

# Social Security Scotland

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for Social Security Scotland  
March 2023

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# Introduction

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## Summary of planned audit work

1. This document summarises the work plan for our 2022/23 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, and provision of an Independent Auditor's Report
- an audit opinion on regularity and other statutory information published within the annual report and accounts including the Performance Report, the Governance Statement and the Remuneration and Staff Report
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
- consideration of Best Value arrangements.

## Audit Appointment

2. We are pleased to be appointed as the external auditor of Social Security Scotland for the period 2022/23 to 2026/27 inclusive. You can find a brief biography of your audit team at [Appendix 1](#).

3. In the first year of the audit appointment, we invest significant time gaining an understanding of your business and identifying and assessing the risks of material misstatement to the financial statements. While we use our initial assessment of risk to inform our planned audit approach, we keep our assessment of risks under review as the audit progresses. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.

4. The audit team will actively engage with you over the course of the audit to ensure our audit work continues to be focused on risk.

## Adding value

5. We aim to add value to Social Security Scotland through our external audit work by being constructive and forward looking, by attending meetings of the Audit and Assurance Committee 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.

## Respective responsibilities of the auditor and Social Security Scotland

6. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and Social Security Scotland. Key responsibilities are summarised below.

### Auditor responsibilities

7. 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.

8. 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 wider scope arrangements in place at Social Security Scotland. In doing this, we aim to support improvement and accountability.

### Social Security Scotland responsibilities

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

10. 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.

# Financial statements audit planning

## Introduction

**11.** The annual report and accounts are an essential part of demonstrating Social Security Scotland's stewardship of resources and its performance in the use of those resources.

**12.** As part of our planning process, we prepare a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements. We focus our work on the areas of highest risk.

## Materiality

**13.** The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. 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 2022/23 audit

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

## Exhibit 1

### 2022/23 Materiality levels for Social Security Scotland

| Materiality  | Amount        |
|--|---------------|
| <p><b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of Social Security Scotland's operations. For the year ended 31 March 2023 we have set our materiality at 1% of gross expenditure based on the latest forecasts.</p> | £43.0 million |
| <p><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 could indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 60% of planning materiality.</p>  | £25.8 million |

**Reporting threshold (i.e. clearly trivial)** – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. £200,000

Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

**15.** 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. It is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

**16.** 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.

**17.** 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

#### 2022/23 Significant risks of material misstatement to the financial statements

| Significant risk of material misstatement   | Sources of assurance  | Planned audit response   |
|---|---|--|
| <p><b>1. Risk of material misstatement due to fraud caused by management override of controls</b></p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p> | <ul style="list-style-type: none"> <li>Owing to the nature of this risk, assurances from management are not applicable in this instance.</li> </ul> | <ul style="list-style-type: none"> <li>Assess the design and implementation of controls over journal processing.</li> <li>Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity.</li> <li>Test journals at the year-end and post-closing entries, with a focus on significant risk areas.</li> <li>Evaluate significant transactions outside the normal course of business.</li> <li>Assess any changes to the methods and underlying assumptions used to</li> </ul> |

| Significant risk of material misstatement  | Sources of assurance  | Planned audit response  |
|--|---|---|
| <p><b>2. Risk of material misstatement caused by fraud and error in benefit expenditure delivered by DWP</b></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 £3.4 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"> <li>• Audited financial summary capturing all transactions and balances for the benefit streams administered by the DWP on behalf of Social Security Scotland.</li> <li>• Assess the reasonableness of DWP published estimates for error and fraud levels as applied to Scotland.</li> </ul> | <p>prepare accounting estimates compared to the prior year.</p> <ul style="list-style-type: none"> <li>• Assess the audited financial summary prepared by the DWP.</li> <li>• Completion of 'agreed upon procedures' by the National Audit Office (NAO) on our behalf.</li> <li>• Review the DWP published estimates for error and fraud levels and consider appropriateness for Social Security Scotland.</li> <li>• Review benefit expenditure against independent forecasts and investigate any significant variances.</li> </ul>                          |
| <p><b>3. Risk of material misstatement caused by fraud and error in benefit expenditure delivered by Social Security Scotland</b></p> <p>The value of benefits administered by Social Security Scotland has increased significantly in 2022/23. Social Security Scotland's understanding of the level of fraud and error within the range of benefits it delivers is still in development and Social Security Scotland relies on</p>   | <ul style="list-style-type: none"> <li>• The development of a fraud and error rate for Scottish Child Payment is being prioritised in 2022/23.</li> <li>• DWP published fraud and error rates will be used to estimate the level of fraud and error within other benefits streams where it can be demonstrated</li> </ul>       | <ul style="list-style-type: none"> <li>• Review the design and implementation of controls over benefits administered by Social Security Scotland, including case transfer, with a focus on prevention and detection of fraud and error.</li> <li>• Ongoing engagement with management on the development of arrangements to assess the estimated levels of fraud and error.</li> <li>• Assess the reasonableness of fraud and error rates applied to Social Security Scotland administered benefits, including detailed testing where appropriate.</li> </ul> |

| Significant risk of material misstatement  | Sources of assurance   | Planned audit response  |
|--|--|---|
| <p>the DWP for some of this information.</p> <p>There is a risk that fraud and error arrangements are not developed at the same pace as the roll-out of new benefits. If Social Security Scotland is unable to accurately disclose the level of fraud and error that exists there may be an impact on the audit opinion.</p> | <p>that this is a reasonable proxy (e.g. Child Disability Payment, Adult Disability Payment, Carers Allowance Supplement).</p> | <ul style="list-style-type: none"> <li>• Detailed testing of benefit payments.</li> </ul> |

Source: Audit Scotland

**18.** 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 2022/23 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.



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# Wider Scope and Best Value

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## Introduction

19. The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the wider scope areas in audited bodies.

20. In summary, the four wider scope areas cover the following:

- **Financial management** – this means having sound budgetary processes. We will consider the arrangements to secure sound financial management including the strength of the financial management culture and accountability. As the benefits being delivered become more complex, the need for robust system controls which prevent and detect fraud, error and other irregularities increases. We will assess the appropriateness of the Social Programme Management (SPM) system, the controls in place and the approach to system development.
- **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 assess how Social Security Scotland is planning to deliver services over the medium and longer term with increased demand and budget pressures. We will monitor progress on workforce and longer-term financial planning arrangements.
- **Vision, leadership and governance** – we conclude on the arrangements in place to deliver the vision, strategy and priorities adopted by Social Security Scotland. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how Social Security Scotland demonstrates economy, efficiency and effectiveness through the use of financial and other resources. We will consider the adequacy of performance management arrangements used by Social Security Scotland to support its decision-making processes and demonstrate impact over time.

21. Our planned work on our wider scope responsibilities is risk based and proportionate and in addition to local risks we consider challenges which are impacting the public sector as a whole. In 2022/23 we will consider Social Security Scotland's arrangements for tackling climate change and responding to cyber security threats.

## Climate Change

**22.** Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of achieving net zero emissions by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

**23.** The Auditor General and Accounts Commission are developing a programme of work on climate change. In 2022/23, we will gather information on Social Security Scotland's arrangements for responding to climate change covering areas such as the development of climate change strategies and the monitoring and reporting of progress against targets for reducing emissions.

## Cyber Security

**24.** There continues to be a significant risk of cyber-attacks to public bodies, and it is important that appropriate cyber security arrangements are in place to address those risks. A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation. In 2022/23, we will consider Social Security Scotland's arrangements for managing and mitigating cyber security risks.

## Duty of Best Value

**25.** [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.

# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

**26.** Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 3](#), 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).

**27.** 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.

**28.** 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.

**29.** [Exhibit 3](#) outlines the target dates for our audit outputs.

## Exhibit 3 2022/23 Audit outputs

| Audit Output                 | Target date | Audit and Assurance Committee Date |
|------------------------------|-------------|------------------------------------|
| Annual Audit Plan            | 10/03/2023  | 21/03/2023                         |
| Independent Auditor's Report | 10/10/2023* | 10/10/2023                         |
| Annual Audit Report          | 10/10/2023* | 10/10/2023                         |

\*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 October committee to enable them to be considered.

Source: Audit Scotland



## Timetable

**30.** 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 4](#) that has been discussed with management.

**31.** Covid-19 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. We are identifying ways to work more efficiently to expedite the 2022/23 audits whilst at the same time maintaining high standards of quality.

**32.** We intend to take a hybrid approach to the 2022/23 audit with a blend of onsite and remote working. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management over the course of the audit.

### Exhibit 4 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 | 26 June 2023*  |
| Latest date for final clearance meeting with the Head of Finance  | 1 September 2023   |
| Issue of draft annual audit report for clearance  | 13 September 2023  |
| Agreement of audited and unsigned annual report and accounts  | 22 September 2023  |
| Issue of Annual Audit Report, Letter of Representation and proposed Independent Auditor's Report                        | 29 September 2023  |
| Consideration of audited annual report and accounts and audit reporting by those charged with governance                | 10 October 2023  |
| Independent Auditor's Report signed   | 10 October 2023  |
| Latest date for signing of SG Consolidation return  | 10 October 2023  |

\*A later submission date of 3 July 2023 has been agreed for the performance report.

Source: Audit Scotland

## Audit fee

**33.** In determining the audit fee, we have taken account of the risk exposure of Social Security Scotland and the planned management assurances in place. The agreed audit fee for 2022/23 is £414,100 (2021/22: £412,620).

**34.** Our fees have increased in 2022/23 and this is a reflection of the current audit market and the rising costs in delivering high quality audit work. There are increased regulatory expectations and risks placed on audit and its quality, as well as a widening in the scope of work audit must cover.

**35.** In setting the fee for 2022/23 we have assumed that Social Security Scotland has effective governance arrangements and will prepare comprehensive and accurate accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

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# Other matters

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## Internal audit

**36.** It is the responsibility of Social Security Scotland to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

**37.** From our initial review of the internal audit plans, we do not plan to place formal reliance on internal audit's work for our financial statements' responsibilities.

**38.** While we are not planning to place formal reliance on the work of internal audit in 2022/23, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

## Independence and objectivity

**39.** 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.

**40.** 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 Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

**41.** The appointed auditor for Social Security Scotland is Pauline Gillen, 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.

## Audit Quality

**42.** Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value and can support public bodies to achieve their objectives.

**43.** Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC (UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits.

**44.** ISQC(UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality Management (ISQM (UK) 1) applicable from 15 December 2022 and (ISQM(UK) 2) effective for the 2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.

**45.** Audit Scotland is committed to delivering high quality audits. 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 supplementary 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 England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

**46.** 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.

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# Appendix 1. Your audit team

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**47.** The audit team involved in the audit of Social Security Scotland have significant experience in public sector audit.

**Pauline Gillen**  
Audit Director  
pgillen@audit-scotland.gov.uk

Pauline has over 16 years of public sector auditing experience. Pauline has worked across the breadth of the public sector on both financial and performance audits.

**Lisa Duthie**  
Senior Audit Manager  
lduthie@audit-scotland.gov.uk

Lisa has over 14 years of public sector audit experience and has delivered external audit services to a range of bodies including local authorities, health boards and central government bodies.

**Pamela Morrison**  
Audit Manager  
pmorrison@audit-scotland.gov.uk

Pamela has over 10 years of public sector audit experience and has delivered external audit services to a range of bodies including local authorities, health boards and central government bodies.

**Marie McFadden**  
Senior Auditor  
mmcfadden@audit-scotland.gov.uk

Marie has considerable experience in planning and delivering audits. Marie will manage the team and work alongside the Audit Manager, Senior Audit Manager and Audit Director to deliver the audit.

**48.** The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

**49.** Where possible and appropriate, we use our data analytics team to enable us to capture whole populations of your financial data. This analysis allows us to identify specific exceptions and anomalies within populations to enhance the focus of audit testing and support efficiency.



# Social Security Scotland

## Annual Audit Plan 2022/23

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](http://www.audit-scotland.gov.uk/accessibility)

For the latest news follow us on social media or [subscribe to our email alerts.](#)



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