Social Security Scotland

2022/23 Annual Audit Report

Prepared for Social Security Scotland and the Auditor General for Scotland

October 2023

Contents

Key messages

2022/23 annual report and accounts

1 We qualified our opinion on the regularity of expenditure and income because estimated overpayments in the benefits delivered by the Department for Work and Pensions through agency agreements were material at £60.7 million. This expenditure was not incurred in accordance with the applicable enactments.

2 All other audit opinions are unmodified.

Financial management

3 Social Security benefit expenditure was £6.7 million above budget in 2022/23.

4 Social Security Scotland has effective and appropriate arrangements to secure sound financial management.

5 Systems of internal control are appropriate, and a Single Prioritised Backlog has been agreed to manage the development of the Social Programme Management (SPM) case management system.

6 Social Security Scotland has developed an estimate of the level of official error that exists within Scottish Child Payment. Significant work is required to measure the rates of fraud and error that exists within the full range of benefits.

Financial sustainability

7 The 2023/24 budget was set at £5.4 billion and there is recognition of the uncertainty within the forecasted benefit streams which are demand led.

8 Longer-term strategic plans are in place to support the delivery of the Scottish social security system.

9 The financial challenge going forward is significant as annual benefit expenditure is forecast to be considerably higher than the Block Grant funding received by 2026/27.

10 The funding and overall cost of services transitioning from the Scottish Government Social Security Programme to Social Security Scotland remain uncertain.

Vision, leadership and governance

11 Social Security Scotland has appropriate governance arrangements in place.

12 The process for preparing the performance report has improved in response to our audit recommendation.

13 Social Security Scotland recognises the risk that cyber security presents to the organisation. Several assessments have been conducted in year and actions agreed to ensure cyber security arrangements continue to improve.

Use of resources to improve outcomes

14 The development of a performance management framework with the Scottish Government Social Security Programme has been identified as a priority. This should be progressed to ensure that an evidence based assessment of performance is available to demonstrate that value for money is being achieved.

15 Social Security Scotland recognises that processing times for the new disability benefits are a significant issue and action is being taken to drive improvement.

Introduction

1. This report summarises the findings from the 2022/23 annual audit of Social Security Scotland. The scope of the audit was set out in an annual audit plan presented to the 21 March 2023 meeting of the Audit and Assurance Committee. This Annual Audit Report comprises:

- significant matters arising from an audit of Social Security Scotland's annual report and accounts.
- conclusions on the following wider scope areas that frame public audit as set out in the Code of Audit Practice 2021:
    - Financial Management
    - Financial Sustainability
    - Vision, Leadership, and Governance
    - Use of Resources to Improve Outcomes.

2. This report is addressed to the Audit and Assurance Committee of Social Security Scotland and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Audit appointment from 2022/23

3. I, Pauline Gillen, have been appointed by the Auditor General as auditor of Social Security Scotland for the period from 2022/23 until 2026/27. The 2022/23 financial year was the first of my five-year appointment. My appointment coincides with the new Code of Audit Practice which was introduced for financial years commencing on or after 1 April 2022.

4. My team and I would like to thank Audit and Assurance Committee members and other staff, particularly those in finance, for their cooperation and assistance this year. We look forward to working together constructively over the course of the five-year appointment.

Responsibilities and reporting

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

6. The responsibilities of the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice

2021, and supplementary guidance and International Standards on Auditing in the UK.

7. 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 of Social Security Scotland from its responsibility to address the issues we raise and to maintain adequate systems of control.

8. This report contains an agreed action plan at Appendix 1. It sets out specific recommendations, the responsible officers, and dates for implementation.

Arrangements for the delivery of benefits

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

10. The programme is responsible for designing and implementing benefits and the supporting systems and processes needed to administer them. Social Security Scotland depends on the programme for the processes and digital systems it needs to deliver its part of the Scottish social security system in the way intended by the Scottish Government. Over time these systems will transition to Social Security Scotland. This will include taking increasing responsibility for the investment in future development and the management of technical debt.

11. The Scottish and UK Governments agreed a phased approach to the devolution of the social security powers to support a safe and secure transition. Legislative competency for the powers was devolved through the Scotland Act 2016, allowing the Scottish Government to develop the necessary legislation. Executive competence, the point where administrative responsibility and financial accountability transfers to Social Security Scotland, for all benefits transferred by 1 April 2020.

Auditor Independence

12. 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 2022/23 audit fee of £414,100 as set out in our 2022/23 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

13. We add value to Social Security Scotland by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, arrangements to ensure the best use of resources and financial sustainability
- sharing intelligence and good practice identified.

1. Audit of 2022/23 annual report and accounts

Public bodies are required to prepare annual reports and accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

Main judgements

We qualified our opinion on the regularity of expenditure and income because estimated overpayments in the benefits delivered by the Department for Work and Pensions through agency agreements were material at £60.7 million. This expenditure was not incurred in accordance with the applicable enactments.

All other audit opinions are unmodified.

We qualified our audit opinion on the regularity of benefit expenditure

14. The annual report and accounts for the year ended 31 March 2023 were approved by the Accountable Officer on 10 October 2023. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.

15. We qualified our opinion on the regularity of benefit expenditure delivered by the Department for Work and Pensions totalling £3.4 billion as we consider the estimated level of overpayments attributable to fraud and error of £60.7 million to be material to our opinion on the accounts.

- all other expenditure and income was applied in accordance with applicable enactments and guidance issued by Scottish Ministers

- the audited part of the remuneration and staff report was prepared in accordance with the financial reporting framework

- the performance report and governance statement were consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

16. There is an inherent risk of fraud and error in any social security system that is driven by individuals' entitlement to benefits. The system is complex and can be difficult to navigate as each benefit has its own individual regulations and assessment criteria.

17. The 2022/23 accounts of Social Security Scotland include benefit expenditure of £3.4 billion delivered by the Department for Work and Pensions through agency agreements. Due to these delivery arrangements, Social Security Scotland cannot directly assess the levels of fraud and error in these benefits and is instead reliant on the Department for Work and Pensions annually published estimates.

18. Personal Independence Payment is the only devolved benefit that was reviewed in 2022/23. All other rates have been rolled forward from 2021/22 or updated with a more appropriate proxy. We have reviewed these rates and concluded that they are relevant and appropriate for the Scottish benefits paid in 2022/23. Exhibit 1 outlines the estimated overpayment rates for the benefits that are delivered by the Department for Work and Pensions, ranging from 1.1 to 5.2 per cent of expenditure.

Exhibit 1

Estimated levels of fraud and error overpayments in benefits delivered by the Department for Work and Pensions

Benefit	Expenditure 2022/23	Overpayments estimate % (last reviewed)	Monetary value of overpayments
Personal Independence Payment (PIP)	£1,927.2m	1.1% (2022/23)	£21.2m
Disability Living Allowance (DLA)	£523.8m	1.9% (2004/05)	£9.9m
Attendance Allowance	£553.6m	2.2% (2021/22)	£12.2m
Carer's Allowance	£314.0m	5.2% (2019/20)	£16.3m
Industrial Injuries Disablement Scheme	£78.0m	1.1% (PIP proxy)	£0.9m
Severe Disablement Allowance	£6.0m	3.4% (ESA[1] proxy)	£0.2m
Total	**£3,402.6m**	**1.1% - 5.2%**	**£60.7m**

1. Employment Support Allowance

Source: Audit Scotland using information from Fraud and error in the benefits system: financial year 2022 to 2023 estimates

19. The benefits delivered by the Department for Work and Pensions continue to be regulated by UK legislation, whereby a person is entitled to the benefit if they meet the eligibility criteria. Any payment made to a person who is not entitled to it, does not comply with the legislation.

20. We have qualified our regularity opinion as the estimated level of overpayments attributable to fraud and error in the benefits delivered by the Department for Work and Pensions of £60.7 million is material. The expenditure resulting from such overpayments was not incurred in accordance with the relevant legislation and regulations.

21. The same regularity issue does not affect the benefits administered by Social Security Scotland. This is due to the different legislation which applies to these benefits which requires Social Security Scotland to make a payment where it has determined someone is eligible. Any payment in line with a determination is deemed to comply with the legislation, irrespective of whether this has been based on incorrect or fraudulent information.

Overall materiality was unchanged from planning at £43 million

22. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor’s report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor’s professional judgement.

23. Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed on receipt of the unaudited annual report and accounts and is summarised in Exhibit 2.

Exhibit 2
Materiality values

Materiality level	Amount
Overall materiality	£43.0 million
Performance materiality	£25.8 million
Reporting threshold	£200,000

Source: Audit Scotland

24. The overall materiality threshold was set with reference to gross expenditure, which we judged as the figure most relevant to the users of the financial statements.

25. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 60% of overall materiality, reflecting our risk assessment that confirmed no significant changes in the business activities, accounting system and systems of internal control at Social Security Scotland. We also considered the extent of prior year errors and concluded that these were isolated and did not indicate further systemic error.

26. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.

We have significant findings and key audit matters to report on the annual report and accounts

27. Our audit approach for the 2022/23 financial statements included consideration of an audited financial summary prepared by the Department for Work and Pensions. The financial summary captured all the transactions and balances for the benefits delivered by the Department for Work and Pensions, on behalf of Social Security Scotland, during 2022/23.

28. We have reviewed the findings from the audit of the financial summary and assessed the impact on our audit:

- The Legal Entitlement and Administrative Practices (LEAP) provision was omitted from the financial summary. However, Social Security Scotland correctly reported this balance in their unaudited accounts, so no adjustment is required.

- The Department for Work and Pensions prepared an estimate of omitted, pending and potential debt to support the audit of the financial summary. This debt, estimated at £1.4 million, is reported as an unadjusted error. It is debt that has yet to be referred to Debt Management due to errors by referral staff, debt that is in the process of referral, or a situation where information has been received by the Department for Work and Pensions but a referral to Debt Management has not been confirmed. The accounting policies state that Social Security Scotland does not account for omitted, pending or potential debt and therefore there is no impact on the audited financial statements.

- The methodology used to estimate the impairment applied to the overpayment debt of each benefit is calculated based on historic trends. For benefits directly administered by Social Security Scotland, the debt level at the 31 March 2023 is £0.6 million. This is relatively small in comparison to benefit expenditure in year and Social Security Scotland does not have its own impairment model for benefits receivable or overpayments. With benefit expenditure predicted to increase in future years, this will become increasingly important.

Recommendation 1

Social Security Scotland should develop an impairment model for benefits receivable and overpayments for use in future years.

29. Under International Standard on Auditing (UK) 260 we communicate significant findings from the audit to the Audit and Assurance Committee, including our view about the qualitative aspects of the body's accounting practices.

30. The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements.

31. The significant findings are summarised in Exhibit 3.

Exhibit 3

Significant findings and key audit matters from the audit of the annual report and accounts

Issue	Resolution
1. Worthy cause payments Social Security Scotland requests cash drawdowns from Scottish Government throughout the year to ensure that bank accounts have appropriate funds available to make benefit payments to clients at the right time. Worthy cause is the functionality used to drawdown these funds. Through our audit process we identified that worthy cause payments totalling £108.9 million at the year end have been incorrectly accounted for as trade payables. This accounting treatment has been applied since 2020/21 and so a prior year restatement is required (2020/21: £73.6 million and 2021/22: £104.9 million). The issue arose because of the accounting treatment of the funding arrangement that exists between Scottish Government and Social Security Scotland, which requires a manual adjustment at the year end to remove cash drawdowns that relate to the next financial year. Social Security Scotland were not aware of the requirement to process this adjustment.	Social Security Scotland investigated the accounting treatment of worthy cause payments with Scottish Government finance and confirmed the year end cash drawdowns that appear as a liability should have been removed at the year end. The accounts have been appropriately adjusted. The impact is a decrease in the trade payables balance of £108.9 million and an equivalent decrease in the general fund. The 2021/22 figures have been restated to ensure consistent accounting treatment is reflected in the prior year comparative figures. The cumulative impact of this adjustment on the accounts has been set out at Note 20 to the accounts. Social Security Scotland has agreed with the Scottish Government that the accounting for the funding arrangements will be reviewed in 2024/25 as part of the Scottish Government's new Enterprise Resource Planning (ERP) system.
2. The Department for Work and Pensions settlement amounts The unaudited benefits payable balance was overstated by £33.1m. It included the period 10 and period 11 Department for Work and Pensions settlement amounts for combined benefit payments that had already been paid. The difference arose due to a change in the Department for Work and	The accounts have been appropriately adjusted.

Issue	Resolution
Pension's processes. Social Security Scotland were notified of the change after the accounts had been prepared.	
3. IFRS 16 Leases - dilapidations provision On transition to IFRS 16, Social Security Scotland recognised the dilapidations provision as part of the right-of-use asset value at 1 April 2022. The dilapidations provision was created in year so the correct treatment is to show the amount as an addition. This has no impact on the gross book value of right-of-use assets at 31 March 2023, however, the depreciation charge in year should be reduced as assets are not depreciated until the year after they are acquired. The depreciation charge on the dilapidations element of the right-of-use asset is £0.2 million.	Management adjusted the financial statements and related note. The impact is a reduction in the depreciation charge for the year of £0.2m and an equivalent increase in the right-of-use asset net book value at 31 March 2023.
4. IFRS 16 Leases - subsequent measurement In line with IFRS 16 Leases, Social Security Scotland has retrospectively recognised right-of-use assets with a net book value of £34.4 million at 1 April 2022 (see Note 7 to the financial statements). Social Security Scotland has adopted the cost model to subsequently measure these assets at 31 March 2023 on the basis that the higher value leases identified are subject to five yearly rent reviews. In addition, management have been advised by a property expert that recent rent reviews have not resulted in an uplift. Management consider that these factors confirm that cost is an appropriate proxy for fair value.	We reviewed management's justification for adopting cost as a proxy in the valuation of right-of-use assets and are satisfied that the values are not materially misstated. Management should assess the reasonableness of this approach year on year and consult an expert where appropriate to ensure that right-of-use assets are held at the correct value. **Recommendation 2** (Refer Appendix 1. action plan)

Source: Audit Scotland

Our audit work responded to the risks of material misstatement we identified in the annual report and accounts

32. We have obtained audit assurances over the identified significant risks of material misstatement in the annual report and accounts. Exhibit 4 sets out the significant risks of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 4
Significant risks of material misstatement in the annual report and accounts

Audit risk	Assurance procedure	Results and conclusions
1. Risk of material misstatement due to fraud caused by management override of controls 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.	• Assess the design and implementation of controls over journal processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity. • Test journals at the year end and post-closing entries, with a 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.	We undertook the assurance procedures as planned and found: • The authorisation control over journal entries continues to operate effectively. • Management is not aware of inappropriate or unusual activity. • Detailed testing of journal entries and unusual transactions did not identify any errors. • There were no significant transactions outside the normal course of business. • The methodology used in preparing significant accounting estimates is reasonable. **Conclusion:** We did not identify any instances of management override of controls.
2. Risk of material misstatement caused by fraud and error in benefit expenditure delivered by the Department for Work and Pensions 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.	• Assess the audited financial summary prepared by the Department for Work and Pensions. • Completion of 'agreed upon procedures' by the National Audit Office on our behalf. • Review the Department for Work and Pensions published estimates for error and fraud levels and consider appropriateness for Social Security Scotland. • Review benefit expenditure against independent forecasts and investigate any significant variances.	We undertook the assurance procedures as planned and found that: • The audited financial summary confirms the benefit expenditure that the fraud and error rates have been applied to in reaching the estimated value of overpayments. • The National Audit Office report of factual findings confirms the reliability of the fraud and error rates. • The Department for Work and Pensions fraud and error rates for 2022/23 indicate overpayments of £60.7 million. • The Scottish Fiscal Commission's Forecast

Audit risk	Assurance procedure	Results and conclusions
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.		Evaluation Report adequately explains any variances from forecast. **Conclusion:** We have qualified our regularity opinion for benefit expenditure delivered by the Department for Work and Pensions.
3. Risk of material misstatement caused by fraud and error in benefit expenditure delivered by Social Security Scotland 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 the Department for Work and Pensions for some of this information. 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.	• 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. • Ongoing engagement with management on the development of arrangements to assess the estimated levels of fraud and error. • Assess the reasonableness of fraud and error rates applied to Social Security Scotland administered benefits, including detailed testing where appropriate. • Detailed testing of benefit payments.	We undertook assurance procedures as planned and found that: • The controls over benefits administration were found to be appropriate and operating as expected. • An estimate of official error in Scottish Child Payment has been developed in year. Paragraph 48. • Action is being taken to influence policy to enable further development of fraud and error estimation techniques. Paragraph 52. • No issues were identified through our detailed testing of benefit payments. **Conclusion:** Social Security Scotland has made some progress towards understanding the fraud and error that exists in the benefits caseload that it administers. Appropriate disclosures have been included in the annual report and accounts.

Source: Audit Scotland

Identified misstatements of £142.8 million were adjusted

33. Other than the corrected misstatements detailed as a significant finding in Exhibit 3, our audit identified two misstatements above our reporting threshold which were subsequently adjusted for in the annual accounts:

- The Carer's Allowance Supplement (CAS) accrual for 2022/23 was based on the previous year's accrual which was £0.6 million. However, the actual CAS payments confirmed in June 2023 was £0.8 million. Therefore, the difference between the accrual processed and the actual amount was £0.2 million.
- During the audit of the annual accounts, staff identified a £0.2 million system error in relation to claimants in receipt of a Best Start Grant and who are entitled to Scottish Child Payment, not automatically receiving this payment. This was an isolated error, specifically relating to this benefit.

The unaudited annual report and accounts were received in line with the agreed audit timetable

34. The unaudited annual report and accounts were received in line with our agreed audit timetable on 23 June 2023. The working papers which accompanied the annual report and financial statements were of a good standard. Regular communication and support from staff helped the audit process run smoothly.

Continuous progress was made on prior year recommendations

35. Social Security Scotland has made continuous progress in implementing the audit recommendations identified in 2021/22. For actions not yet fully implemented, revised responses and timescales have been agreed with management, and are set out in Appendix 1.

2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

Conclusion

Social Security benefit expenditure was £6.7 million above budget in 2022/23.

Social Security Scotland has effective and appropriate arrangements to secure sound financial management.

Systems of internal control are appropriate, and a Single Prioritised Backlog has been agreed to manage the development of the Social Programme Management (SPM) case management system.

Social Security Scotland has developed an estimate of the level of official error that exists within Scottish Child Payment. Significant work is required to measure the fraud and error that exists within the full range of benefits.

Social Security benefit expenditure was £4,043.6 million which was £6.7 million above budget

36. The main financial objective for Social Security Scotland is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers. Social Security Scotland's budget consists of two elements: the expenditure on benefits and the operating costs of delivering those benefits.

37. Social Security Scotland has reported an outturn of £4,039.6 million against its overall budget for 2022/23, an overspend of £0.7 million. The financial performance against fiscal resources is shown in Exhibit 5.

Exhibit 5
Performance against budget in 2022/23

Performance	Initial Budget £m	Final Budget £m	Outturn £m	Over/(under) spend £m
Operating Budget (fiscal resource)	301.6	262.2	261.6	(0.6)
Capital	-	7.3	7.3	0.0
Depreciation (non-cash)	9.3	5.5	5.2	(0.3)
Total Operating Expenditure	**310.9**	**275.0**	**274.1**	**(0.9)**
Delivered by Social Security Scotland		622.7	641.0	18.3
Delivered by the Department for Work and Pensions		3,414.2	3,402.6	(11.6)
Total benefit expenditure	**3,913.7**	**4,036.9**	**4,043.6**	**6.7**
Provision for benefit underpayments		0.0	3.7	3.7
Benefit overpayments impairment writeback		2.0	(7.7)	(9.7)
Total	**4,224.6**	**4,038.9**	**4,039.6**	**0.7**

Source: Social Security Scotland annual report and accounts 2022/23

Budget processes and reporting were appropriate

38. Social Security Scotland's budget processes remain appropriate. The most significant areas of additional expenditure in 2022/23 included:

- increased demand for disability benefits, offset by Scottish Child Payment, which is below forecast
- The Department for Work and Pensions formal agreements costs being lower than anticipated.

39. Although the financial outturn for the year is an overspend, this relates to benefit expenditure which is demand led and cannot be controlled in the same way as other budgets where spending limits can be set.

Capital expenditure reduced in 2022/23

40. Social Security Scotland had a capital DEL budget in 2022/23 of £7.3 million. This is a decrease of £9.9 million when compared to 2021/22. The capital outturn for the year was £7.3 million and included expenditure on Agnes Husband House, Enterprise House, IT expenditure, Social Programme Management (SPM) licences.

Systems of internal control are appropriate but Social Security Scotland continues to work with the programme to develop the Social Programme Management (SPM) case management system

41. From our review of the design and implementation of systems of internal control (including those relating to IT) relevant to our audit approach, we did not identify any significant control weaknesses which could affect Social Security Scotland's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

42. The main system used by Social Security Scotland to administer benefits is the Social Programme Management (SPM) case management system. It is developed using the Agile approach in conjunction with the programme. The fast pace of Agile development is achieved by focusing on the core 'must-have' system functionality to allow a benefit to be launched in an acceptable way and in line with the planned timescales.

43. Social Security Scotland has recently completed a SPM system upgrade that has improved disaster recovery capability. Further work is ongoing to review the disaster recovery strategy and development and implementation of testing plans.

44. Internal audit recently conducted a follow-up audit to review progress on the implementation of agreed recommendations relating to the SPM system. From the four recommendations arising from this review, three have been successfully implemented. This includes:

- restructuring the Live Service Team and the development of the Single Prioritised Backlog to manage defects
- developing a joint glossary of terms such as 'technical debt' and created and retrospectively populated an Excel technical debt register
- the enrolment of an equivalent Test Manager within the Chief Digital Office which mirrors the existing role within the programme to provide continuity in the testing process and reduce the risk of deviating from test practices.

45. The final recommendation that was not implemented related to access rights and user permissions for some individuals within the Chief Digital Office. Management currently accepts this risk.

A Single Prioritised Backlog has been agreed to manage the development of the Social Programme Management (SPM) case management system

46. We have identified the development of the SPM system as an area of risk for several years. In 2021/22, we highlighted the importance of a structured approach to dealing with technical debt and systems development. A key development in this area is the restructure of the Live Services Team which has brought changes to the defect management process. A new process was agreed between key stakeholders, a Single Prioritised Backlog established and closer working between the Social Security Directorate and Chief Digital Office through better knowledge transfer following the merge of the Programme Live Support team and the Agency Live Support team.

47. As recognised in the Internal Audit follow up report, it is essential that the Single Prioritised Backlog provides a means to prioritise and track progress on technical debt. It is essential that management recognise the need to prioritise resource to ensure defects are also managed and addressed in a timely manner.

Recommendation 3

Social Security Scotland should continue to work with the Social Security Programme to continually improve systems.

A pilot exercise has been completed to estimate the level of official error in the administration of Scottish Child Payment

48. Social Security Scotland has carried out a pilot exercise to estimate the level of official error that exists within the Scottish Child Payment benefit caseload. This exercise is a key development towards understanding the level of error that exists within the benefits delivered. Official error is a benefit paid incorrectly due to an error made by Social Security Scotland rather than the client. This could be due to human error by staff, technical issues with Information Technology systems, or erroneous data shared by another government department.

49. The pilot exercise included random sample testing from the Scottish Child Payment approved benefit caseload over a three-month period (March 2023 to May 2023) to establish an estimate of the overpayments and underpayments in the benefit population. The exercise found an official error overpayment rate for Scottish Child Payment of 1.1%, and an official error underpayment rate of 0.1%. Applying these rates to the total expenditure on Scottish Child Payment in 2022/23 gives estimated overpayments and underpayments due to official error of £2.3 million and £0.2 million respectively.

50. A research report is being prepared by the Analysis and Insights team to review the methodology used and identify lessons learned for future exercises. The research report will be published in October 2023, and we will review the findings as part of our 2023/24 audit.

51. As the fraud and error estimation arrangements mature, Social Security Scotland's intention is that sample testing becomes a business-as-usual process. This means that testing to inform annual fraud and error rates would be carried out on an ongoing basis, rather than in a specific period. This would not only strengthen the results but would also help to ensure that the necessary resource and skills are in place to conduct the work effectively.

Significant work is required to measure the fraud and error that exists within the full range of benefits

52. As described above (paragraph 48.), the Fraud and Error Resolution and the Analysis and Insights teams have made good progress in understanding and estimating official error. However, progress on client induced and fraud estimates has been more limited. Scottish Government advice indicates that Social Security Scotland can currently estimate official error in caseloads using existing legal provision. However, they cannot estimate client induced error or fraud using the identified methodology without making changes to legislation which would mandate client participation and provision of information. Social Security Scotland is working with the Scottish Government to find a solution.

Recommendation 4

Social Security Scotland must continue to develop processes to measure the level of fraud and error within the range of benefits being delivered. This includes working with the Scottish Government to remove the barriers that exist in assessing the level of client induced error and fraud.

Standards of conduct and arrangements for the prevention and detection of fraud and error are appropriate

53. In the public sector there are specific fraud risks, including those relating to tax receipts, welfare benefits, grants and other claims made by individuals and organisations. Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery and corruption.

54. Social Security Scotland has adequate arrangements in place to prevent and detect fraud or other irregularities. An investigation in 2022/23 identified losses relating to Information Technology equipment. The investigation identified a suspected theft of hardware with an estimated value of £38,000. A referral to Police Scotland has been made and investigations are ongoing.

National Fraud Initiative

55. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. A pilot is underway with Social Security Scotland using NFI data matching to help provide assurance that only those claimants residing in Scotland receive support and that they only receive support once. The matching aims to identify any claimants not residing in Scotland so that appropriate action can be taken.

56. The pilot will also highlight instances of potential fraud where a customer appears to have claimed benefits from more than one Scottish address. Social Security Scotland's claimant data has been matched to the datasets held within the UK wide NFI system. Although the pilot identified a number of fraudulent cases, it was not at a level that warranted a re-performance of the exercise. The work to review these matches is ongoing. There are further pilot exercises planned for new devolved benefit types including Adult Disability Payment during 2024.

3. Financial sustainability

Financial Sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Conclusion

The 2023/24 budget was set at £5.4 billion and recognises the uncertainty within the forecasted benefit streams which are demand led.

Longer-term strategic plans are in place to support the delivery of the Scottish social security system.

The financial challenge going forward is significant as annual benefit expenditure is forecast to be considerably higher than the Block Grant funding received by 2026/27.

The funding and overall cost of services transitioning from the Social Security Programme to Social Security Scotland remain uncertain.

The 2023/24 budget has been set at £5.4 billion

57. The 2023/24 Social Security Scotland budget was approved by the Executive Team on 14 March 2023 with an administration budget of £302.5 million and a benefit expenditure budget of £5.1 billion.

58. This is an overall increase of £1.1 billion, or 22 per cent, on the 2022/23 revised budget and mainly relates to benefit expenditure. This spend is demand led and the budget is based on independent forecasts prepared by the Scottish Fiscal Commission. The Benefit Forecasting Review Group continues to meet monthly to monitor benefit spend and forecasts.

59. At the time the budget was set Social Security Scotland was projecting capital expenditure of £4.5 million, mainly for the development of Amazon Web Services Hosting Platform and hardware for the organisation.

Social Security Scotland currently expects operating costs to be delivered on budget in 2023/24 and benefit expenditure to be £48.8 million above the original budget

60. The latest financial monitoring report to June 2023 reported a £0.5 million underspend against operating budget. However, the forecast for the full year indicates operating costs will be delivered on budget. A funding solution has now been identified to cover the cost of services transitioning from the programme to Social Security Scotland in 2023/24.

61. Benefit expenditure to June 2023 was reported as £1,205.2 million, which is £37.9 million below the revised budget. This is due to disability benefits being £41.3 million below budget and low-income benefits being above budget by £3.4 million. The main cause of the variance is timing differences for Personal Independence Payment as the monthly forecast profiling is largely based on prior year trends. Personal Independence Payment has reported lower spend in the first quarter for the last two years with spend catching up at a later point, so this year-to-date variance is not expected to continue.

62. Following the Scottish Fiscal Commission's revised forecast published in May 2023, the full year forecast to 31 March 2024 has been increased to £5,151.2 million which is £48.8 million above the original budget for the year. This is mainly driven by higher demand for disability benefits as seen across the wider UK.

The funding for services transitioning from the programme is uncertain

63. From 2023/24 onwards, capabilities and services will be transitioning from the programme to Social Security Scotland and other parts of the Scottish Government.

64. There is a risk that the programme does not fund all costs for services expected to transfer, including staff. This uncertainty will impact Social Security Scotland's financial plans as clear funding solutions will need to be identified. The overall cost of transition will need to be managed between the programme and Social Security Scotland.

Recommendation 5

Funding for the capabilities and services that will transition from the Social Security Programme to Social Security Scotland need to be agreed and managed effectively.

Social Security Scotland has developed longer-term strategic plans

65. Social Security Scotland has developed a five-year financial plan providing forecasts for key areas of spending to 2026/27. This is supported by detailed expenditure forecasts and projected year-on-year changes to 2030/31. There is a shared understanding with the programme that longer-term financial planning for an Agile programme of this scale is challenging and brings increased uncertainty the further into the future costs are projected.

66. Financial and workforce planning is clearly aligned, and this is evident in both high level plans and routine finance reports, which show actual and projected staff costs in year against the headcount trajectory. Staff costs represents the most significant element of operating cost budget and will be subject to financial pressure in future years. Financial and workforce planning is ongoing to ensure future staffing requirements are affordable.

67. Internal Audit completed an advisory piece of work on workforce planning as a follow up to their 2021/22 report. This work notes the changed situation that Social Security Scotland is facing as recruitment controls are now in place. The work concluded that the volume of work the team has undertaken has positively contributed to the ability of Social Security Scotland to manage workforce planning challenges, however, delivery and progress should be captured. Management advised of action being taken to improve processes, including a clear governance trail of roles to be recruited and how these align with Social Security Scotland's priorities.

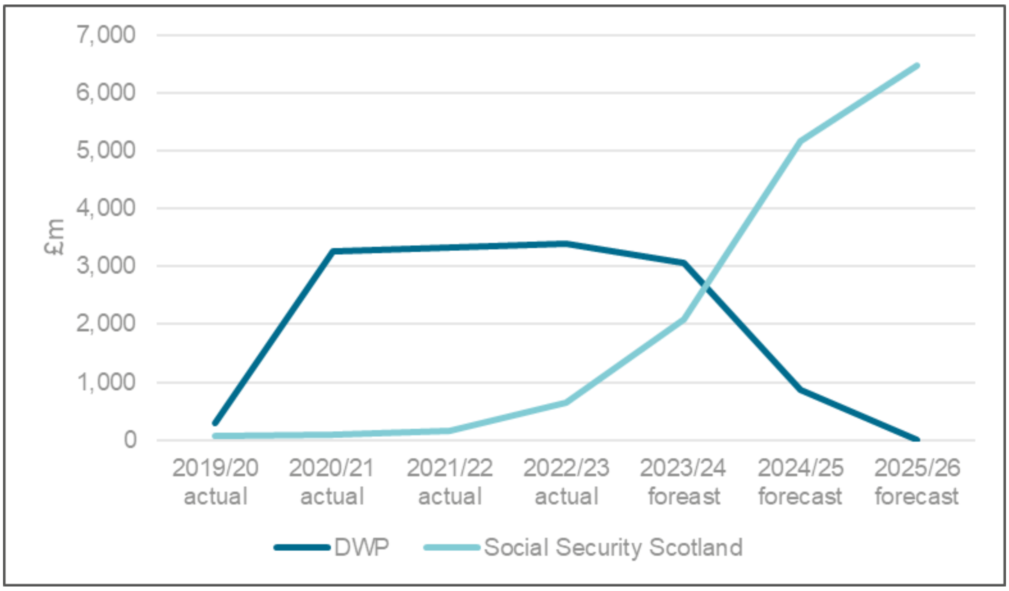
68. Social Security Scotland spent £15.7 million on contractors in 2022/23 (£15.2 million in 2021/22). This is mainly due to the technical skills required in the Chief Digital Office. Social Security Scotland plans to reduce the number of contractors where appropriate and has made some progress towards this in 2023/24.

The number of benefits administered by Social Security Scotland is expected to continue to grow until 2025

69. Following a phased rollout, Social Security Scotland launched Adult Disability Payment in August 2022, extended Scottish Child Payment to all eligible children under 16 from November 2022, and began to pay Winter Heating Payment in February 2023. Social Security Scotland now delivers 13 benefits that support people across Scotland – seven of which are only available in Scotland.

70. Social Security Scotland is continuing to grow and plans to introduce Carer Support Payment in 2024, following a pilot in November 2023. Exhibit 6 shows forecast expenditure split by benefits administered by the Department for Work and Pensions and those administered by Social Security Scotland. By 2025/26, it is anticipated that the transfer process will be complete and Social Security Scotland will be responsible for administering all devolved benefits.

Exhibit 6
Actual and forecast devolved benefit expenditure administered by the Department for Work and Pensions and Social Security Scotland



Source: Social Security Scotland's audited accounts 2019/20 to 2022/23 and Scottish Fiscal Commission's May 2023 forecast

71. Since 2018, Social Security Scotland has been making payments to clients using the Department for Work and Pensions payment platform, Central Payments System (CPS). This approach was selected after an options appraisal for the medium-term solution whilst a strategic payment solution for Scotland is sought.

72. Work is ongoing with the programme to determine the most appropriate way forward for a cross-government payments programme. The Scottish Government is investigating the way in which the Scottish Government and the wider public sector makes and receives payments and is designing a payments platform to meet these needs. Social Security Scotland will continue to utilise CPS until an alternative payment platform is established.

Internal Audit identified a number of challenges in the systems and processes involved in case transfer

73. The case transfer process from the Department for Work and Pensions started in October 2021 for Child Disability Payment and in March 2022 for Adult Disability Payment. The majority of Child Disability Payment cases have now been transferred. The case transfer process for Adult Disability Payment is ongoing and is expected to conclude by the end of 2025.

74. Internal audit reported on Social Security Scotland's case transfer process as part of their 2022/23 programme of work. The report highlights challenges in the current risk, governance and control procedures. The systems and processes behind the delivery contain technical interface issues, defects and manual workarounds which have impacted the delivery of case transfers.

75. While these are transient issues which will end when the case transfer process concludes, they could exacerbate the risk of fraud and/or error in the caseload in future. Overall, limited assurance was provided with five high and two medium recommendations. Mitigations are in place to address the weaknesses and management actions were agreed in response to the recommendations.

Annual benefit expenditure is forecast to be significantly higher than the funding received from the UK Government

76. Once the process of transfer of devolved benefits is complete and Social Security Scotland is responsible for all benefit payments, the scale of the financial challenge will be significant. Any spending above the funding received from the UK Government, through the social security block grant adjustments for corresponding UK benefits, must be met from other parts of the wider Scottish Budget.

77. The Scottish Fiscal Commission's latest forecasts from May 2023, project that annual benefit expenditure in Scotland will increase from £5.3 billion in 2023/24 to £7.8 billion in 2028/29. Much of this increase can be attributed to an expected increase in the overall number of people receiving payments. The largest increase is for Adult Disability Payment where the caseload is projected to increase from around 420,000 in 2023/24 to 660,000 in 2028/29. Furthermore, the average amount of payment that people receive increases over time due to many benefits being subject to inflationary uprating.

78. By 2027/28, it is expected the Scottish Government will spend £1.3 billion more on social security than the funding received from the UK Government through the Block Grant Adjustments.

79. Following The Scottish Fiscal Commission's May 2023 revised forecast publication, Social Security Scotland's full year forecast to 31 March 2024 has increased to £5,151.2 million which is £48.8 million above budget and mainly driven by higher demand on disability benefits which has been seen across the wider UK.

4. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Conclusion

Social Security Scotland has appropriate governance arrangements in place.

The process for preparing the performance report has improved in response to our audit recommendation.

Social Security Scotland recognises the risk that cyber security presents to the organisation. Several assessments have been conducted in year and actions agreed to ensure cyber security arrangements continue to improve.

Social Security Scotland has a clear plan in place to deliver the principles in Our Charter

80. Social Security Scotland's three-year Corporate Plan 2020-2023 outlines the objectives it has set to achieve the principles set out in Our Charter.

81. The objectives within the plan are aligned to three different themes which are linked to their charter commitments. The themes are:

- helping to deliver a social security system with dignity, fairness and respect
- supporting people in Scotland to access devolved benefits that they are entitled to
- running our services in a responsible way.

82. The 2022-23 Business Plan was published in August 2022. Priorities are set around the three themes with key milestones and plans to measure performance also highlighted. We consider the effectiveness of the arrangements in place to measure performance against objectives in Part 5 of this report.

Governance arrangements are appropriate

83. Social Security Scotland's governance arrangements have been set out in the Directors' Report and Governance Statement in the annual report and accounts. We have reviewed these arrangements and concluded that they are appropriate.

84. Social Security Scotland continues to amend the governance structure and membership to ensure it remains fit for purpose. In 2022/23, the Deputy Director of the Social Security Programme in the Scottish Government became a member of the Executive Team to support joined up working between Social Security Scotland and the programme. More recently a new post has been created, Deputy Director of People and Places, which reflects the significance of the workforce to the successful delivery of Social Security Scotland's objectives. In addition, two new non-executive members, both with experience in digital transformation, have been appointed to the Executive Advisory Body with effect from October 2023.

85. A Finance and Investment Forum has also been established. The remit of the Forum includes reviewing financial sustainability and value for money arrangements. As the first meeting was held in August 2023, we will consider this new arrangement as part of our 2023/24 audit.

The process for preparing the performance report has improved in response to our audit recommendation

86. Last year there were delays in the preparation of the performance report and several changes were required to bring the report in line with the disclosure requirements of the Government Financial Reporting Manual (the FReM). We recommended that Social Security Scotland review its year end preparation process for the delivery of the performance report to ensure it could be delivered within agreed timescales and to the appropriate standard.

87. In 2022/23, the performance report was submitted for audit on 23 June 2023 alongside the other parts of the annual report and accounts in line with agreed timescales. This is a significant improvement on the prior year submission. The performance report presented for audit also met the requirements of the FReM. We have made some recommendations to further improve the content of the performance report through our audit process and management have been receptive to proposed improvements.

Climate change arrangements

88. The Scottish Parliament has set a legally binding target of becoming net zero 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.

89. The Corporate Plan 2020 - 2023 sets out the commitment to reduce the effect Social Security Scotland's work has on the environment. This includes the contribution to the Scottish Government's overall commitment to reduce Scotland's environmental impact and the specific ways in which they will contribute.

90. Building and travel emissions are documented locally and shared in a Public Bodies Climate Change Duties (PBCCD) Annual Report. The 2022/23 PBCCD Annual Report will be available in early 2024. However, Social Security Scotland does not have a climate change strategy or action plan in place outlining how a reduction in emissions will be achieved or what the emissions target is.

91. The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work.

Social Security Scotland recognises the risk of cyber security to the organisation

92. There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place. 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 considered Social Security Scotland's arrangements for managing and mitigating cyber security risks.

93. Social Security Scotland recognises the risk that cyber security presents to its operations. The Digital Risk and Security Branch within Social Security Scotland has primary responsibility for cyber security. Throughout 2022/23, several assessments have been carried out to support Social Security Scotland to improve the way it can manage, protect, detect, and respond to cyber security risks and incidents. Social Security Scotland should ensure that appropriate action is taken to implement the findings from this work. The assessments included:

- Social Security Scotland commissioned an external threat assessment to better understand and evaluate the specific cyber security threats that will influence its cyber security direction.
- Internal Audit carried out a Cyber Security Governance Audit and made recommendations for improvement that have been accepted by management.
- A cyber resilience maturity assessment was carried out against the Scottish Government's Cyber Resilience Framework and actions agreed to improve the overall level of compliance.
- An external review of Social Security Scotland incident readiness was conducted in August 2022, and this was followed by two cyber incident response exercises.

Recommendation 6

Social Security Scotland should continue to review the cyber security arrangements that exist and implement improvements as appropriate.

5. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

Conclusions

The development of a performance management framework with the Social Security Programme has been identified as a priority. This should be progressed to ensure that an evidence based assessment of performance is available to demonstrate that value for money is being achieved.

Social Security Scotland recognises that processing times for the new disability benefits are a significant issue and action is being taken to drive improvement.

Social Security Scotland continues to develop arrangements to demonstrate the achievement of Best Value

94. Ministerial guidance to Accountable Officers for public bodies and the Scottish Public Finance Manual (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. The guidance sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

95. Social Security Scotland's current Corporate Plan covers the three-year period 2020-2023 and sets out its strategic objectives. It is developing a new corporate plan that will set out how Social Security Scotland will support the Scottish Government's National Outcomes that are set out in the National Performance Framework. It should ensure that the objectives align with the National Outcomes and the Charter.

Social Security Scotland should continue to develop performance management arrangements to support the assessment of value for money

96. The Charter Measurement Framework is the key measurement tool for annual performance reporting. It measures how well the social security system has delivered on the principles set out in the Social Security (Scotland) Act 2018 and expectations of the Charter.

97. The Charter Measurement Framework mainly uses qualitative evidence to show how effective the system is performing. This data evidence is collected using a number of different methods including published statistics, client and staff surveys and management information.

98. Our 2021/22 Annual Audit Report recommended that Social Security Scotland should continue to develop performance management arrangements. This should include setting a range of measurable metrics to support robust analysis over time. Social Security Scotland has made some progress in year by establishing a performance management pack that brings together key data on areas such as operational delivery, benefit expenditure against forecasts and workforce data. This management information provides the Executive Team with the most up to date data to support decision making, priorities and impact. Social Security Scotland should continue to develop performance management arrangements to demonstrate value for money.

Recommendation 7

Social Security Scotland should continue to focus on developing performance management arrangements that will allow an evidence based assessment of performance to support decision making and help demonstrate value for money.

Social Security Scotland has made progress against the recommendations of the 'Progress on implementing the devolved benefits' report

99. Since the *Social security: Progress on implementing the devolved benefits* report was published in May 2022, Social Security Scotland and Scottish Government has taken action to implement the recommendations that apply to it. The Programme Business Case was published in February 2023 and sets out the delivery timetable for the remaining devolved benefits as well as refreshed implementation cost estimates.

100. A recommendation in the report for both Scottish Government and Social Security Scotland was to plan for how they will measure the impact of the benefits being introduced and how they will evaluate and report on progress against outcomes. The development of a performance management framework has been included in the Single Prioritised Backlog as a high priority and has been agreed by both the programme and Social Security Scotland.

101. Social Security Scotland submits regular high level update reports to the Audit and Assurance Committee to demonstrate that progress has been made against the recommendations.

Social Security Scotland is experiencing challenges in processing times for disability benefits

102. Social Security Scotland has experienced challenges with managing demand and processing times after the introduction of the new disability benefits, Child Disability Payment and Adult Disability Payment.

103. Published statistics show that the median average processing time has significantly increased since each disability benefit was released. The Child

Disability Payment processing time has increased from 27 working days in November 2021 to 102 working days in June 2023. The equivalent time for Adult Disability Payment increased from 45 working days in September 2022 to 96 working days in April 2023, but has since reduced to 88 days in July 2023.

104. Evidence in respect of processing times was provided to the Social Security and Social Justice Committee on 29 June 2023. At this session it was highlighted that while Social Security Scotland is committed to giving decisions as quickly as possible, they must have the information required to get decisions right first time.

105. Action being taken to improve processing times includes moving resources to support recovery, improvements to the telephony systems, SPM system enhancements, and drawing on the in-house health and social care practitioners to make early decisions based on their expertise. This will remain a key priority in 2023/24 and Social Security Scotland will need to demonstrate that the action taken is effective. (Refer Appendix 1. **Recommendation 7**).

Appendix 1. Action plan 2022/23

2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
1. Impairment Model Social Security Scotland does not have an impairment model for benefits receivable or overpayments. With benefit expenditure predicted to increase in future years, this will become increasingly important. **Risk:** Social Security Scotland is unable to calculate impairment of benefits receivable or overpayments.	Social Security Scotland should develop an impairment model for benefits receivable and overpayments for use in future years. Paragraph 28.	Agreed. We understand the requirement and will develop and implement an impairment model for benefit overpayments we manage when appropriate. Corporate Finance Lead March 2024
2. IFRS 16 Leases Social Security Scotland has adopted the cost model to measure right-of-use assets on the basis that higher value leases are subject to five yearly rent reviews. Management have been advised by JLL that recent rent reviews have not resulted in an uplift. Management consider that these factors confirm cost to be an appropriate proxy for fair value. **Risk:** there is a risk that the value of right-of-use assets is incorrectly reported in the intervening period between rent reviews.	Management should re-evaluate the value of right-of-use assets year on year and consult an expert where appropriate to ensure that right-of-use assets are not materially misstated. Exhibit 3	Agreed. Corporate Finance Lead March 2024

Issue/risk	Recommendation	Agreed management action/timing
3. b/f System Development As the benefits being delivered become more complex, the need for robust system controls which prevent and detect fraud and error increases. Technical debt is not clearly defined and so the scale and impact cannot easily be quantified. **Risk:** system functionality and benefits delivery is adversely impacted.	Social Security Scotland should continue to work with the Social Security Programme to continually improve systems. Paragraph 47.	Agreed. Social Security Scotland works closely with the Social Security Programme and will continue to do so to improve our systems. Chief Architect June 2024
4. b/f Fraud and Error Fraud and error are an inherent risk in a social security system that is driven by individual claims. Social Security Scotland is still reliant on the Department for Work and Pensions for many fraud and error estimates as well as developing its own arrangements for the benefits being delivered directly. **Risk:** Fraud and error arrangements are not developed at the same pace as the roll-out of new benefits.	Social Security Scotland must continue to develop processes to measure the level of fraud and error within the range of benefits being delivered. This includes working with the Scottish Government to remove the barriers that exist in assessing the level of client induced error and fraud. Paragraph 52.	We are continuing to develop the methodology, systems, and processes to support estimation of the level of fraud and error within our benefits. Changes to legislation are required which are currently being progressed by policy colleagues in the Social Security Directorate. Statisticians and fieldwork staff have been recruited to undertake this work. Head of Fraud and Error Resolution Unit April 2025
5. Transition funding From 2023/24 onwards, capabilities and services will be transitioning from the programme to Social Security Scotland and other parts of the Scottish Government. **Risk**: the programme does not fund all costs for all services expected to transfer, including staff.	Funding solutions for the capabilities and services that transition from the Social Security Programme to Social Security Scotland should be agreed and managed effectively. Paragraph 64.	Agreed. This will be captured through the Legacy Portfolio finance workstream and reported to the senior working group. Deputy Director Finance and Corporate Services Deputy Director Social Security Programme October 2023
6. Cyber Security Social Security Scotland should ensure appropriate	Social Security Scotland should continue to review the cyber security arrangements	The findings from the individual assessments are being considered and appropriate action plans are

Issue/risk	Recommendation	Agreed management action/timing
action is taken to implement the findings from recent cyber security assessments carried out. This will ensure arrangements in place are adequate and secure. **Risk:** any control weaknesses could affect the organisation's resilience to handle future cyber incidents.	that exist and implement improvements as appropriate. Paragraph 93.	being developed and will have corresponding implementation plans developed. Each individual assessment's findings will be implemented in a different timeframe, overall completion is likely to take until the end of 2024. Chief Information Security Officer December 2024
7. b/f Performance Management Framework Performance management arrangements are not adequately developed to support robust decision making and the assessment of impact on outcomes. **Risk:** Social Security Scotland will not be able to demonstrate value for money.	Social Security Scotland should continue to focus on developing performance management arrangements that will allow an evidence based assessment of performance to support decision making and help demonstrate value for money. Paragraph 98.	Social Security Scotland's performance management arrangements are based around: the Charter, our legal obligations as a public body (including Social Security (Scotland) Act), economy and efficiency measures and the development of organisational delivery performance indicators underpinned by relevant management information. These support us to deliver effectively and positively impact a number of Scottish Government National Performance Outcomes. We will continue working with Programme and will define performance measures consistent with the Programme's Measurable Improvements Strategy and Evaluation Activity. Head of Strategy, Performance and Governance December 2024

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
b/f 1. Performance Report There were delays in the preparation of the performance report and several changes were required to bring the report in line with the disclosure requirements of the FReM. There is a risk that the audit opinion and / or timetable is impacted if these matters are not addressed going forward.	Social Security Scotland should review and refine its year end preparation process for the delivery of the performance report to ensure it is realistic. Project management principles should be applied to ensure it can be delivered within agreed timescales and to appropriate standards.	**Complete** In 2022/23, the performance report was submitted for audit on 23 June 2023 alongside the other parts of the annual report and accounts. This is a significant improvement on the prior year submission. The performance report presented for audit met the FReM requirements and management were receptive to proposed improvements.
b/f 2. Fraud and Error Fraud and error are an inherent risk in a social security system that is driven by individual claims. Social Security Scotland is still reliant on the Department for Work and Pensions for many fraud and error estimates as well as developing its own arrangements for the benefits being delivered directly. There is a risk that fraud and error arrangements are not developed at the same pace as the roll-out of new benefits.	Social Security Scotland must develop its understanding of the associated risks of fraud and error within the range of benefits being delivered.	**In progress** **Recommendation 4**
b/f 3. Systems Development As the benefits being delivered become more complex, the need for robust system controls which prevent and detect fraud and error increases. Technical debt is not clearly defined and so the scale and impact cannot easily be quantified. There is a risk that system functionality and benefits	Social Security Scotland should continue to work with the programme to develop systems that are fit for purpose. This should include a structured approach to dealing with technical debt and system development.	**In progress** **Recommendation 3**

Issue/risk	Recommendation	Agreed management action/timing
delivery is adversely impacted.		
b/f 4. Performance Management Arrangements Performance management arrangements are not adequately developed to support robust decision making and the assessment of impact on outcomes. There is a risk that Social Security Scotland will not be able to demonstrate value for money.	Social Security Scotland should continue to develop performance management arrangements. This should include setting a range of measurable metrics to support robust analysis over time.	**In progress** **Recommendation 7**

Social Security Scotland

2022/23 Annual Audit Report

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