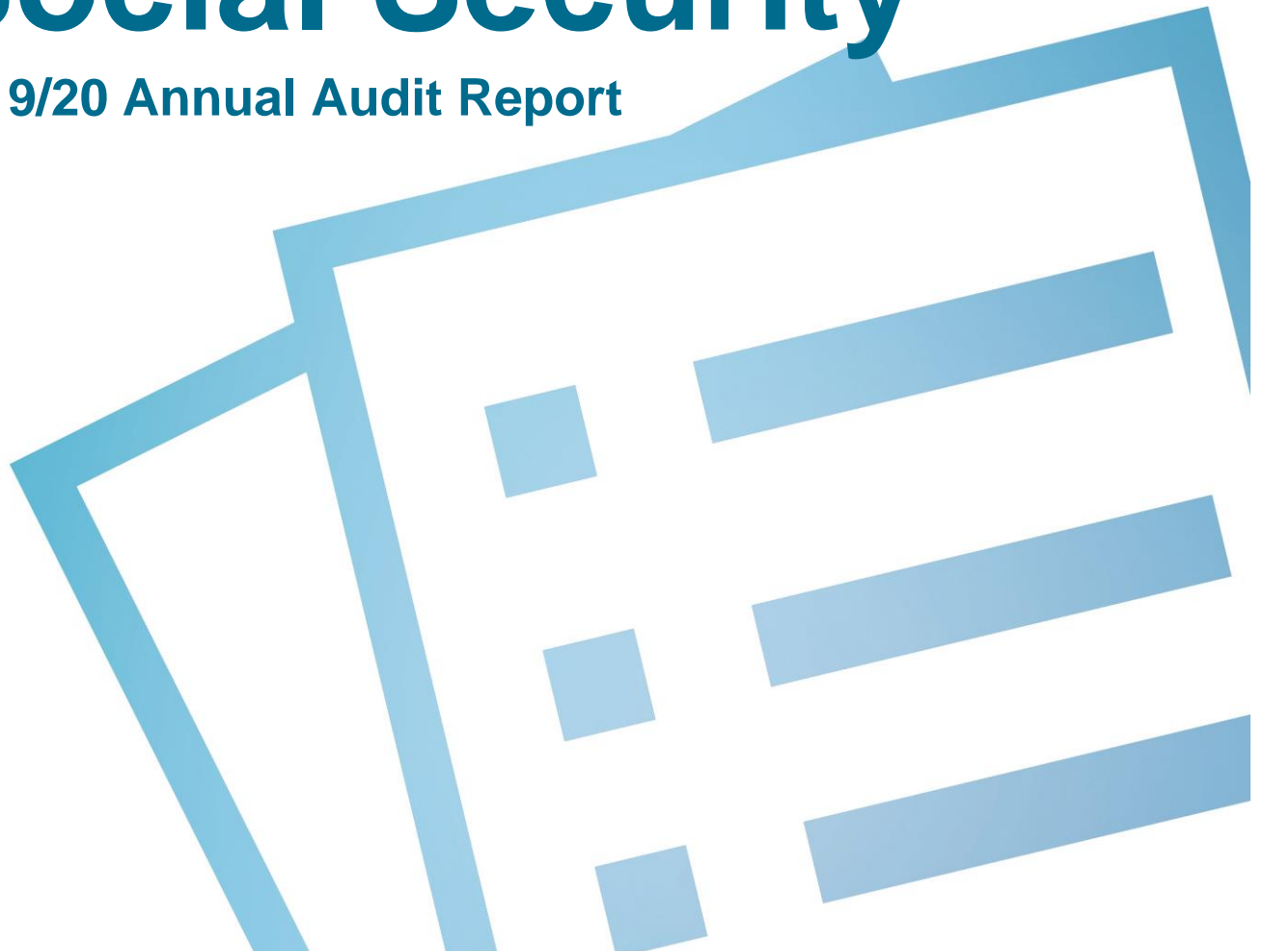


# Scottish Commission on Social Security

2019/20 Annual Audit Report



 AUDIT SCOTLAND

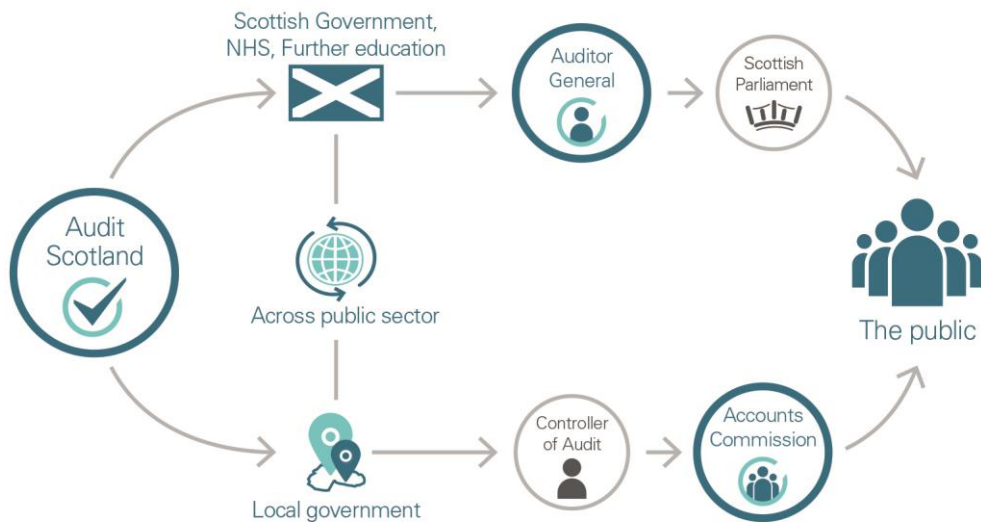
Prepared for the Scottish Commission on Social Security and the Auditor General for Scotland

January 2021

## 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 the Scottish Commission on Social Security (SCoSS) give a true and fair view of the state of affairs of the body as at 31 March 2020 and of the net expenditure for the year then ended; and have been properly prepared in accordance with the financial reporting framework.
- 2** The other information in the annual report and accounts is consistent with the financial statements and prepared in accordance with applicable requirements.

## Financial sustainability and governance

- 3** The Scottish Commission on Social Security remained within its budget of £340,000, reporting an underspend of nearly £150,000 in 2019/20 and we have no concerns about the overall financial position of the Scottish Commission on Social Security.
- 4** The information disclosed in the governance statement complies with guidance issued by the Scottish Ministers.

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# Introduction

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1. This report summarises the findings from our 2019/20 audit of the Scottish Commission on Social Security (SCoSS).
2. The scope of our audit was set out in our Annual Audit Plan presented to the 29 October 2020 Board meeting. This report comprises the findings from:
  - an audit of SCoSS 2019/20 annual report and accounts
  - consideration of the appropriateness of the disclosures in the governance statement and the financial sustainability
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.

## Responsibilities and reporting

4. The Scottish Commission on Social Security (SCoSS) has primary responsibility for ensuring the proper financial stewardship of public funds that it receives. This includes preparing an annual report and accounts that are in accordance with the accounts direction from the Scottish Ministers.
5. SCoSS is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity of expenditure that enable the board to successfully deliver its objectives.
6. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#), and supplementary guidance and International Standards on Auditing in the UK. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on the appropriateness and effectiveness of the performance management arrangements, the suitability and effectiveness of corporate governance arrangements, the financial position and arrangements for securing financial sustainability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.
7. The [Code of Audit Practice 2016](#) (the Code) 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. As highlighted in our 2019/20 Annual Audit Plan, in recognition of the low volume and lack of complexity of the financial transactions, we applied the small body provisions of the Code to the 2019/20 audit of SCoSS.

**8.** 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.

**9.** Our annual audit report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officer(s) and dates for implementation.

### **Adding value through the audit**

**10.** Our aim is to add value to SCoSS by identifying areas of improvement and recommending and encouraging good practice. In so doing, we aim to help SCoSS promote improved standards of financial reporting and governance.

**11.** This report is addressed to both SCoSS 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.

**12.** We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

### **Auditor Independence**

**13.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2019/20 audit fee of £5,000 as set out in our Annual Audit Plan remains unchanged.

**14.** We are not aware of any relationships that could compromise our objectivity and independence.

# Part 1

## Audit of 2019/20 annual report and accounts



### Main judgements

**The Scottish Commission on Social Security's financial statements give a true and fair view of the financial position and its net expenditure for the year; and have been properly prepared in accordance with the financial reporting framework.**

**The other information in the annual report and accounts is consistent with the financial statements and prepared in accordance with applicable requirements.**

### Audit opinions

**15.** The accounts for the year ended 31 March 2020 were presented to the Board on 9 December 2020 and the Board recommended the accountable officer sign the accounts. We reported within the independent auditor's report that:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework, expenditure and income were regular and in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

**16.** The working papers provided to support the accounts were of a good standard and the audit team received support from staff which helped ensure the final accounts audit process ran smoothly.

### Impact of Covid-19

**17.** In response to the unprecedented Covid-19 situation and its effect on government entities, HM Treasury reviewed the financial reporting requirements for 2019/20 and set revised minimum reporting requirements in order to ease the burden on preparers of annual reports and accounts. This guidance did not replace the Financial Reporting Manual (FRoM) but provided minimum reporting requirements. There was no change to the required format and content of financial statements as detailed in the published 2019/20 FRoM. The addendum to the FRoM permitted entities to omit or simplify elements of the performance report. SCoSS's applied this simplified approach to the performance report. The performance report produced by SCoSS was of a good quality and provided good insight into SCoSS' first year in operation.

### Materiality

**18.** On receipt of the unaudited annual report and accounts we reviewed our materiality calculations and concluded that they remained appropriate. The reported outturn at 31 March 2020 was consistent with the budget monitoring information for 2019/20 on which we based our materiality calculations. Therefore

the materiality levels below are the same as values outlined in our Annual Audit Plan.

## Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£4,000
Performance materiality	£2,000
Reporting threshold	£200

Source: The Scottish Commission on Social Security - Annual Audit Plan 2019/20

## Risks of material misstatement

**19.** [Appendix 2](#) provides our assessment of risks of material misstatement in the annual report and accounts and any wider audit dimension risks. 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. [Appendix 2](#) also identifies the work we undertook to address these risks and our conclusions from this work.

**20.** We have reported a number of issues from our work on the risks of material misstatements. These relate to the accounts preparation risk and audit governance arrangements and are included in the action plan at [Appendix 1](#).

## Significant findings from the audit

**21.** 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. We have no significant findings to report around the qualitative aspects of the body's accounting policies, accounting estimates and financial statements disclosures, apart from our governance statement observations. The significant findings are summarised in [Exhibit 2](#).

## Exhibit 2 Significant findings from the audit of annual report and accounts

Issue	Resolution
<p><b>1. Governance Statement</b></p> <p>The Governance Statement included in the first draft of the annual report and accounts did not include all essential elements required by the Scottish Public Finance Manual (SPFM).</p>	<p>The required elements that were missing were discussed with officers and the governance statement was revised. The Governance Statement included in the finalised annual accounts is compliant with the SPFM.</p>
<p><b>2. Accounts preparation</b></p> <p>The first draft of annual accounts was provided to audit on 14 October in line with the agreed timetable. The working papers followed on 26</p>	<p>Officers were quick to answer our queries and provide further supporting information and we were able to obtain the information we required.</p>



October which delayed the start of our substantive audit work.

We have made a recommendation for next year's accounts preparation process in Appendix 1.

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### 3. Completeness of accounts

As a new body, this was the first year that SCoSS prepared its accounts. The accounts provided to audit did not include the Statement of Changes in Taxpayers' Equity, the Statement of Financial Position and the Statement of Cashflows.

We discussed with officers why these primary statements were required and our recommendations were actioned by officers responsible for preparing the accounts. The necessary revisions were made to include these primary statements in the finalised annual accounts.

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Source: Audit Scotland

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## Identified misstatements

**22.** Total misstatements identified totalled £15,000, which increased net expenditure by £3,000. These misstatements related to 2 missed accruals and capital expenditure incorrectly expensed. While the misstatements were above materiality, we concluded that the misstatements identified arose from issues that were isolated and do not indicate systematic error. 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 officers and materiality. All misstatements identified by us were adjusted for in SCoSS' accounts.

# Part 2

## Financial sustainability and governance



### Main judgements

**The Scottish Commission on Social Security remained within its budget, reporting an underspend of nearly £150,000 in 2019/20, and we have no concerns about the overall financial position of the Scottish Commission on Social Security.**

**The information disclosed in the governance statement complies with guidance issued by the Scottish Ministers.**

### SCoSS operated within its 2019/20 budget

**23.** Paragraph 11 of Schedule 1 of the Social Security (Scotland) Act 2018 states that '*Scottish Ministers are to provide the Commission with such staff and other resources as it requires to carry out its functions*'. Funding from the Scottish Government is the SCoSS' sole source of income and there is a greater degree of certainty over future funding streams than for some other public sector organisations which are involved in income generating activities. The main financial objective for SCoSS is therefore to ensure that the financial outturn for the year is within the budget allocated by the Scottish Government.

**24.** SCoSS has reported net operating costs of £190,629, remaining within its overall budget for 2019/20 with an underspend of nearly £150,000. The underspend is explained by SCoSS not incurring as high staff costs and Board member fees as initially budgeted for, as well as non-pay expenditure being lower than anticipated across majority of different categories (such as website, travel and subsistence and focus groups).

**25.** The budget allocated to SCoSS for 2020/21 was kept at the same level of £340,000 as in 2019/20.

**26.** The Statement of Financial Position as at 31 March 2020 shows that SCoSS' liabilities are balanced by recognising Scottish Government funding as a debtor, as this funding will be provided to SCoSS to meet these liabilities as they fall due, as confirmed through the 2020/21 Scottish Budget Act. We have no concerns about the financial position of SCoSS.

### Governance arrangements

**27.** The Scottish Commission on Social Security 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. The Commission is separate from the Scottish Government and carries out its functions independently of both Scottish Ministers and the Scottish Parliament.

**28.** SCoSS is governed by a board comprising 4 members. There is no audit committee in place. It is unusual not to have an audit committee and we recommend that SCoSS consider ensuring appropriate alternative audit arrangements are in place.

**29.** As part of our planning processes, we reviewed SCoSS's corporate documents, including standing orders. Standing orders were approved by the board in October 2019 and have not been reviewed since due to COVID-19 impact. Our review of this document identified following areas which SCoSS is recommended to consider for inclusion at the next review of standing orders:

- how can members be appointed to the board
- frequency of board meetings
- relationship between the board and the accountable officer
- members' remuneration and expenses
- whether there are any papers which the board would wish to routinely review, such as risk registers, finance monitoring reports etc..

**30.** SCoSS is recommended to consider inclusion of matters listed above in the standing orders at the next review of the document to ensure its completeness. [Appendix 1, issue 3.](#)

## Governance statement

**31.** HM Treasury's Financial Reporting Manual (the FReM) states that the Scottish Commission on Social Security must prepare an annual governance statement within the annual report and accounts. Guidance is set out within the Scottish Public Finance Manual (SPFM) for the content of the governance statement and provides assurances around the achievement of the organisation's strategic objectives.

**32.** As we set out in Exhibit 2, the Governance statement included in the first draft of the annual report and accounts did not include all essential elements required by the SPFM. We concluded that the information disclosed in the updated 2019/20 governance statement complies with the guidance issued by the Scottish Ministers. Based on our knowledge and work performed, it presents an appropriate picture of the governance arrangements in place.

## Arrangements for the prevention and detection of fraud

**33.** We assessed the arrangements for the prevention and detection of fraud during the planning stage of the audit. This assessment was largely satisfactory, however, there is one aspect SCoSS could strengthen as set out below.

**34.** As part of our risk assessment procedures we enquired about SCoSS's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments. We were informed that no such assessment was performed in 2019/20 and that there is no established process for reporting to the board on fraud issues.

**35.** SCoSS should assess the risk that the financial statements may be materially misstated due to fraud on an annual basis. SCoSS should also establish the process for communicating on identifying and responding to the risks of fraud to the Board. [Appendix 1, issue 4.](#)

## Equalities

**36.** SCoSS demonstrated a willingness to advance equalities during 2019/20. The Code of Conduct for SCoSS's board members requires them to be aware of wider diversity and equality issues. Members considered possible approaches to

systematically and meaningfully involving people with lived experience in SCoSS's work.





**37.** In September 2020 the board received a presentation on the Scottish Government's approach to undertaking equality impact assessments. The board also discussed how SCoSS's work could be informed by its obligations under the Public Sector Equality Duty as set out in the Equality Act 2010.

**38.** As part of this meeting, various actions that SCoSS could take were discussed including reviewing the risk register to ensure a strong equalities focus, and actively considering how engagement with people with lived experience could strengthen understanding and awareness of equalities issues, to take forward through their work on scrutinising social security legislation.

**39.** In the current context with EU withdrawal and the impact of Covid-19, equalities issues will be an important challenge for the Scottish public sector to address.

# Appendix 1

## Action plan 2019/20

No.	Issue/risk	Recommendation	 Agreed management action/timing
1	 <p><b>Accounts preparation</b></p> <p>2019/20 was the first year that the Scottish Commission on Social Security prepared an annual report and financial statements. The first draft of annual accounts was provided in line with the agreed timetable, however it was incomplete and not accompanied by working papers to support the audit process. We identified a number of presentational and disclosure issues, all of which were addressed by SCoSS.</p> <p>Going forward, there is a risk that the financial statements, relevant disclosures and working papers, are not prepared in line with the appropriate guidance and requirements or in accordance with the statutory timetable.</p>	 <p>SCoSS should review their year-end processes and accounts preparation timetable for 2020/21 to ensure working papers are provided alongside draft accounts and the accounts are as complete as they can be.</p> <p><a href="#">Paragraph 21</a></p>	 <p>The Secretariat, Accountable Officer, Sponsorship Team and other Scottish Government officials will meet asap to undertake an informal 'lessons learned review' of the 19/20 audit. This will include a discussion of the relevant points from this report. The expected outcome is a detailed action plan, including a timeline and responsibilities, showing how the 20/21 accounts will be produced.</p> <p>Responsible officer.</p> <p>SCoSS lead secretary/ AO</p> <p>Agreed date.</p> <p>February/ March 2021</p>
2	<p><b>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</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><a href="#">Paragraph 28</a></p>	<p>The Scottish Government's Sponsorship Team was advised by the Head of Internal Audit that forming an audit committee would be a disproportionate level of scrutiny for a body the size of SCoSS. Instead it</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>(SPFM) is directly applicable (including SCoSS) should establish audit committees or appropriate alternative audit arrangements.</p>		<p>was recommended that SCoSS appoint an independent and external consultant to sit in on Board meetings to provide scrutiny and advise on audit related matters.</p> <p>The Sponsorship Team has already begun the appointment process, and we hope to have someone in post by the summer.</p> <p>Responsible officer Sponsorship Team</p> <p>Agreed date July 2021</p>
3	<p><b>Standing orders</b></p> <p>Standing orders were approved by the board in October 2019 and have not been reviewed since due to COVID-19 impact. Our review of this document identified some areas SCoSS is recommended to consider for inclusion at the next review of standing orders:</p> <ul style="list-style-type: none"> <li>• how can members be appointed to the board</li> <li>• frequency of board meetings</li> <li>• relationship between the board and the accountable officer</li> <li>• members' remuneration and expenses</li> <li>• whether there are any papers which the board would wish to routinely review, such as risk registers, finance</li> </ul>	<p>SCoSS should consider supplementing standing orders as outlined in the risk description to ensure their completeness.</p> <p><a href="#">Paragraph 30</a></p>	<p>SCoSS's scheduled review of its Standing Orders has been subsumed into its wider work on continuous improvement. Audit Scotland's recommendations will be considered in full when SCoSS reviews the Standing Orders.</p> <p>Responsible officer. SCoSS lead secretary.</p> <p>Agreed date. Ongoing</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	monitoring reports etc..		
4	<p><b>Risk that the financial statements may be materially misstated due to fraud</b></p> <p>As part of our risk assessment procedures we enquired about SCoSS's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments. We were informed that no such assessment was performed in 2019/20 and that there is no established process for reporting to the board on fraud issues.</p>	<p>SCoSS should assess the risk that the financial statements may be materially misstated due to fraud on an annual basis. SCoSS should also establish the process for communicating on identifying and responding to the risks of fraud to the board.</p> <p><a href="#">Paragraph 35</a></p>	<p>Secretariat and Scottish Government officials will review finance processes and report to the Board with recommendations</p> <p>This work will be supported by the appointment of independent consultation as mentioned in Risk 2.</p> <p>Responsible officer.</p> <p>Secretariat/ Scottish Government finance officials</p> <p>Agreed date.</p> <p>Tied to risk 2.</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](#).

### Risks of material misstatement in the financial statements

<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>	<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>We did not identify any issues as a result of our audit work that would indicate management override of controls affecting the year-end position.</p>
<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>	<ul style="list-style-type: none"> <li>• Ongoing discussions with the SCoSS over accounts preparation.</li> </ul>	<p>As reported in part 1 of this report, draft annual accounts were provided in line with the agreed timetable, however they were incomplete and not accompanied by working papers package. We identified a number of presentational and disclosure issues, all of which were addressed by SCoSS.</p> <p>We are content that following our audit review, the financial statements have been prepared in line with appropriate frameworks and guidance and there are no material misstatements.</p> <p>We recommend that the Scottish Commission on Social Security review their year-end processes and accounts preparation timetable for 2020/21.</p>



Action plan 2019/20, action 1

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**Risks identified from the auditor's wider responsibility under the Code of Audit Practice**


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**3 Governance and transparency: Audit arrangements**

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.

As SCoSS continue to develop their governance arrangements, it is important that functions which are ordinarily performed by an audit committee are adequately addressed.

- Review of the framework document
- Ongoing discussions with SCoSS

The Scottish Commission on Social Security continues to develop their governance arrangements.

Action plan 2019/20, action 2

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# 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

# Scottish Commission on Social Security

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