

Social Security Scotland

Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for Social Security Scotland
March 2022

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of Social Security Scotland. The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the annual report and accounts of Social Security Scotland and the issue of an independent auditor's report setting out our audit opinions on the financial statements, regularity and other statutory information including the Performance Report, Governance Statement and Remuneration and Staff Report
- consideration of arrangements in relation to the audit dimensions that frame the wider scope of public sector audit: financial management, financial sustainability, governance and transparency and value for money
- consideration of Best Value arrangements and Social Security Scotland's participation in the National Fraud Initiative.

Impact of Covid-19

2. The Covid-19 pandemic has had a significant impact on public services and public finances and the effects will be felt well into the future. The Auditor General for Scotland, the Accounts Commission and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

Adding value

3. We aim to add value to Social Security Scotland by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we will help Social Security Scotland promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend meetings of the Audit and Assurance Committee and actively participate in discussions.

Respective responsibilities of the auditor and Social Security Scotland

4. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and Social Security Scotland. Key responsibilities are summarised below.

Auditor responsibilities

5. 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.

6. 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 Social Security Scotland to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

Social Security Scotland responsibilities

7. Social Security Scotland has 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 deliver their objectives.

8. Social Security Scotland is also responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

Managing the transition to 2022/23 audits

9. Audit appointments are usually for five years but were extended to six years due to the Covid-19 pandemic. 2021/22 is the final year of the current appointment and we will work closely with our successors to ensure a well-managed transition.

Financial statements audit planning

Materiality

10. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2021/22 audit

11. We assess materiality at different levels and the materiality values for Social Security Scotland are set out in [Exhibit 1](#).

Exhibit 1

2021/22 Materiality levels for Social Security Scotland

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1 per cent of gross expenditure for the year ended 31 March 2022 based on the latest finance reports available.	£38 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 60 per cent of planning materiality.	£23 million
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance all unadjusted misstatements above the 'reporting threshold' amount.	£100,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

12. Our risk assessment draws on our cumulative knowledge of Social Security Scotland, its major transaction streams, key systems of internal control and risk management processes. Also, it is also informed by our discussions with management, meetings with internal audit, attendance at committees and a review of relevant supporting information.

13. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2021/22 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by the management override of controls</p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. Management is in a unique position to perpetrate fraud because of the ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> Owing to the nature of this risk, assurances from management are not applicable in this instance. 	<ul style="list-style-type: none"> Assess the design and implementation of controls over journal entry processing. Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. Test journals at the year-end and post-closing entries and focus on significant risk areas. Evaluate significant transactions outside the normal course of business. Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>2. Risk of material misstatement caused by fraud in benefit expenditure</p> <p>Practice Note 10 extends the requirements of ISA 240 to include consideration of fraud in expenditure for public bodies. For Social Security Scotland this is a significant and extensive risk given the underlying legislation for the different benefit streams which gives rise to regularity issues for the £3.3 billion expenditure administered by the Department for Work and Pensions (DWP).</p> <p>The complexity of social security systems, inter-relationships between devolved and delegated assistance and the volume of payments means that there is an inherent risk of error and fraud.</p>	<ul style="list-style-type: none"> • Audited financial summary capturing all transactions and balances for the benefit streams administered by the DWP on behalf of Social Security Scotland. 	<ul style="list-style-type: none"> • Assess the audited financial summary prepared by the DWP. • Completion of 'agreed upon procedures' by the National Audit Office (NAO) on our behalf. • Review the NAO published estimates for error and fraud levels and consider appropriateness for Social Security Scotland.

Source: Audit Scotland

14. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this presumed risk in 2021/22 as income is received solely from the Scottish Government and is easily verifiable to external sources. We have not, therefore, incorporated specific work into our audit plan in this area over and above our standard audit procedures.

Other areas of audit focus

15. As part of our assessment of audit risks, we have identified another area where we consider there is a risk to the financial statements. This relates to the fraud and error arrangements for the benefits administered by Social Security Scotland. We recognise these are still in development and are critical in the assessment of the extent of fraud and error that exists within these benefit streams.

16. Based on our assessment of the likelihood and magnitude of the risk, we do not consider this to represent a significant risk. We will keep this under review as our audit progresses.

Audit risk assessment process

17. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

Audit dimensions and Best Value

Audit dimensions

18. The [Code of Audit Practice](#) sets out the four dimensions that frame the wider scope of public sector audit and requires auditors to consider the adequacy of the arrangements in place. The four dimensions that frame our audit work are shown in [Exhibit 3](#).

Exhibit 3 Audit dimensions



Source: Code of Audit Practice

19. In summary, the four dimensions cover the following:

- **Financial management** – financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Financial sustainability** – as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the medium (two to five years) and longer term (longer than five years).

- **Governance and transparency** – 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.
- **Value for money** – value for money refers to using resources effectively and continually improving services.

Duty of Best Value

20. [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will be carrying out a high-level review to confirm that such arrangements are in place within Social Security Scotland.

21. Additionally, as part our Best Value work, we will consider the work carried out by internal audit on Social Security Scotland’s arrangements in relation to the Best Value characteristic “fairness and equality”.

Audit dimension risks

22. We have identified audit risks in the areas set out in [Exhibit 4](#). This exhibit sets out the risks, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risks.

Exhibit 4

2021/22 Audit dimension risks

Description of risk	Sources of assurance	Planned audit response
<p>1. Adequacy of performance management arrangements</p> <p>A robust performance management system needs to be developed to enable Social Security Scotland to support its decision-making processes.</p> <p>The Charter Measurement Framework should be linked to allow there to be measurable and meaningful outcomes.</p>	<ul style="list-style-type: none"> • The ability to properly examine performance is continuing to evolve – there will be some comparative data now for the initial benefits that have launched. The performance report in the Annual Report will draw out more performance information. 	<ul style="list-style-type: none"> • Ongoing engagement with Strategy, Policy and Assurance lead to assess progress. • Review the development of performance management arrangements as they are being established.

Description of risk	Sources of assurance	Planned audit response
<p>2. Social Programme Management (SPM) system and the technical backlog</p> <p>The use of a minimum viable product approach means that the initial system may not contain all of the required functionality. As the benefits being delivered become more complex, the need for robust system controls which prevent and detect fraud and error increases.</p> <p>The extent of the technical backlog impacts on the robustness of the control environment and the arrangements for identifying and addressing fraud and error.</p>	<ul style="list-style-type: none"> • For low income benefits where Social Security Scotland is responsible for continuous improvement there is work that will be pursued without straying into Programme responsibility. The improvement of training materials and guidance is critical to support this. • Ongoing engagement with the Programme to ensure an agreed approach to the resolution of defects and enhancements. 	<ul style="list-style-type: none"> • Assess the appropriateness of the SPM system and the controls in place. • Consider the work done to ensure that the time and resource implications involved in addressing the backlog are fully understood and documented.
<p>3. Long term strategic planning</p> <p>As Social Security Scotland continues to grow, robust long-term plans are required in relation to workforce, estates and IT to ensure that Social Security Scotland is able to deliver future benefits to the agreed timetable.</p> <p>There is a risk that longer term plans do not adequately capture the resources required to deliver future benefits.</p>	<ul style="list-style-type: none"> • Programme Plan to finalise benefit delivery (this would be required from programme) • Business plan that captures all change activity initiated by Programme or our organisation • Medium term financial plans (used for spending review) • Workforce planning • Estate plan – which is being developed in line with the Scottish Government’s estates strategy but which will also flex as the organisation monitors its hybrid working implementation. • IT plans 	<ul style="list-style-type: none"> • Review the revised workforce strategy to assess if it is aligned to the resourcing strategy and estates plan. • Consider the development of IT strategies and the impact on future resourcing and finances.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

23. Audit reporting is the visible output for the annual audit. All audit outputs will be published on our website: www.audit-scotland.gov.uk.

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

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

26. [Exhibit 5](#) outlines the target dates for our audit outputs. We acknowledge this will be challenging due to the ongoing pressures and uncertainties caused by Covid-19.

Exhibit 5 2020/21 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	04/03/2022	Agreed via correspondence
Independent Auditor's Report	22/09/2022*	20/09/2022
Annual Audit Report	22/09/2022*	20/09/2022

Source: Audit Scotland

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

Timetable

27. To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 6](#) that has been discussed with management.

28. The Covid-19 pandemic has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. To this end, 2021/22 is a transition year with the reporting deadline brought forward by one month relative to the two prior years. We are identifying ways to work more efficiently to expedite the 2021/22 audits whilst at the same time maintaining high standards of quality.

29. We will continue to work in close partnership with management over timescales throughout the course of the audit.

Exhibit 6 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	27 June 2022
Receipt of updated annual accounts for agreement of audit changes	1 August 2022
Latest date for signing of SG Consolidation return	TBC
Issue of draft annual audit report for clearance	31 August 2022
Agreement of audited unsigned annual report and accounts	2 September 2022
Latest date for final clearance meeting with the Head of Finance	7 September 2022
Issue of annual audit report, letter of representation and proposed independent auditor's report	9 September 2022
Consideration of audited annual report and accounts and audit reporting by those charged with governance	20 September 2022
Independent auditor's report signed	22 September 2022

Source: Audit Scotland

Audit fee

30. The proposed audit fee for the 2021/22 audit of Social Security Scotland is £412,620 (2020/21: £404,390). In determining the audit fee, we have taken account of the risk exposure of Social Security Scotland, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit.

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

Other matters

Internal audit

32. International standards on Auditing (UK) 610: *Considering the work of internal audit* requires us to:

- consider the activities of internal audit and their effect on external audit procedures
- obtain an understanding of internal audit activities to inform our planning and develop an effective audit approach that avoids duplication of effort
- perform a preliminary assessment of the internal audit function when there is scope for relying on internal audit work which is relevant to our financial statements' responsibilities
- evaluate and test the work of internal audit, where use is made of that work for our financial statements responsibilities to confirm its adequacy for our purposes.

33. From our initial review of the internal audit plans, we plan to place reliance on the work of internal audit in relation to equalities and diversity, budget setting, SPM/technical debt and workforce planning.

Independence and objectivity

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

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

Quality control

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

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

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

Social Security Scotland

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Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

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